

Haywood County Board of Education

Financial Statements
For the Year Ended
June 30, 2018

HAYWOOD COUNTY BOARD OF EDUCATION

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ANDERSON SMITH & WIKE PLLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and the 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 misstatements, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Haywood County Board of Education 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 Other Special Revenue 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 4 through 11 and the Schedule of Proportionate Share of the Net Pension and OPEB Liabilities and the Schedule of Board Contributions on pages 55 through 60, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Haywood County Board of Education's basic financial statements. The individual non-major fund financial statements and schedules, budgetary schedules and other schedules, as well as the accompanying schedule of expenditures of federal and State awards as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual non-major fund financial statements, budgetary schedules, other schedules and the accompanying schedule of expenditures of federal and State awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United

States of America. In our opinion, the individual non-major fund financial statements, budgetary schedules, other schedules, and the accompanying schedule of expenditures of federal and State awards are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Emphasis of Matter

As discussed in Note 4 to the financial statements, beginning balances were restated due to the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in 2018. Our opinion is not modified with respect to these changes.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2018 on our consideration of Haywood 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 Haywood County Board of Education's internal control over financial reporting and compliance.

Anderson Smith & Wike PLLC

November 2, 2018
Statesville, North Carolina
(704)-562-5039

**HAYWOOD COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018**

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

Financial Highlights

- FY 2017-18 brought continued stability in student enrollment with a slight increase in ADM
- The County per pupil appropriation increased by 2.1% or \$42.77 per pupil, bringing the total per pupil appropriation to \$2,064.92.
- Beginning in FY 2017-18, the Board of Education increased the certified supplement range to 4.5% to 7.0% with ½% staggered increases for every five years.

Overview of the Financial Statements

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

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

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

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

**HAYWOOD COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018**

Government-wide Statements

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

The two government-wide statements report the Board's net position and how they have changed. Net position – the difference between the Board's assets and liabilities – is one way to measure the unit's financial health or position.

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

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

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

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

Fund Financial Statements

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

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

**HAYWOOD COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018**

Haywood County Board of Education has three types of funds:

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

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

Proprietary fund: 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. Haywood County Board of Education has one proprietary fund – an enterprise fund – the School Food Service Fund.

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

Fiduciary fund: Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Haywood County Board of Education has one fiduciary fund – the Haywood County Schools Foundation Fund, which provides scholarships to many Haywood County students, is accounted for as a Private-Purpose Trust Fund. The Board excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The fiduciary fund statement of Net Position is shown as Exhibit 9 and 10 of this report.

Financial Analysis of the Schools as a Whole

Net position is an indicator of the fiscal health of the Board. Liabilities exceeded assets by \$59,290,633 as of June 30, 2018. The largest component of net position other than unrestricted net position is the net investment in capital assets, of \$61,546,607.

**HAYWOOD COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018**

Following is a summary of the Statement of Net Position:

Table 1						
Condensed Statement of Net Position						
As of June 30, 2018 and 2017						
	Governmental Activities		Business-type Activities		Total Primary Government	
	6/30/18	6/30/17	6/30/18	6/30/17	6/30/18	6/30/17
Current assets	\$ 10,973,077	\$ 10,293,997	\$ 414,035	\$ 369,845	\$ 11,387,112	\$ 10,663,842
Capital assets	62,037,297	62,998,623	230,850	264,617	62,268,147	63,263,240
Total assets	<u>73,010,374</u>	<u>73,292,620</u>	<u>644,885</u>	<u>634,462</u>	<u>73,655,259</u>	<u>73,927,082</u>
Deferred outflows of resources	<u>13,577,741</u>	<u>17,283,123</u>	<u>422,356</u>	<u>548,242</u>	<u>14,000,097</u>	<u>17,831,365</u>
Current liabilities	2,580,806	2,748,269	52,545	54,651	2,633,351	2,802,920
Long-term liabilities	<u>108,875,283</u>	<u>31,000,610</u>	<u>3,404,956</u>	<u>1,002,627</u>	<u>112,280,239</u>	<u>32,003,237</u>
Total liabilities	<u>111,456,089</u>	<u>33,748,879</u>	<u>3,457,501</u>	<u>1,057,278</u>	<u>114,913,590</u>	<u>34,806,157</u>
Deferred inflows of resources	<u>31,066,045</u>	<u>1,503,994</u>	<u>966,354</u>	<u>47,709</u>	<u>32,032,399</u>	<u>1,551,703</u>
Net investment in						
capital assets	61,315,757	62,385,879	230,850	264,617	61,546,607	62,650,496
Restricted net position	2,152,769	1,941,820	4,600	-	2,157,369	1,941,820
Unrestricted net position	<u>(119,402,545)</u>	<u>(9,004,829)</u>	<u>(3,592,064)</u>	<u>(186,900)</u>	<u>(122,994,609)</u>	<u>(9,191,729)</u>
Total net assets	<u>\$ (55,934,019)</u>	<u>\$ 55,322,870</u>	<u>\$ (3,356,614)</u>	<u>\$ 77,717</u>	<u>\$ (59,290,633)</u>	<u>\$ 55,400,587</u>

Note that net position of governmental activities decreased significantly during the year, indicating deterioration in the financial condition of the Board. The decrease in net position was due to the implementation of GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Also note that the Board carries capital assets for which Haywood County carries the offsetting debt.

**HAYWOOD COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018**

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	6/30/18	6/30/17	6/30/18	6/30/17	6/30/18	6/30/17
Revenues:						
Program revenues:						
Charges for services	\$ 69,530	\$ 85,771	\$ 1,212,868	\$ 1,272,214	\$ 1,282,398	\$ 1,357,985
Operating grants and contributions	49,189,212	47,675,283	3,035,124	3,201,423	52,224,336	50,876,706
Capital grants and contributions	455,426	623,955	16,054	65,953	471,480	689,908
General revenues:						
Other revenues	<u>21,521,172</u>	<u>21,153,402</u>	<u>1,765</u>	<u>510</u>	<u>21,522,937</u>	<u>21,153,912</u>
Total revenues	<u>71,235,340</u>	<u>69,538,411</u>	<u>4,265,811</u>	<u>4,540,100</u>	<u>75,501,151</u>	<u>74,078,511</u>
Expenses:						
Governmental activities:						
Instructional services	58,644,509	56,295,286	-	-	58,644,509	56,295,286
System-wide support services	14,106,432	12,576,271	-	-	14,106,432	12,576,271
Ancillary services	450,907	468,279	-	-	450,907	468,279
Non-programmed charges	878,458	776,570	-	-	878,458	776,570
Unallocated depreciation	509,600	440,576	-	-	509,600	440,576
Business-type activities:						
Food service	-	-	<u>4,408,507</u>	<u>4,454,050</u>	<u>4,408,507</u>	<u>4,454,050</u>
Total expenses	<u>74,589,906</u>	<u>70,556,982</u>	<u>4,408,507</u>	<u>4,454,050</u>	<u>78,998,413</u>	<u>75,011,032</u>
Transfers in (out)	<u>(62,865)</u>	<u>(56,620)</u>	<u>62,865</u>	<u>56,620</u>	-	-
Increase(decrease) in net position	(3,417,431)	(1,075,191)	(79,831)	142,670	(3,497,262)	(932,521)
Beginning net position (as restated)	<u>(52,516,588)</u>	<u>55,827,540</u>	<u>(3,276,783)</u>	<u>(223,468)</u>	<u>(55,793,371)</u>	<u>56,333,108</u>
Ending net position	<u>\$ (55,934,019)</u>	<u>\$ 54,752,349</u>	<u>\$ (3,356,614)</u>	<u>\$ (80,798)</u>	<u>\$ (59,290,633)</u>	<u>\$ 55,400,587</u>

Total governmental activities generated revenues of \$71.2 million while expenses in this category totaled \$74.6 million for the year ended June 30, 2018. Comparatively, revenues were \$69.5 million and expenses totaled \$70.6 million for the year ended June 30, 2017. After transfers to the business-type activities, the decrease in net position stands at \$3,417,431 at June 30, 2018, compared to a decrease of \$1,075,191 in 2017. Instructional services comprised 79% of total governmental-type expenses while system-wide support services made up 19% of those expenses for 2018. County funding comprised 23% of total governmental revenue. Much of the remaining 77% of total governmental revenue for 2018 consists of restricted State and federal money. Business-type activities generated revenue of \$4.3 million and had expenses of \$4.4 million in 2018. Net position

**HAYWOOD COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018**

decreased in the business-type activities by \$79,831, after transfers in from the governmental activities of \$62,865.

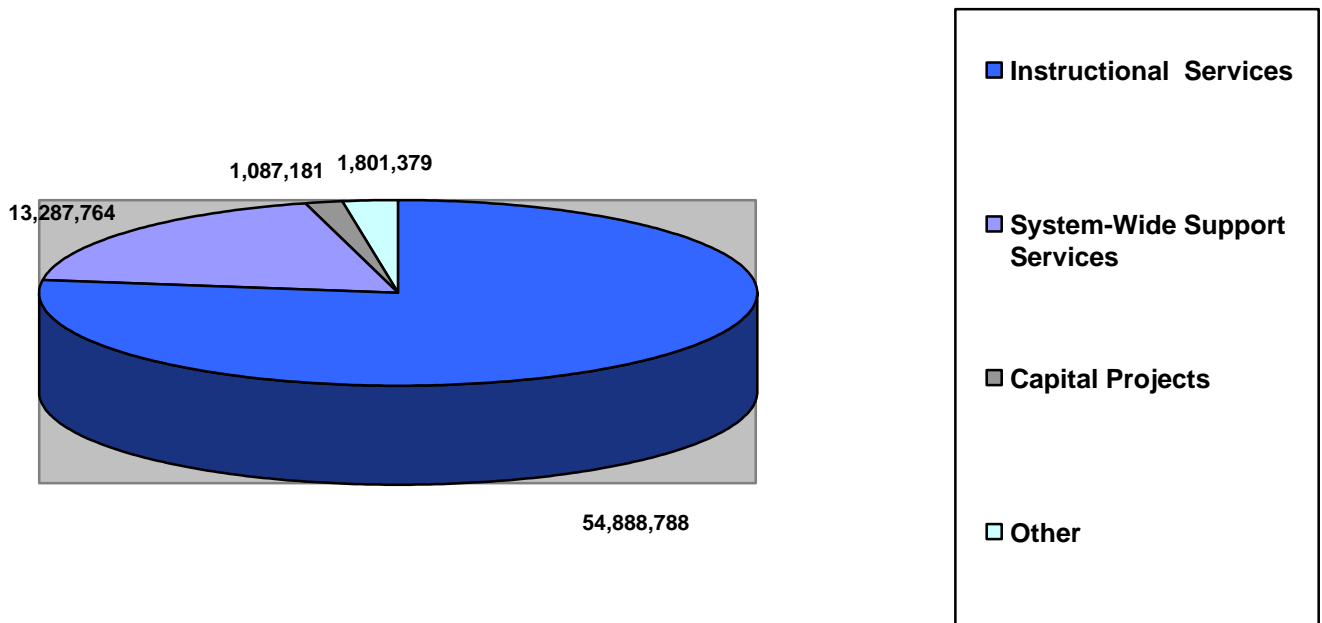
Financial Analysis of the Board's Funds

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

The Board's governmental funds reported a combined fund balance of 8,244,383, a \$698,655 increase from last year. The General Fund had expenditures in excess of revenues of \$355,185.

