

**GATES COUNTY
BOARD OF EDUCATION
Gatesville, North Carolina**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

GATES COUNTY BOARD OF EDUCATION, NORTH CAROLINA

List of Principal Officials June 30, 2018

BOARD OF EDUCATION

Ray Felton, Chairman	Glendale P. Boone, Vice-Chair	
Claire R. Whitehurst	Leslie S. Byrum	Dr. Daniel Dickerson

OFFICE OF THE SUPERINTENDENT

Dr. Phillip Barry Williams Superintendent	Rube Blanchard Finance Officer
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INDIVIDUAL SCHOOLS

Principals

Gail Hawkins Buckland Elementary School	Dr. Shawn Wilson Gateville Elementary School
Jeremy Wright T. S. Cooper Elementary School	Steve Hunter Central Middle School
Jonathan Hayes Gates County High School	

GATES COUNTY BOARD OF EDUCATION, NORTH CAROLINA

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DONNA H. WINBORNE, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

Independent Auditor's Report

To the Board of Education
Gates County, North Carolina

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted the 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my 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 Gates County Board of Education, North Carolina as of June 30, 2018, and the

respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund, State Public School Fund, and Other Specific Revenue 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 3 through 10 and the Schedules of the Proportionate Share of the Net Pension and OPEB Liabilities and the Schedules of Board Contributions on pages 47 through 52, 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. I 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 obtained during the audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated October 3, 2018 on my consideration of Gates 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 Gates County Board of Education's internal control over financial reporting and compliance.



Edenton, North Carolina
October 3, 2018

Management's Discussion and Analysis

This section of the Gates 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

- The Board experienced an increase of 28 students (1.8%) in the ADM (average daily membership) from the previous year.
- The Board is working diligently with the Gates County Board of Commissioners to address the continuing repairs and renovations needed at all schools, with a concentration on beginning construction/renovation on Central Middle School.

Overview of the Financial Statements

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

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

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

The second set of statements included in the basic financial statements is the *Fund Financial Statements*, which are presented for the Board's governmental funds and proprietary funds. These statements present the governmental funds on the modified accrual basis of accounting, measuring the near term inflows and outflows of financial resources and what is available at year-end to spend in the next fiscal year. The proprietary funds are presented on the full accrual basis of accounting. The fund financial statements focus on the Board's most significant funds.

Because a different basis of accounting is used in the government-wide statements, a reconciliation from the governmental fund financial statements to the government-wide statements is required. The government-wide statements provide information about the Board as an economic unit while the fund financial statements provide information on the financial resources of each of the Board's major funds.

Government-wide Statements

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

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

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

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

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

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

Fund Financial Statements

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

- Some funds are required by State law, such as the State Public School Fund.

- The Board has established other funds, such as the Federal Grants fund, to control and manage money for a particular purpose or to show that it is properly using certain revenues.

Gates County Board of Education has two types of funds:

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

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

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

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

Financial Analysis of the Schools as a Whole

Net position is an indicator of the fiscal health of the Board. Liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$20,099,051 as of June 30, 2018. The largest component of net position is the unrestricted portion. It comprises 158% of the total net position. The Board is in a deficit net position this year due to the recording of the net OPEB liability for the Retiree Health Benefit Fund which resulted in a decrease to beginning net position of \$28,343,835.

Following is a summary of the Statement of Net Position:

Table 1						
Condensed Statement of Net Position						
	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Current Assets	\$ 2,066,278	\$ 1,897,824	\$ 122,048	\$ 89,701	\$ 2,188,326	\$ 1,987,525
Capital Assets	11,827,540	11,549,117	61,822	71,223	11,889,362	11,620,340
Total Assets	13,893,818	13,446,941	183,870	160,924	14,077,688	13,607,865
Deferred Outflows of Resources	3,784,772	4,582,183	157,700	190,924	3,942,472	\$ 4,773,107
Current Liabilities	1,119,199	872,825	23,002	7,232	1,142,201	880,057
Long-Term Liabilities	27,741,561	7,607,490	1,152,107	319,423	28,893,668	7,926,913
Total Liabilities	28,860,760	8,480,315	1,175,109	326,655	30,035,869	8,806,970
Deferred Inflows of Resources	7,760,007	465,253	323,335	19,385	8,083,342	484,638
Net Investment in Capital Assets	11,466,546	11,279,001	61,822	71,223	11,528,368	11,350,224
Restricted Net Position	288,450	234,041	1,619	-	290,069	234,041
Unrestricted Net Position	(30,697,173)	(2,429,486)	(1,220,315)	98,378	(31,917,488)	(2,331,108)
Total Net Position	<u>\$ (18,942,177)</u>	<u>\$ 9,083,556</u>	<u>\$ (1,156,874)</u>	<u>\$ 169,601</u>	<u>\$ (20,099,051)</u>	<u>\$ 9,253,157</u>

Note that net position decreased during the year by 317% and was largely because of the implementation of Governmental Accounting Standards Board (GASB) statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* which resulted in a decrease to beginning net position of \$28,343,835. Also note that the Board carries capital assets for which Gates County carries the offsetting debt.

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

Table 2						
Condensed Statement of Revenues, Expenses, and Changes in Net Position						
	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Revenues:						
<i>Program Revenues:</i>						
Charges for services	\$ 418,727	\$ 405,908	\$ 448,044	\$ 413,937	\$ 866,771	\$ 819,845
Operating grants and contributions	12,759,101	12,291,122	559,292	594,501	13,318,393	12,885,623
Capital grants and contributions	3,600	142,202	-	-	3,600	142,202
<i>General Revenues:</i>						
Other revenues	6,161,588	5,736,639	10,513	11,310	6,172,101	5,747,949
Total Revenues	19,343,016	18,575,871	1,017,849	1,019,748	20,360,865	19,595,619
Expenses:						
<i>Governmental activities:</i>						
Instructional services	14,205,633	13,541,885	-	-	14,205,633	13,541,885
System-wide support services	5,142,290	4,626,999	-	-	5,142,290	4,626,999
Ancillary services	290,123	265,838	-	-	290,123	265,838
Non-programmed charges	7,194	2,310	-	-	7,194	2,310
Depreciation	465,272	467,283	-	-	465,272	467,283
<i>Business-type activities:</i>						
Food service	-	-	994,575	908,902	994,575	908,902
Child Care	-	-	264,151	236,762	264,151	236,762
Total Expenses	20,110,512	18,904,315	1,258,726	1,145