Proprietary Fund: The Board's business-type fund had a decrease in net position in the current year of \$79,831.

Categorization of Expenditures for Governmental Funds



Expenditures are presented on the modified accrual basis of accounting.

**HAYWOOD COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018**

General Fund Budgetary Highlights

Over the course of the year, the Board revised the budget several times to account for changes in expenditures. Generally, budget amendments fall into four categories: 1) amendments made as the Department of Public Instruction issues allotment revisions which include additions and changes; 2) amendments to adjust Federal Program differences between planning allotments and initial allotments; 3) amendments to recognize new funding sources such as federal or State grants; and 4) amendments to appropriate fund balance at the Board's direction.

Capital Assets

Capital assets decreased by \$995,093 from the previous year. This decrease was due to depreciation expense exceeding capital additions in the current year. The following is a summary of the capital assets, net of depreciation at year-end.

Table 3						
Summary of Capital Assets						
As of June 30, 2018 and 2017						
	Governmental Activities		Business-type Activities		Total Primary Government	
	6/30/18	6/30/17	6/30/18	6/30/17	6/30/18	6/30/17
Land	\$ 3,395,756	\$ 3,395,756	\$ -	\$ -	\$ 3,395,756	\$ 3,395,756
Construction in progress	-	242,673	-	-	-	242,673
Buildings and improvements	54,713,465	55,817,056	-	-	54,713,465	55,817,056
Equipment and furniture	1,086,958	1,106,329	230,850	264,617	1,317,808	1,370,946
Vehicles	2,841,118	2,436,809	-	-	2,841,118	2,436,809
Total	<u>\$ 62,037,297</u>	<u>\$ 62,998,623</u>	<u>\$ 230,850</u>	<u>\$ 264,617</u>	<u>\$ 62,268,147</u>	<u>\$ 63,263,240</u>

Debt Outstanding

During the year the Board's outstanding debt for installment purchases increased by \$108,796. This increase is not considered significant and occurred during the normal operations of the Board. The Board is limited by North Carolina General Statutes with regards to the types of debt it can issue and for what purpose that debt can be used. The County holds the majority of the debt issued for school construction.

Economic Factors

Locally the unemployment rate remains low and sales tax revenues continue to increase. The Board of Education will begin its next cycle of Long-Range Planning beginning in FY 2018-19. Local economic and growth factors will play vital roles in long range planning discussions.

**HAYWOOD COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018**

Requests for Information

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

Angie Gardner, Finance Officer
Haywood County Board of Education
1230 North Main Street
Waynesville, NC 28786

HAYWOOD COUNTY BOARD OF EDUCATION
STATEMENT OF NET POSITION
June 30, 2018

Exhibit 1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 8,389,347	\$ 184,243	\$ 8,573,590
Due from other governments	2,347,475	140,969	2,488,444
Receivables (net)	23,303	6,353	29,656
Internal balances	65,064	(65,064)	-
Net OPEB asset	147,888	4,600	152,488
Inventories	-	142,934	142,934
Capital assets			
Land, improvements, and construction in progress	3,395,756	-	3,395,756
Other capital assets, net of depreciation	58,641,541	230,850	58,872,391
Total capital assets	62,037,297	230,850	62,268,147
Total assets	73,010,374	644,885	73,655,259
DEFERRED OUTFLOWS OF RESOURCES	13,577,741	422,356	14,000,097
LIABILITIES			
Accounts payable and accrued expenses	353,572	1,139	354,711
Accrued salaries and wages payable	2,227,234	7,601	2,234,835
Unavailable revenues	-	43,805	43,805
Long-term liabilities:			
Net pension liability	21,732,430	676,018	22,408,448
Net OPEB liability	82,635,557	2,570,496	85,206,053
Due within one year	2,067,063	71,688	2,138,751
Due in more than one year	2,440,233	86,754	2,526,987
Total liabilities	111,456,089	3,457,501	114,913,590
DEFERRED INFLOWS OF RESOURCES	31,066,045	966,354	32,032,399
NET POSITION			
Net investment in capital assets	61,315,757	230,850	61,546,607
Restricted for:			
Stabilization by State statute	472,859	-	472,859
Individual schools	1,508,698	-	1,508,698
Capital Outlay	23,324	-	23,324
DIPNC OPEB plan	147,888	4,600	152,488
Unrestricted	(119,402,545)	(3,592,064)	(122,994,609)
Total net position	\$ (55,934,019)	\$ (3,356,614)	\$ (59,290,633)

The accompanying notes are an integral part of the basic financial statements.

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HAYWOOD COUNTY BOARD OF EDUCATION
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Primary government:							
Governmental Activities:							
Instructional programs:							
Regular instructional	\$ 32,771,535	\$ 30,611	\$ 27,040,784	\$ -	\$ (5,700,140)	\$ -	\$ (5,700,140)
Special populations	8,329,761	-	7,535,857	-	(793,904)	-	(793,904)
Alternative programs	5,832,877	-	4,890,632	-	(942,245)	-	(942,245)
School leadership	4,215,710	-	2,536,505	-	(1,679,205)	-	(1,679,205)
Co-curricular	4,518,595	-	-	-	(4,518,595)	-	(4,518,595)
School-based support	2,976,031	-	2,051,169	-	(924,862)	-	(924,862)
Support services:							
Support and development	674,906	-	320,183	-	(354,723)	-	(354,723)
Special populations	157,380	-	97,650	-	(59,730)	-	(59,730)
Alternative programs	326,376	-	259,382	-	(66,994)	-	(66,994)
Technology support	688,769	-	163,817	-	(524,952)	-	(524,952)
Operational support	10,169,120	38,919	3,589,839	455,426	(6,084,936)	-	(6,084,936)
Financial and human resource services	659,194	-	189,842	-	(469,352)	-	(469,352)
Accountability	100,148	-	-	-	(100,148)	-	(100,148)
System-wide pupil support services	241,588	-	-	-	(241,588)	-	(241,588)
Policy, leadership and public relations	1,088,951	-	268,780	-	(820,171)	-	(820,171)
Ancillary services	450,907	-	244,772	-	(206,135)	-	(206,135)
Non programmed charges	878,458	-	-	-	(878,458)	-	(878,458)
Unallocated depreciation expense**	509,600	-	-	-	(509,600)	-	(509,600)
Total governmental activities	74,589,906	69,530	49,189,212	455,426	(24,875,738)	-	(24,875,738)
Business-type activities:							
School food service	4,408,507	1,212,868	3,035,124	16,054	-	(144,461)	(144,461)
Total primary government	\$ 78,998,413	\$ 1,282,398	\$ 52,224,336	\$ 471,480	(24,875,738)	(144,461)	(25,020,199)
General revenues:							
Unrestricted county appropriations - operating					15,532,893	-	15,532,893
Investment earnings, unrestricted					30,606	1,765	32,371
Miscellaneous, unrestricted					5,957,673	-	5,957,673
Transfers					(62,865)	62,865	-
Total general revenues					21,458,307	64,630	21,522,937
Change in net position							
Net position-beginning					55,322,870	77,717	55,400,587
Restatement					(107,839,458)	(3,354,500)	(111,193,958)
Net position-beginning					(52,516,588)	(3,276,783)	(55,793,371)
Net position-ending					\$ (55,934,019)	\$ (3,356,614)	\$ (59,290,633)

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

**HAYWOOD COUNTY BOARD OF EDUCATION
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2018**

Exhibit 3

	Major Funds				Non-Major Fund	Total Governmental Funds	
	General	State Public School	Individual Schools	Federal Grants	Other Special Revenue		Capital Outlay
ASSETS							
Cash and investments	\$ 4,140,185	\$ -	\$ 1,508,698	\$ 95,000	\$ 2,645,435	\$ 29	\$ 8,389,347
Due from other governments	86,954	1,868,603	-	166,085	21,480	204,353	2,347,475
Due from other funds	225,576	-	-	-	-	-	225,576
Receivables (net)	2,321	-	-	-	8,436	12,546	23,303
Total assets	<u>\$ 4,455,036</u>	<u>\$ 1,868,603</u>	<u>\$ 1,508,698</u>	<u>\$ 261,085</u>	<u>\$ 2,675,351</u>	<u>\$ 216,928</u>	<u>\$ 10,985,701</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable and accrued liabilities	\$ 293,025	\$ -	\$ -	\$ -	\$ 60,547	\$ -	\$ 353,572
Accrued salaries and wages payable	159,634	1,868,603	-	166,085	32,912	-	2,227,234
Due to other funds	-	-	-	95,000	-	65,512	160,512
Total liabilities	<u>452,659</u>	<u>1,868,603</u>	<u>-</u>	<u>261,085</u>	<u>93,459</u>	<u>65,512</u>	<u>2,741,318</u>
Fund balances:							
Restricted:							
Stabilization by State statute	314,851	-	-	-	29,916	128,092	472,859
Capital Outlay	-	-	-	-	-	23,324	23,324
Individual Schools	-	-	1,508,698	-	-	-	1,508,698
Assigned:							
Designated for subsequent year's expenditures	1,315,262	-	-	-	-	-	1,315,262
Designated for band expenditures	15,000	-	-	-	-	-	15,000
Special revenues	-	-	-	-	2,551,976	-	2,551,976
Unassigned	2,357,264	-	-	-	-	-	2,357,264
Total fund balances	<u>4,002,377</u>	<u>-</u>	<u>1,508,698</u>	<u>-</u>	<u>2,581,892</u>	<u>151,416</u>	<u>8,244,383</u>
Total liabilities and fund balances	<u>\$ 4,455,036</u>	<u>\$ 1,868,603</u>	<u>\$ 1,508,698</u>	<u>\$ 261,085</u>	<u>\$ 2,675,351</u>	<u>\$ 216,928</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	62,037,297
Net OPEB asset	147,888
Deferred outflows of resources related to pensions	11,092,044
Deferred outflows of resources related to OPEB	2,485,697
Some liabilities, including compensated absences and installment purchase obligations, are not due and payable in the current period and therefore are not reported in the funds.	(4,507,296)
Net pension liability	(21,732,430)
Net OPEB liability	(82,635,557)
Deferred inflows of resources related to OPEB	(29,456,329)
Deferred inflows of resources related to pensions	(1,609,716)
Net position of governmental activities	<u>\$ (55,934,019)</u>

HAYWOOD COUNTY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2018

Exhibit 4

	Major Funds					Non-Major Fund	Total Governmental Funds
	General	State Public School	Individual Schools	Federal Grants	Other Special Revenue	Capital Outlay	
REVENUES							
State of North Carolina	\$ -	\$ 42,873,626	\$ -	\$ -	\$ 643,771	\$ 1,072,753	\$ 44,590,150
Haywood County	15,532,893	-	-	-	-	729,017	16,261,910
U.S. Government	-	-	-	4,417,862	237,942	-	4,655,804
Other	396,387	-	3,991,897	-	1,342,938	23,324	5,754,546
Total revenues	15,929,280	42,873,626	3,991,897	4,417,862	2,224,651	1,825,094	71,262,410
EXPENDITURES							
Current:							
Instructional services:							
Regular instructional	4,137,683	25,464,384	-	386,849	148,410	-	30,137,326
Special populations	425,152	5,754,455	-	1,735,862	57,865	-	7,973,334
Alternative programs	571,948	2,515,419	-	1,994,137	484,207	-	5,565,711
School Leadership	1,499,976	2,536,505	-	-	-	-	4,036,481
Co-curricular	322,963	-	4,003,527	-	-	-	4,326,490
School-based support	797,945	2,033,944	-	16,002	1,555	-	2,849,446
System-wide support services:							
Support and development	326,030	278,035	-	42,148	-	-	646,213
Special populations	53,039	65,262	-	32,388	-	-	150,689
Alternative programs	31,296	36,150	-	155,243	86,388	-	309,077
Technology support	491,520	150,889	-	-	16,426	-	658,835
Operational support	5,088,797	3,517,812	-	2,640	88,165	823,385	9,520,799
Financial and human resource services	441,327	189,842	-	-	-	-	631,169
Accountability	95,969	-	-	-	-	-	95,969
System-wide pupil support services	231,506	-	-	-	-	-	231,506
Policy, leadership and public relations	774,728	268,779	-	-	-	-	1,043,507
Ancillary services:							
Community	5,115	-	-	-	-	-	5,115
Nutrition	105,669	5,410	-	16,054	299,489	-	426,622
Non-programmed charges	877,677	-	-	36,539	-	-	914,216
Capital outlay	-	-	-	-	-	1,087,181	1,087,181
Debt Service							
Principal	-	-	-	-	-	455,426	455,426
Total expenditures	16,278,340	42,816,886	4,003,527	4,417,862	1,182,505	2,365,992	71,065,112
Revenues over (under) expenditures	(349,060)	56,740	(11,630)	-	1,042,146	(540,898)	197,298
OTHER FINANCING SOURCES (USES)							
Transfers (to) from other funds	(6,125)	(56,740)	-	-	-	-	(62,865)
Installment purchase obligations issued	-	-	-	-	-	564,222	564,222
Total other financing sources (uses)	(6,125)	(56,740)	-	-	-	564,222	501,357
Net change in fund balance	(355,185)	-	(11,630)	-	1,042,146	23,324	698,655
Fund balances-beginning	4,357,562	-	1,520,328	-	1,539,746	128,092	7,545,728
Fund balances-ending	\$ 4,002,377	\$ -	\$ 1,508,698	\$ -	\$ 2,581,892	\$ 151,416	\$ 8,244,383

The accompanying notes are an integral part of the basic financial statements.

HAYWOOD COUNTY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2018

Exhibit 4
(Continued)

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

Net changes in fund balances - total governmental funds	\$ 698,655
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(934,256)
Proceeds from the sale of capital assets are recorded as revenues in the fund statements but not in the statement of activities.	(15,285)
Contributions to the pension plan in the current fiscal year are not included in the Statement of Activities.	4,195,724
Contributions to the OPEB plan in the current fiscal year are not included in the Statement of Activities.	2,409,233
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.	(108,796)
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	(5,564,651)
OPEB expense	(4,028,076)
Compensated absences	(58,194)
Loss on disposal of capital assets	(11,785)
	<u> </u>
Total changes in net position of governmental activities	<u><u>\$ (3,417,431)</u></u>

**HAYWOOD COUNTY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET
AND ACTUAL - GENERAL FUND AND ANNUALLY BUDGETED MAJOR SPECIAL REVENUE
FUNDS
For the Year Ended June 30, 2018**

Exhibit 5

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
State of North Carolina	\$ -	\$ -	\$ -	\$ -
Haywood County	15,532,892	15,532,892	15,532,893	1
U.S. Government	-	-	-	-
Other	440,684	440,684	396,387	(44,297)
Total revenues	<u>15,973,576</u>	<u>15,973,576</u>	<u>15,929,280</u>	<u>(44,296)</u>
Expenditures:				
Current:				
Instructional services	8,544,802	8,211,439	7,755,667	455,772
System-wide support services	7,574,423	7,837,441	7,534,212	303,229
Ancillary services	47,389	117,734	110,784	6,950
Non-programmed charges	911,596	911,596	877,677	33,919
Total expenditures	<u>17,078,210</u>	<u>17,078,210</u>	<u>16,278,340</u>	<u>799,870</u>
Revenues over (under) expenditures	(1,104,634)	(1,104,634)	(349,060)	755,574
Other financing sources (uses):				
Transfers (to) from other funds	<u>(6,125)</u>	<u>(6,125)</u>	<u>(6,125)</u>	<u>-</u>
Revenues and other sources over (under) expenditures and other uses	(1,110,759)	(1,110,759)	(355,185)	755,574
Appropriated fund balance	<u>1,110,759</u>	<u>1,110,759</u>	<u>-</u>	<u>(1,110,759)</u>
Revenues, other sources, and appropriated fund balance over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	(355,185)	<u>\$ (355,185)</u>
Fund balances, beginning of year			<u>4,357,562</u>	
Fund balances, end of year			<u>\$ 4,002,377</u>	

**HAYWOOD COUNTY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET
AND ACTUAL - GENERAL FUND AND ANNUALLY BUDGETED MAJOR SPECIAL REVENUE
FUNDS
For the Year Ended June 30, 2018**

Exhibit 5 (continued)

	State Public School Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
State of North Carolina	\$ 41,737,548	\$ 43,742,240	\$ 42,873,626	\$ (868,614)
Haywood County	-	-	-	-
U.S. Government	-	-	-	-
Other	-	-	-	-
Total revenues	<u>41,737,548</u>	<u>43,742,240</u>	<u>42,873,626</u>	<u>(868,614)</u>
Expenditures:				
Current:				
Instructional services	37,442,224	39,046,423	38,304,707	741,716
System-wide support services	4,237,799	4,632,566	4,506,769	125,797
Ancillary services	-	6,511	5,410	1,101
Non-programmed charges	-	-	-	-
Total expenditures	<u>41,680,023</u>	<u>43,685,500</u>	<u>42,816,886</u>	<u>868,614</u>
Revenues over (under) expenditures	57,525	56,740	56,740	-
Other financing sources (uses):				
Transfers (to) from other funds	<u>(57,525)</u>	<u>(56,740)</u>	<u>(56,740)</u>	<u>-</u>
Revenues and other sources over (under) expenditures and other uses	-	-	-	-
Appropriated fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues, other sources, and appropriated fund balance over expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balances, beginning of year			<u>-</u>	
Fund balances, end of year			<u>\$ -</u>	

**HAYWOOD COUNTY BOARD OF EDUCATION
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET
 AND ACTUAL - GENERAL FUND AND ANNUALLY BUDGETED MAJOR SPECIAL REVENUE
 FUNDS
 For the Year Ended June 30, 2018**

Exhibit 5 (continued)

	Federal Grants Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
State of North Carolina	\$ -	\$ -	\$ -	\$ -
Haywood County	-	-	-	-
U.S. Government	4,903,296	5,165,851	4,417,862	(747,989)
Other	-	-	-	-
Total revenues	<u>4,903,296</u>	<u>5,165,851</u>	<u>4,417,862</u>	<u>(747,989)</u>
Expenditures:				
Current:				
Instructional services	4,464,999	4,748,258	4,132,850	615,408
System-wide support services	297,604	330,170	232,419	97,751
Ancillary services	17,522	17,522	16,054	1,468
Non-programmed charges	<u>123,171</u>	<u>69,901</u>	<u>36,539</u>	<u>33,362</u>
Total expenditures	<u>4,903,296</u>	<u>5,165,851</u>	<u>4,417,862</u>	<u>747,989</u>
Revenues over (under) expenditures	-	-	-	-
Other financing sources (uses):				
Transfers (to) from other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other sources over (under) expenditures and other uses	-	-	-	-
Appropriated fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues, other sources, and appropriated fund balance over expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balances, beginning of year			<u>-</u>	
Fund balances, end of year			<u>\$ -</u>	

**HAYWOOD COUNTY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET
AND ACTUAL - GENERAL FUND AND ANNUALLY BUDGETED MAJOR SPECIAL REVENUE
FUNDS
For the Year Ended June 30, 2018**

Exhibit 5 (continued)

	Other Special Revenue Fund			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
Revenues:				
State of North Carolina	\$ 699,614	\$ 699,614	\$ 643,771	\$ (55,843)
Haywood County	-	-	-	-
U.S. Government	251,468	251,468	237,942	(13,526)
Other	2,054,115	2,049,532	1,342,938	(706,594)
Total revenues	<u>3,005,197</u>	<u>3,000,614</u>	<u>2,224,651</u>	<u>(775,963)</u>
Expenditures:				
Current:				
Instructional services	1,605,832	1,680,343	692,037	988,306
System-wide support services	877,350	788,257	190,979	597,278
Ancillary services	350,000	360,000	299,489	60,511
Non-programmed charges	172,015	172,014	-	172,014
Total expenditures	<u>3,005,197</u>	<u>3,000,614</u>	<u>1,182,505</u>	<u>1,818,109</u>
Revenues over (under) expenditures	-	-	1,042,146	1,042,146
Other financing sources (uses):				
Transfers (to) from other funds	-	-	-	-
Revenues and other sources over (under) expenditures and other uses	-	-	1,042,146	1,042,146
Appropriated fund balance	-	-	-	-
Revenues, other sources, and appropriated fund balance over expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	1,042,146	<u>\$ 1,042,146</u>
Fund balances, beginning of year			<u>1,539,746</u>	
Fund balances, end of year			<u>\$ 2,581,892</u>	

HAYWOOD COUNTY BOARD OF EDUCATION
STATEMENT OF NET POSITION - PROPRIETARY FUND
June 30, 2018

Exhibit 6

	<u>Major Fund</u>
	<u>School Food Service</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 184,243
Due from other governments	140,969
Accounts receivable	6,353
OPEB asset	4,600
Inventories	142,934
Total current assets	<u>479,099</u>
Noncurrent assets:	
Capital assets, net	<u>230,850</u>
Total assets	<u>709,949</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>422,356</u>
LIABILITIES	
Current liabilities:	
Accounts payable	1,139
Accrued salaries and wages	7,601
Due to other funds	65,064
Compensated absences	71,688
Unavailable revenues	43,805
Total current liabilities	<u>189,297</u>
Noncurrent liabilities:	
Net pension liability	676,018
Net OPEB liability	2,570,496
Compensated absences	86,754
Total noncurrent liabilities	<u>3,333,268</u>
Total liabilities	<u>3,522,565</u>
DEFERRED INTFLOWS OF RESOURCES	<u>966,354</u>
NET POSITION	
Net investment in capital assets	230,850
DIPNC OPEB plan	4,600
Unrestricted	(3,592,064)
Total net position	<u>\$ (3,356,614)</u>

HAYWOOD COUNTY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION -
PROPRIETARY FUND
For the Year Ended June 30, 2018

Exhibit 7

	Major Fund
	School Food Service
OPERATING REVENUES	
Food sales	\$ 1,212,868
OPERATING EXPENSES	
Purchase of food	1,651,808
Salaries and benefits	2,348,594
Indirect costs	270,125
Materials and supplies	33,154
Repairs and maintenance	11,950
Workshops	7,286
Telephone and mobile communications	3,714
Travel	15,544
Depreciation	60,022
Other	6,310
Total operating expenses	4,408,507
Operating loss	(3,195,639)
NONOPERATING REVENUES	
Federal reimbursements	2,446,394
Federal commodities	312,244
State Breakfast Grant	6,361
Interest earned	1,765
Indirect costs not paid	270,125
Total nonoperating revenues	3,036,889
Net income (loss) before transfers	(158,750)
Transfers from other funds	62,865
Capital contributions	16,054
Change in net position	(79,831)
Total net position - beginning, as restated	(3,276,783)
Total net position - ending	\$ (3,356,614)

**HAYWOOD COUNTY BOARD OF EDUCATION
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
For the Year Ended June 30, 2018**

Exhibit 8

	<u>Major Fund</u>
	<u>School Food Service</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 1,212,404
Cash paid for goods and services	(1,425,964)
Cash paid to employees for services	(2,197,611)
Net cash used by operating activities	<u>(2,411,171)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Federal reimbursements	2,395,363
State reimbursements	6,361
Net cash provided by financing activities	<u>2,401,724</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	<u>(10,201)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>1,765</u>
Net increase (decrease) in cash and cash equivalents	(17,883)
Balance-beginning of the year	<u>202,126</u>
Balance-end of the year	<u>\$ 184,243</u>

HAYWOOD COUNTY BOARD OF EDUCATION
STATEMENT OF CASH FLOWS - PROPRIETARY FUND (Continued)
For the Year Ended June 30, 2018

	<u>Major Fund</u>
	<u>School Food Service</u>
Reconciliation of operating loss to net cash used by operating activities	
Operating loss	\$ (3,195,639)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	60,022
Donated commodities consumed	312,244
Indirect costs not paid	270,125
Expenses paid by other funds	62,865
Changes in assets, deferred outflows of resources, and liabilities:	
(Increase) decrease in inventories	(6,767)
(Increase) decrease in accounts receivable	325
(Increase) decrease in net OPEB asset	(4,600)
Increase (decrease) in accounts payable	(1,675)
(Increase) decrease in deferred outflows of resources	125,886
Increase (decrease) in deferred inflows of resources	918,645
Increase (decrease) in net pension liability	(169,682)
Increase (decrease) in net OPEB liability	(784,004)
Increase (decrease) in accrued salaries and wages	358
Increase (decrease) in unavailable revenues	(789)
Increase (decrease) in compensated absences	1,515
	<hr/>
Total adjustments	784,468
	<hr/>
Net cash used by operating activities	\$ (2,411,171)

Noncash investing, capital, and financing activities:

Indirect costs of \$270,125 that would be due to the Other Special Revenue 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 \$312,244 during the fiscal year. The receipt of the commodities is recognized as a nonoperating revenue on Exhibit 7.

The General Fund transferred \$6,125 to the School Food Service Fund for operating expenses during the fiscal year. The payment is reflected by a transfer in and an operating expense on Exhibit 7.

The Federal Grants Fund purchased fixed assets costing \$16,054 for the School Food Service Fund during the fiscal year. The payment is reflected as a capital contribution on Exhibit 7 and a current expenditure on Exhibit 4.

The State Public School Fund paid salaries and benefits of \$56,740 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.

HAYWOOD COUNTY BOARD OF EDUCATION
STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUND
June 30, 2018

Exhibit 9

	Private- Purpose Trust Fund
ASSETS	
Current assets:	
Cash and investments	\$ 2,509,033
Land held for investment	<u>87,500</u>
Total Assets	<u>2,596,533</u>
NET POSITION	
Assets held in trust for private purposes	<u><u>\$ 2,596,533</u></u>

HAYWOOD COUNTY BOARD OF EDUCATION
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - FIDUCIARY FUND
For the Year Ended June 30, 2018

Exhibit 10

	<u>Private- Purpose Trust Fund</u>
Additions:	
Contributions and other revenue	\$ 523,413
Investment earnings (losses)	68,107
Total additions	<u>591,520</u>
Deductions:	
Administrative expenses	72,681
Fundraising expenses	20,949
Scholarships and grants paid	451,079
Total deductions	<u>544,709</u>
Change in net position	46,811
Total net position - beginning	<u>2,549,722</u>
Total net position - ending	<u><u>\$ 2,596,533</u></u>

HAYWOOD COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

Blended Component Unit

Haywood County Schools Foundation, Inc. (the “Foundation”) is a non-profit corporation that has been determined to be exempt from income tax under Internal Code Section 501(c)(3), and is governed by a board of directors appointed by the Board. Although it is legally separate from the Board, the Foundation is reported as if it were part of the primary government because its sole purpose is to promote, develop and encourage public and private support for the Haywood County school system. The Foundation is reported as a fiduciary fund. Separate financial statements have not been issued.

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.

**HAYWOOD COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2018**

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

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

The Board reports the following major governmental funds:

General Fund. The General Fund is the general operating fund of the Board. The General Fund accounts for all financial resources except those that are 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.

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.

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

Other Special Revenue Fund. The Other Special Revenue Fund is used to account for revenues from reimbursements (including indirect costs), fees for actual costs, tuition, 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 from prekindergarten programs and other special programs.

The Board reports one major enterprise fund, the School Food Service Fund. The School Food Service Fund is used to account for the food service program within the school system.

The Board reports one fiduciary fund, a private-purpose trust fund which consists of the Haywood County Schools Foundation, Inc., a component unit of the Haywood County Board of Education.

HAYWOOD COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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 60 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.

All governmental and business-type activities and enterprise funds of the Board follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

Budgetary Data

The Board's budgets are adopted as required by the North Carolina General Statutes. Annual budgets are adopted for all funds, except for the individual schools special revenue funds, as required by the North Carolina General Statutes. No budget is required by State law for individual school funds. All appropriations lapse at the fiscal year-end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the purpose function level for all annually budgeted funds. The Board has authorized the Superintendent to move moneys (up to \$5,000) from one function to another within a fund. Such transfers must be reported to the governing board at its next regular meeting. All amendments must be approved by the governing board. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

HAYWOOD COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

Encumbrance accounting is employed in all governmental funds except the Individual Schools Fund. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year. There were no outstanding encumbrances at June 30, 2018.

Assets, Liabilities, 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. It consists of an internal portion and an external portion in which the Board participates. Investments are restricted to those enumerated in G.S. 147-69.1.

The Board's investments are reported at amortized cost or at fair value 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 in 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. All investments are measured using the market approach. The STIF is classified as Level 2 in the fair value hierarchy and is valued using prices that are either directly or indirectly observable for an asset or liability. 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 are essentially demand deposits and are considered cash and cash equivalents.

HAYWOOD COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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.

Capital Assets

Donated assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation or forfeiture. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other assets are recorded at original cost. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. Certain items acquired before July 1987 are recorded at an estimated original historical cost. The total of these estimates is not considered large enough that any errors would be material when capital assets are considered as a whole.

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

Haywood County holds title to certain properties, which are reflected as capital assets in the financial statements of the Board. The properties have been deeded to the County to permit installment purchase financing of acquisition and construction costs and to permit the County to receive refunds of sales tax paid for construction costs. Agreements between the County and the Board gives the schools full use of the facilities, full responsibility for maintenance of the facilities, and provides that the County will convey title of the property back to the Board, once all restrictions of the financing agreements and all sales tax reimbursement requirements have been met.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	30 - 50
Improvements	20
Equipment and furniture	5 - 20
Vehicles	6 - 8

Land and construction in progress are not depreciated.

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

HAYWOOD COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

Deferred outflows and inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an expense or expenditure until then. The Board has several items that meet this criterion - pension and OPEB 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 will not be recognized as revenue until then. The Board has several items that meet this criterion - 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 has been made based on prior years' records, of the current portion of compensated absences.

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

Net Position/Fund Balances

Net Position

Net position in the government-wide and proprietary fund financial statements is classified as net investment in capital assets; restricted; and unrestricted. Restricted net position represent 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.

HAYWOOD COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

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

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

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

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

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

Band expenditures – portion of fund balance that is designated for future purchases of band uniforms.

Assigned for Other Special Revenues – revenue sources restricted for expenditures that are required by federal, State and other providers to be spent for specific purposes.

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

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

HAYWOOD COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

Reconciliation of Government-wide and Fund Financial Statements

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

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. The net adjustment of \$(64,178,402) consists of several elements as follows:

<u>Description</u>	<u>Amount</u>
Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column)	\$ 111,697,460
Less Accumulated Depreciation	<u>(49,660,163)</u>
Net capital assets	62,037,297
 Net OPEB asset	 147,888
 Pension related deferred outflows of resources	 11,092,044
OPEB related deferred outflows of resources	2,485,697
 Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not recorded in the fund statements:	
Installment financing	(721,540)
Compensated absences	(3,785,756)
Net pension liability	(21,732,430)
Net OPEB liability	(82,635,557)
Deferred inflows of resources related to pensions	(1,609,716)
Deferred inflows of resources related to OPEB	<u>(29,456,329)</u>
 Total adjustment	 <u>\$ (64,178,402)</u>

HAYWOOD COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. There are several elements of that total adjustment of \$(4,116,086) as follows:

Description	Amount
Capital outlay expenditures recorded in the fund statements but capitalized as assets in the statement of activities.	\$ 1,893,830
Depreciation expenses, the allocation of those assets over their useful lives, that is recorded on the statement of activities but not in the fund statements.	(2,828,086)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	4,195,724
Contributions to the OPEB plan in the current fiscal year are not included on the Statement of Activities	2,409,233
Proceeds from the sale of capital assets recorded as revenues in the fund statements but not in the statement of activities	(15,285)
New debt issued during the year is recorded as a source of funds on the fund statements; it has no affect on the statement of activities - it only affects the government-wide statement of net position	(564,222)
Principal payments on debt owed are recorded as a use of funds on the fund statements but affects only the statement of net position in the government-wide statements.	455,426
Expenses reported in the statement of activities that do not require the use of current resources to pay are not recorded as expenditures in the fund statements.	
Pension expense	(5,564,651)
Net OPEB expense	(4,028,076)
Loss on disposal of capital assets	(11,785)
Compensated absences are accrued in the government-wide statements but not in the fund statements because they do not use current resources.	<u>(58,194)</u>
Total adjustment	<u>\$ (4,116,086)</u>

HAYWOOD COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

Defined Benefit Pension Plan and OPEB Plans

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

NOTE 2 – DETAIL NOTES ON ALL FUNDS

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.

At June 30, 2018, the Board had deposits with banks and savings and loans with a carrying amount of \$5,608,339 and with the State Treasurer of \$95,000. The bank balances with the financial institutions and the State Treasurer were \$7,511,924 and \$228,624, respectively. Of these balances, \$1,988,950 was covered by federal depository insurance and \$5,751,598 was covered by collateral held by authorized escrow agents in the name of the State Treasurer.

Investments

At June 30, 2018, the Board had \$3,208,089 invested with the State Treasurer in the Short Term Investment Fund (STIF). The STIF is unrated and had a weighted average maturity of 1.5 years at June 30, 2018. The Board has no policy for managing interest rate risk or credit risk.

HAYWOOD COUNTY BOARD OF EDUCATION
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For the Year Ended June 30, 2018

At June 30, 2018, the Haywood County Schools Foundation, Inc. (a blended component unit included in the basic financial statements as a Fiduciary Fund) reported \$2,171,195 of equity securities. These securities are reported at fair value and classified as level 1 of the fair value hierarchy since they are valued using quoted market prices in active markets.

Accounts Receivable

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

	Due from other governments	Other
Governmental activities:		
General Fund	\$ 86,954	\$ 2,321
Other Government Funds	<u>2,260,521</u>	<u>20,982</u>
Total	<u>\$ 2,347,475</u>	<u>\$ 23,303</u>
Business-type activities:		
School Food Service	<u>\$ 140,969</u>	<u>\$ 6,353</u>

Due from other governments consists of the following:

Governmental activities:		
General Fund	\$ 86,954	Haywood County
State Public School Fund	1,868,603	Operating funds from DPI
Federal Grants Fund	166,085	Federal grant funds
Capital Outlay Fund	204,353	Haywood County
Other Special Revenue Fund	<u>21,480</u>	Federal and State grants
Total	<u>\$ 2,347,475</u>	
Business-type activities:		
School Food Service Fund	<u>\$ 140,969</u>	Federal grants

**HAYWOOD COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2018**

Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 3,395,756	\$ -	\$ -	\$ 3,395,756
Construction in progress	242,673	645,884	888,557	-
Total capital assets not being depreciated	<u>3,638,429</u>	<u>645,884</u>	<u>888,557</u>	<u>3,395,756</u>
Capital assets being depreciated:				
Buildings and improvements	93,061,937	992,966	-	94,054,903
Equipment and furniture	4,702,003	188,577	208,616	4,681,964
Vehicles	8,788,198	954,960	178,321	9,564,837
Total capital assets being depreciated	<u>106,552,138</u>	<u>2,136,503</u>	<u>386,937</u>	<u>108,301,704</u>
Less accumulated depreciation for:				
Buildings and improvements	37,244,881	2,096,557	-	39,341,438
Equipment and furniture	3,595,674	221,929	208,616	3,608,987
Vehicles	6,351,389	509,600	151,251	6,709,738
Total accumulated depreciation	<u>47,191,944</u>	<u>2,828,086</u>	<u>359,867</u>	<u>49,660,163</u>
Total capital assets being depreciated, net	<u>59,360,194</u>			<u>58,641,541</u>
Governmental activity capital assets, net	<u>\$ 62,998,623</u>			<u>\$ 62,037,297</u>

HAYWOOD COUNTY BOARD OF EDUCATION
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	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
Business-type activities:				
School Food Service Fund:				
Capital assets being depreciated:				
Furniture and office equipment	\$ 2,187,527	\$ 26,255	\$ -	\$ 2,213,782
Less accumulated depreciation for:				
Furniture and office equipment	<u>1,922,910</u>	<u>60,022</u>	<u>-</u>	<u>1,982,932</u>
School Food Service capital assets, net:	<u>\$ 264,617</u>			<u>\$ 230,850</u>

Depreciation was charged to governmental functions as follows:

Instructional services	\$ 2,096,557
System-wide support services	221,929
Unallocated depreciation	<u>509,600</u>
Total	<u>\$ 2,828,086</u>

Liabilities

Pension Plan Obligations

a. Teachers' and State Employees' Retirement System

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

Benefits Provided. TSERS provides retirement and survivor benefits. Retirement benefits are determined at 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

**HAYWOOD COUNTY BOARD OF EDUCATION
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For the Year Ended June 30, 2018**

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 service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions. Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Board employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the TSERS Board of Trustees. The Board's contractually required contribution rate for the year ended June 30, 2018 was 10.78% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of the benefits earned by the employees during the year. Contributions to the pension plan from the Board were \$4,326,238 for the year ended June 30, 2018.

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

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

At June 30, 2018, the Board reported a liability of \$22,408,448 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 asset 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 proportionate share 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 Boards proportion was .28% and .30%, respectively.

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For the year ended June 30, 2018, the Board recognized pension expense of \$5,731,055. At June 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to the pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 485,774	\$ 733,097
Changes of assumptions	3,540,197	-
Net difference between projected and actual earnings on pension plan investments	3,032,623	-
Changes in proportion and differences between Board contributions and proportionate share of contributions	52,246	926,692
Board contributions subsequent to the measurement date	<u>4,326,238</u>	<u>-</u>
Total	<u>\$ 11,437,078</u>	<u>\$ 1,659,789</u>

\$4,326,238 reported as deferred outflows of resources related to pensions resulted from Board contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2019	\$ 921,199
2020	3,975,433
2021	1,768,108
2022	(1,213,689)
2023	-
Thereafter	-
Total	<u>\$ 5,451,051</u>

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

Inflation	3.0%
Salary increases	3.5% to 8.1%, including inflation and productivity factor
Investment rate of return	7.20%, 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

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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 measurements.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2017 are summarized in the following table:

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

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

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

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plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	<u>1% Decrease (6.20%)</u>	<u>Discounted Rate (7.20%)</u>	<u>1% Increase (8.20%)</u>
Board's proportionate share of the net pension liability (asset)	\$ 46,125,862	\$ 22,408,448	\$ 2,536,278

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

b. Other Post-employment Benefits

Healthcare Benefits

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

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

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

Benefits provided. Plan benefits received by retired employees and disabled employees from RHBF are OPEB. The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees. The plan options change when former employees

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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 allowed local system unit), CJRS, or LRS prior to January 1, 2021, and not withdraw that service, in order to be eligible for retiree medical benefits under the amended law. Consequently, members first hired on and after January 1, 2021 will not be eligible to receive retiree medical benefits.

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

Contributions. By General Statute, accumulated contributions from employers to RHBF and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and their applicable beneficiaries. By statute, contributions to RHBF are irrevocable. Also by law, fund assets are dedicated to providing benefits to retired and disabled employees and their applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to RHBF. However, RHBF assets may be used for reasonable expenses to administer the RHBF, including costs to conduct required actuarial valuations of state—supported retired employees' health benefits. Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis are determined by the General Assembly in the Appropriations Bill. For the current fiscal year, the Board contributed 6.05% of covered payroll which amounted to \$2,427,991.

At June 30, 2018, Board reported a liability of \$85,206,053 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

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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 and at June 30, 2016, the Boards proportion was 0.26% and 0.25%, respectively.

\$2,427,991 reported as deferred outflows of resources related to OPEB resulting from Board contributions subsequent to the measurement date will be recognized as a decrease of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:

2019	\$ (6,076,105)
2020	(6,076,105)
2021	(6,076,105)
2022	(6,076,105)
2023	(6,068,190)
Thereafter	--
Total	<u>\$ (30,372,610)</u>

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

Inflation	2.75%
Salary increases	3.5% to 8.10%, including a 3.5% inflation and productivity factor
Investment rate of return	7.20%, net of OPEB plan investment expense, including inflation
Healthcare cost trend rate – medical	5.00% - 6.50%
Healthcare cost trend rate – prescription drug	5.00% - 7.25%
Healthcare cost trend rate – Medicare advantage	4.00% - 5.00%
Healthcare cost trend rate – administrative	3.00%

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 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:

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	<u>1% Decrease (2.58%)</u>	<u>Discounted Rate (3.58%)</u>	<u>1% Increase (4.58%)</u>
Net OPEB liability	\$ 101,645,721	\$ 85,206,053	\$ 72,166,753

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:

	<u>1% Decrease (Medical- 4.00-5.50%, Pharmacy- 4.00-6.25%, Medicare Advantage - 3.00-4.00%, Administrative - 2.00%)</u>	<u>Healthcare Trend Rates (Medical - 5.00-6.50%, Pharmacy - 5.00-7.25%, Medicare Advantage - 4.00-5.00%, Administrative - 3.00%)</u>	<u>1% Increase (Medical- 6.00-7.50%, Pharmacy- 6.00-8.25%, Medicare Advantage - 5.00-6.00%, Administrative - 4.00%)</u>
Net OPEB liability	\$ 69,605,357	\$ 85,206,053	\$ 105,940,969

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. 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

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

Contributions. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases. Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly and coincide with the State fiscal year. For the fiscal year ended June 30, 2018, employers made a statutory contribution of 0.14% of covered payroll which was equal to the actuarially required contribution. Board contributions to the plan were \$56,185 for the year ended June 30, 2018.

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

At June 30, 2018, Board reported an OPEB asset of \$152,488 for its proportionate share of the net OPEB asset. The net OPEB asset was measured as of June 30, 2017, and the total OPEB liability 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 liability was based on a projection of the Board's present value of future salary, actuarially determined. At June 30, 2017 and at June 30, 2016, the Boards proportion was .25% and .27%, respectively.

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\$56,185 reported as deferred outflows of resources related to OPEB resulting from Board contributions subsequent to the measurement date will be recognized as a decrease of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:

2019	\$	23,500
2020		23,500
2021		23,493
2022		8,350
2023		--
Thereafter		--
	Total	<u>\$ 78,843</u>

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

Inflation	3.00%
Salary increases	3.5% to 8.10%, including a 3.5% inflation and productivity factor
Investment rate of return	3.75%, 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 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 (2.75 percent) or 1-percentage point higher (4.75 percent) than the current discount rate:

	<u>1% Decrease (2.75%)</u>	<u>Discounted Rate (3.75%)</u>	<u>1% Increase (4.75%)</u>
Net OPEB asset	\$ 129,637	\$ 152,488	\$ 175,391

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.

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

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

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

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Total OPEB Expense, OPEB Liabilities, and Deferred Outflows and Inflows of Resources of Related to OPEB

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

	<u>RHBF</u>	<u>DIPNC</u>	<u>Total</u>
OPEB expense	\$ 4,071,154	\$ 82,220	\$ 4,153,374
OPEB liability (asset)	85,206,053	(152,488)	85,053,565
Proportionate share of the net OPEB liability (asset)	0.260%	0.250%	
Deferred of Outflows of Resources			
Differences between expected and actual experience	-	41,810	41,810
Changes of assumptions	-	-	-
Net difference between projected and actual earnings on plan investments	-	33,424	33,424
Changes in proportion and defferences between Board contributions and proportionate share of contributions	-	3,609	3,609
Board contributions subsequent to the measurement date	2,427,991	56,185	2,484,176
Deferred of Inflows of Resources			
Differences between expected and actual experience	6,109,431	-	6,109,431
Changes of assumptions	23,465,358	-	23,465,358
Changes in proportion and defferences between Board contributions and proportionate share of contributions	766,155	-	766,155
Net difference between projected and actual earnings on plan investments	31,666	-	31,666

Accounts Payable

Accounts payable at June 30, 2018, are as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>
Governmental Activities		
General	\$ 293,025	\$ 159,634
Other Governmental	60,547	2,067,600
Total-governmental activities	<u>\$ 353,572</u>	<u>\$ 2,227,234</u>
Business-type Activities		
School Food Service	<u>\$ 1,139</u>	<u>\$ 7,601</u>

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Unavailable Revenues

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

	<u>Unavailable Revenue</u>
Prepaid lunch balances (School Food Service Fund)	\$ <u>43,805</u>

Deferred Outflows and Deferred Inflows of Resources

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Change in proportion and difference between employer contributions and proportionate share of contributions	\$ 55,855	\$ 1,692,847
Changes of assumptions	3,540,197	23,465,358
Difference between projected and actual earnings on plan investments	3,066,047	31,666
Board contributions subsequent to the measurement date	6,810,414	-
Difference between expected and actual experience	<u>527,584</u>	<u>6,842,528</u>
Totals	<u>\$ 14,000,097</u>	<u>\$ 32,032,399</u>

Risk Management

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

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employees are paid from State funds. The Board also participates in the Public School Insurance Fund (the Fund), a voluntary, self-insured risk control and risk financing fund administered by the North Carolina Department of Public Instruction insuring the tangible property assets of the Board. Coverage is provided on an “all risk” perils contract. Buildings and contents are insured on a replacement cost basis. The Fund purchases excess reinsurance to protect the assets of the Fund in the event of a catastrophic event. The Fund maintains a self-insured retention of \$10 million. The excess reinsurance is purchased through commercial insurers. A limit of \$5 million per occurrence is provided on Flood, Earthquake, Business Interruption and Extra Expense. Increased Cost of Construction is covered with a \$10 million per occurrence limit.

The Board also participates in the Teachers’ and State Employees’ Comprehensive Major Medical Plan, a self-funded risk financing pool of the State administered by Blue Cross and Blue Shield of North Carolina. The Board pays the full cost of coverage for employees enrolled in the Comprehensive Major Medical Plan.

In accordance with G.S. 115C-442, the Board’s employees who have custody of the Board’s moneys at any given time are performance bonded through a commercial surety bond. The finance officer is bonded for \$250,000. The remaining employees that have access to funds are bonded under a blanket bond for \$175,000.

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

Long-Term Obligations

a. Installment Purchases

The Board is authorized to finance the purchase of school buses under G.S. 115C-528(a). Session law 2003-284, section 7.25 authorized the State Board of Education to allot moneys for the payments on financing contracts entered into pursuant to G.S. 115C-528. The State has accepted the bid to purchase Thomas Built Buses through third party financing arrangements with various companies. At June 30, 2018, there are remaining annual payments due on four such agreements. These financing contracts require annual payments ranging from \$21,428 to \$141,056 over four years.

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

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>
	<u>Principal</u>
2019	\$ 353,547
2020	226,938
2021	141,055
Total	<u>\$ 721,540</u>

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b. Long-Term Obligation Activity

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

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018	Current Maturities
Governmental activities:					
Installment purchases	\$ 612,744	\$ 564,222	\$ 455,426	\$ 721,540	\$ 353,547
Net pension liability	26,660,304	-	4,927,874	21,732,430	-
Net OPEB liability	110,331,924	-	27,696,367	82,635,557	-
Compensated absences	3,727,562	3,188,601	3,130,407	3,785,756	1,713,516
	<u>\$ 141,332,534</u>	<u>\$ 3,752,823</u>	<u>\$ 36,210,074</u>	<u>\$ 108,875,283</u>	<u>\$ 2,067,063</u>
Business-type activities:					
Net pension liability	\$ 845,700	\$ -	\$ 169,682	\$ 676,018	\$ -
Net OPEB liability	3,432,031	-	861,535	2,570,496	-
Compensated absences	156,927	132,441	130,926	158,442	71,688
Total	<u>\$ 4,434,658</u>	<u>\$ 132,441</u>	<u>\$ 1,162,143</u>	<u>\$ 3,404,956</u>	<u>\$ 71,688</u>

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

Transfers to/from other funds

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

	Amount
From the General Fund to the School Food Service Fund for operating expenses.	<u>\$ 6,125</u>
From the State Public School Fund to the School Food Service Fund for administrative costs.	<u>\$ 56,740</u>

Due to/from other funds

	Amount
Advance from the General Fund to the Federal Grants Fund to ensure the Federal Grants Fund always has a minimum cash balance	<u>\$ 95,000</u>
Advance from the General Fund to the School Food Service Fund to fund operations	<u>\$ 65,064</u>
Advance from the General Fund to the Capital Outlay Fund to fund operations	<u>\$ 65,512</u>

**HAYWOOD COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2018**

Fund Balance

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

Total fund balance - General Fund	\$ 4,002,377
Less:	
Stabilization by State statute	(314,851)
Band expenditures	(15,000)
Appropriated Fund Balance in 2019 budget	<u>(1,315,262)</u>
Remaining fund balance	<u>\$ 2,357,264</u>

NOTE 3 – SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

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

NOTE 4 – CHANGE IN ACCOUNTING PRINCIPLES/RESTATEMENT

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 net position from contributions made by the Board during the measurement period (fiscal year end June 30, 2017). As a result, net position for the governmental and business-type activities decreased by \$107,839,458 and \$3,354,500, respectively.

HAYWOOD COUNTY BOARD OF EDUCATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM
*Last Five Fiscal Years**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Board's proportion of the net pension liability (asset)	0.282%	0.299%	0.299%	0.294%	0.296%
Board's proportionate share of the net pension liability (asset)	\$ 22,408,448	\$ 27,506,004	\$ 11,015,794	\$ 3,446,094	\$ 18,000,571
Board's covered-employee payroll	\$ 38,884,550	\$ 39,234,622	\$ 40,124,287	\$ 38,224,527	\$ 39,092,249
Board's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	57.63%	70.11%	27.45%	9.02%	46.05%
Plan fiduciary net position as a percentage of the total pension liability	89.51%	87.32%	94.64%	98.24%	90.60%

* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

This schedule is required supplementary information as required by the Governmental Accounting Standards Board.

HAYWOOD COUNTY BOARD OF EDUCATION
SCHEDULE OF BOARD CONTRIBUTIONS
TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM
Last Five Fiscal Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 4,326,238	\$ 3,880,678	\$ 3,589,969	\$ 3,671,372	\$ 3,321,711
Contributions in relation to the contractually required contribution	<u>4,326,238</u>	<u>3,880,678</u>	<u>3,589,969</u>	<u>3,671,372</u>	<u>3,321,711</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Board's covered-employee payroll	\$ 40,132,078	\$ 38,884,550	\$ 39,234,622	\$ 40,124,287	\$ 38,224,527
Contributions as a percentage of covered-employee payroll	10.78%	9.98%	9.15%	9.15%	8.69%

This schedule is required supplementary information as required by the Governmental Accounting Standards Board.

HAYWOOD COUNTY BOARD OF EDUCATION
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
RETIREE HEALTH BENEFIT FUND
*Last Two Fiscal Years**

	<u>2018</u>	<u>2017</u>
Board's proportion of the net OPEB liability (asset)	0.260%	0.250%
Board's proportionate share of the net OPEB liability (asset)	\$ 85,206,053	\$ 113,763,955
Board's covered-employee payroll	\$ 38,884,550	\$ 39,234,622
Board's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	219.13%	289.96%
Plan fiduciary net position as a percentage of the total OPEB liability	3.52%	2.41%

* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

This schedule is required supplementary information as required by the Governmental Accounting Standards Board.

HAYWOOD COUNTY BOARD OF EDUCATION
SCHEDULE OF BOARD CONTRIBUTIONS
RETIREE HEALTH BENEFIT FUND
Last Ten Fiscal Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 2,427,991	\$ 2,258,642	\$ 2,197,415	\$ 2,202,346	\$ 2,063,671
Contributions in relation to the contractually required contribution	<u>2,427,991</u>	<u>2,258,642</u>	<u>2,197,415</u>	<u>2,202,346</u>	<u>2,063,671</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Board's covered-employee payroll	\$ 40,132,078	\$ 38,884,550	\$ 39,234,622	\$ 40,124,287	\$ 38,224,527
Contributions as a percentage of covered-employee payroll	6.05%	5.81%	5.60%	5.49%	5.40%

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually required contribution	\$ 2,083,867	\$ 1,966,959	\$ 2,016,164	\$ 1,894,791	\$ 1,898,164
Contributions in relation to the contractually required contribution	<u>2,083,867</u>	<u>1,966,959</u>	<u>2,016,164</u>	<u>1,894,791</u>	<u>1,898,164</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Board's covered-employee payroll	\$ 39,318,245	\$ 39,339,180	\$ 41,146,204	\$ 42,106,467	\$ 44,557,840
Contributions as a percentage of covered-employee payroll	5.30%	5.00%	4.90%	4.50%	4.26%

This schedule is required supplementary information as required by the Governmental Accounting Standards Board.

HAYWOOD COUNTY BOARD OF EDUCATION
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET OPEB ASSET
DISABILITY INCOME PLAN OF NORTH CAROLINA
*Last Two Fiscal Years**

	<u>2018</u>	<u>2017</u>
Board's proportion of the net OPEB asset	0.249%	0.268%
Board's proportionate share of the net OPEB asset	\$ 152,488	\$ 166,254
Board's covered-employee payroll	\$ 38,884,550	\$ 39,234,622
Board's proportionate share of the net OPEB asset as a percentage of its covered-employee payroll	0.39%	0.42%
Plan fiduciary net position as a percentage of the total OPEB asset	116.23%	116.06%

* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

This schedule is required supplementary information as required by the Governmental Accounting Standards Board.

HAYWOOD COUNTY BOARD OF EDUCATION
SCHEDULE OF BOARD CONTRIBUTIONS
DISABILITY INCOME PLAN OF NORTH CAROLINA
Last Ten Fiscal Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 56,185	\$ 147,398	\$ 160,882	\$ 163,578	\$ 167,988
Contributions in relation to the contractually required contribution	<u>56,185</u>	<u>147,398</u>	<u>160,882</u>	<u>163,578</u>	<u>167,988</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Board's covered-employee payroll	\$ 40,132,078	\$ 38,884,550	\$ 39,234,622	\$ 40,124,287	\$ 38,224,527
Contributions as a percentage of covered-employee payroll	0.14%	0.38%	0.41%	0.41%	0.44%

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually required contribution	\$ 173,000	\$ 204,564	\$ 213,860	\$ 218,954	\$ 231,701
Contributions in relation to the contractually required contribution	<u>173,000</u>	<u>204,564</u>	<u>213,860</u>	<u>218,954</u>	<u>231,701</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Board's covered-employee payroll	\$ 39,318,245	\$ 39,339,180	\$ 41,146,204	\$ 42,106,467	\$ 44,557,840
Contributions as a percentage of covered-employee payroll	0.44%	0.52%	0.52%	0.52%	0.52%

This schedule is required supplementary information as required by the Governmental Accounting Standards Board.

HAYWOOD COUNTY BOARD OF EDUCATION**GENERAL FUND****SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL****For the Year Ended June 30, 2018**

			Exhibit A-1
	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues:			
Haywood County:			
Appropriations from general revenues	\$ 15,532,892	\$ 15,532,893	\$ 1
Other :			
Fines and forfeitures		370,421	
Indirect costs allocated		-	
Miscellaneous		25,966	
Total	<u>440,684</u>	<u>396,387</u>	<u>(44,297)</u>
Total revenues	<u>15,973,576</u>	<u>15,929,280</u>	<u>(44,296)</u>
Expenditures:			
Instructional services:			
Regular instructional		4,137,683	
Special populations		425,152	
Alternative programs		571,948	
School leadership		1,499,976	
Co-curricular		322,963	
School-based support		797,945	
Total instructional services	<u>8,211,439</u>	<u>7,755,667</u>	<u>455,772</u>
System-wide support services:			
Support and development		326,030	
Special populations		53,039	
Alternative programs		31,296	
Technology support		491,520	
Operational support		5,088,797	
Financial and human resource services		441,327	
Accountability		95,969	
System-wide pupil support services		231,506	
Policy, leadership and public relations		774,728	
Total system-wide support services	<u>7,837,441</u>	<u>7,534,212</u>	<u>303,229</u>
Ancillary services	<u>117,734</u>	<u>110,784</u>	<u>6,950</u>
Non-programmed charges:	<u>911,596</u>	<u>877,677</u>	<u>33,919</u>
Total expenditures	<u>17,078,210</u>	<u>16,278,340</u>	<u>799,870</u>

HAYWOOD COUNTY BOARD OF EDUCATION

GENERAL FUND

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL**

For the Year Ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	Exhibit A-1 (Continued) Variance Positive (Negative)
Revenues over (under) expenditures	(1,104,634)	(349,060)	755,574
Other financing uses:			
Transfer to other funds	(6,125)	(6,125)	-
Appropriated fund balance	<u>1,110,759</u>	<u>-</u>	<u>(1,110,759)</u>
Revenues and appropriated fund balance over (under) and transfers out	<u>\$ -</u>	<u>(355,185)</u>	<u>\$ (355,185)</u>
Fund balances:			
Beginning of year, July 1		<u>4,357,562</u>	
End of year, June 30		<u>\$ 4,002,377</u>	

**HAYWOOD COUNTY BOARD OF EDUCATION
CAPITAL OUTLAY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For the Year Ended June 30, 2018**

Exhibit B-1

	Budget	Actual	Variance Positive (Negative)
Revenues:			
State of North Carolina:			
Public School Capital Fund - Lottery	\$ 806,758	\$ 617,327	\$ (189,431)
State appropriation - buses	455,426	455,426	-
Total State of North Carolina revenues	<u>1,262,184</u>	<u>1,072,753</u>	<u>(189,431)</u>
Haywood County appropriations	750,000	729,017	(20,983)
Other	<u>55,000</u>	<u>23,324</u>	<u>(31,676)</u>
Total revenues	<u>2,067,184</u>	<u>1,825,094</u>	<u>(242,090)</u>
Expenditures:			
Current:			
System-wide support services	1,011,459	823,385	188,074
Capital outlay	1,352,595	1,087,181	265,414
Debt Service:			
Principal	<u>455,426</u>	<u>455,426</u>	<u>-</u>
Total expenditures	<u>2,819,480</u>	<u>2,365,992</u>	<u>453,488</u>
Revenues under expenditures	(752,296)	(540,898)	211,398
Other financing sources:			
Installment purchase obligations issued	752,296	564,222	(188,074)
Appropriated fund balance	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	23,324	<u>\$ 23,324</u>
Fund balances:			
Beginning of year, July 1		<u>128,092</u>	
End of year, June 30		<u>\$ 151,416</u>	

**HAYWOOD COUNTY BOARD OF EDUCATION
SCHOOL FOOD SERVICE FUND
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
(NON-GAAP)
For the Year Ended June 30, 2018**

Exhibit C-1

	Budget	Actual	Variance Positive (Negative)
Operating revenues			
Food sales	\$ 1,344,280	\$ 1,212,079	\$ (132,201)
Operating expenditures:			
Business support services	4,148,828	3,992,767	156,061
Operating loss	(2,804,548)	(2,780,688)	23,860
Nonoperating revenues:			
Federal reimbursements		2,446,394	
Federal commodities		312,244	
State Breakfast Grant		6,361	
Interest earned		1,765	
	2,804,548	2,766,764	(37,784)
Revenues over (under) expenditures before transfers	-	(13,924)	(13,924)
Transfer from other funds	-	62,865	62,865
Revenues and other sources over (under) expenditures	\$ -	48,941	\$ 48,941
Reconciliation of modified accrual to full accrual basis:			
Reconciling items:			
Depreciation		(60,022)	
Compensated absences		(1,515)	
Deferred outflows - pension		(125,886)	
Deferred inflows - pension		(918,645)	
Net pension liability		169,682	
Net OPEB liability		784,004	
Inventories		6,767	
Unavailable revenues		789	
Capital contributions		16,054	
Change in net position - full accrual		\$ (79,831)	

COMPLIANCE SECTION



**Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

INDEPENDENT AUDITORS' REPORT

**To the Haywood County Board of Education
Waynesville, North Carolina**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Haywood 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 Haywood County Board of Education, North Carolina's basic financial statements and have issued our report thereon dated November 2, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Anderson Smith & Wike PLLC

*November 2, 2018
Statesville, North Carolina*



Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control over Compliance in Accordance with the OMB Uniform Guidance and the State Single Audit Implementation Act

INDEPENDENT AUDITORS' REPORT

**To the Haywood County Board of Education
Waynesville, North Carolina**

Report on Compliance for Each Major Federal Program

We have audited the Haywood County Board of Education's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Haywood County Board of Education's major federal programs for the year ended June 30, 2018. The Haywood County Board of Education's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Haywood County Board of Education complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with Uniform Guidance as described in the accompanying schedule of findings and questioned costs as item 18-01. Our opinion on each major federal program is not modified with respect to this matter.

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

Report on Internal Control Over Compliance

Management of the Haywood County Board of Education is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Haywood County Board of Education's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 18-01 that we consider to be a significant deficiency.

The Haywood County Board of Education's response to the internal control over compliance finding identified in our audit are described in the accompanying corrective action plan. The

Haywood County Board of Education's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Anderson Smith & Wike PLLC

November 2, 2018

Statesville, North Carolina



Report on Compliance with Requirements Applicable to Each Major State Program and Internal Control over Compliance in Accordance with OMB Uniform Guidance and the State Single Audit Implementation Act

INDEPENDENT AUDITORS' REPORT

**To the Haywood County Board of Education
Waynesville, North Carolina**

Report on Compliance for Each Major State Program

We have audited the Haywood County Board of Education's compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission that could have a direct and material effect on each of Haywood County Board of Education's major state programs for the year ended June 30, 2018. The Haywood County Board of Education's major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major State Program

In our opinion, the Haywood County Board of Education complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major State programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the Haywood County Board of Education is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Haywood County Board of Education's internal control over compliance with the types of requirements that could have a direct and material effect on a major State program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over compliance.

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

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

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

Anderson Smith & Wike PLLC

November 2, 2018
Statesville, North Carolina

**Haywood County Board of Education
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Section I. Summary of Auditors' Results

Financial Statements

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

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(s) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? yes no
- Significant deficiency(s) identified that are not considered to be material weaknesses? yes none reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes no

**Haywood County Board of Education
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Names of Federal Program or Cluster</u>
84.027 84.173	Special Education Cluster: Education of the Handicapped Preschool Handicapped
84.010	Title I, Grants to Local Education Agencies

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

\$ 750,000

Auditee qualified as low-risk auditee?

yes no

State Awards

Internal control over major State programs:

- Material weakness(es) identified? yes no
- Significant deficiency(s) identified that are not considered to be material weaknesses? yes none reported

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

Any audit findings disclosed that are required to be reported
in accordance with the State Single Audit Implementation Act?

yes no

Identification of major State programs:

Program Name
State Public School Fund
Public School Capital Fund - Lottery

**Haywood County Board of Education
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Section II. Financial Statement Findings

Finding: None reported.

Section III. Federal Award Findings and Questioned Costs

Finding: 18-01

SIGNIFICANT DEFICIENCY AND NON COMPLIANCE

Title I, Grants to Local Education Agencies
CFDA# 84.010

Activities allowed or unallowed

Criteria: Classroom teachers are required to teach in a position that is consistent with their area of certification.

Condition: We noted one teacher paid with Title I funds who was teaching K-5 and did not have the required certification.

Effect: The teacher was instructing in an area outside of the area of certification therefore Title I funds had been used for unallowable expenditures.

Cause: Management currently has policies and procedures in place relating to certification requirements relating to certified teachers. However, there was a breakdown of the control environment in this instance.

Questioned Cost: None. A retroactive certificate was obtained subsequent to the identification of the issue.

Recommendation: We recommend that management emphasize the importance of following the current policies and procedures relating to teacher certification to all employees involved with certified teacher hiring and placement.

Section IV. State Award Findings and Questioned Costs

Finding: None reported.

**Haywood County Board of Education
Corrective Action Plan
For the Year Ended June 30, 2018**

Section II. Financial Statement Findings

Finding: None Reported

Section III. Federal Award Findings and Questioned Costs

Finding: 18-01

Name of Contact Person: Dr. Bill Nolte, Superintendent

Corrective Action Plan: Management will closely monitor classroom teachers' areas of certification to ensure that they are indeed teaching in an area for which they are licensed.

Proposed Completion Date: Immediately

Section IV. State Award Findings and Questioned Costs

Finding: None Reported.

**Haywood County Board of Education
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2018**

Finding 17-01 – Corrected

HAYWOOD COUNTY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Expenditures
Federal Grants:			
<u>U. S. Department of Agriculture</u>			
<u>Food and Nutrition Service</u>			
Passed-through the N.C. Department of Public Instruction:			
<u>Child Nutrition Cluster:</u>			
Noncash Assistance (Commodities):			
National School Lunch Program	10.555		\$ 312,244
Cash Assistance:			
School Breakfast Program	10.553		554,541
National School Lunch Program	10.555		1,798,854
After School Snack Program	10.555		40,176
Summer Food Service Program for Children	10.559		52,823
Cash Assistance Subtotal			<u>2,446,394</u>
Total Child Nutrition Cluster:			<u>2,758,638</u>
Child Nutrition Equipment	10.579	PRC 053	<u>16,054</u>
Total School Nutrition Program (Note 3):			<u>2,774,692</u>
Total U.S. Department of Agriculture			<u>2,774,692</u>
<u>U.S. Department of Education</u>			
<u>Office of Elementary and Secondary Education</u>			
Passed-through the N.C. Department of Public Instruction:			
Title I, Grants to Local Educational Agencies			
Educationally Deprived Children	84.010	PRC 050	1,914,603
Migrant Education (Title I of IASA)	84.011	PRC 051	54,851
Education for Homeless Children and Youth	85.196	PRC 026	51,593
Student Support and Academic Enrichment Program	84.424	PRC 108	24
Supporting Effective Instruction State Grant	84.367	PRC 103	334,807
State Personnel Development	84.323	PRC 082	44,233
Twenty-First Century Community Learning Center	84.287	PRC 110	201,630
English Language Acquisition Grants	84.365	PRC 104 & 111	18,432
<u>Office of Special Education and Rehabilitative Services</u>			
Passed-through the N.C. Department of Public Instruction:			
<u>Special Education Cluster:</u>			
Individuals with Disabilities Education Act			
- Education of the Handicapped	84.027	PRC 060	1,540,953
- Targeted Assistance	84.027	PRC 118	16,221
- Targeted Assistance for Preschool	84.027	PRC 119	2,843
- Risk Pool	84.027	PRC 114	57,802
- Preschool Handicapped	84.173	PRC 049	<u>56,946</u>
Total Special Education Cluster:			<u>1,674,765</u>

**HAYWOOD COUNTY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Expenditures
Passed-through the N.C. Department of Public Instruction: Carl D. Perkins Vocational and Applied Technology Education Act Amendments of 1990 Basic Grants to States - Program Development	84.048	PRC 017	106,870
Total U.S. Department of Education			4,401,808
<u>U.S. Department of Defense</u>			
Direct Program: JROTC	NONE		116,473
<u>U.S. Department of Labor</u>			
Passed through Southwestern Planning and Economic Development Commission: JTPA IIC	17.259	PRC 303	121,469
Total U.S. Department of Labor			121,469
Total federal assistance			7,414,442
State Grants:			
<u>N.C. Department of Public Instruction:</u>			
Direct Programs:			
State Public School Fund			40,132,795
Driver Training - SPSF		PRC 012	134,352
School Technology Fund - SPSF		PRC 015	106,653
Adolescent Pregnancy Prevention Vocational Education			
- State Months of Employment		PRC 013	2,378,165
- Program Support Funds		PRC 014	115,146
Haywood Community Learning Cener Grant			250,000
Passed through Haywood County: Public School Capital Fund - Lottery			617,327
Total N.C. Department of Public Instruction			43,734,438
<u>N.C. Department of Public Instruction:</u>			
School buses - Noncash			455,426
Textbooks - Noncash			6,515
Total N.C. Department of Public Instruction - Noncash			461,941

**HAYWOOD COUNTY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Expenditures</u>
<u>N.C. Department of Health and Human Services:</u>			
Division of Child Development:			
Passed through Haywood County Partnership for Children			
North Carolina Pre-Kindergarten Program			
			393,771
<u>N.C. Department of Agriculture</u>			
State Breakfast Funds			
			<u>6,361</u>
Total State assistance			<u>44,596,511</u>
Total federal and State assistance			<u>\$ 52,010,953</u>

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal and State awards (SEFSA) includes the federal and State grant activity of Haywood County Board of Education under the programs of the federal government and the State of North Carolina for the year ended June 30, 2018. The information in this SEFSA is presented in accordance with the requirements of Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of Haywood County Board of Education, it is not intended to and does not present the financial position, changes in net assets or cash flows of Haywood County Board of Education.

Note 2. Summary of Significant Accounting Policies

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

Note 3. Cluster of Programs

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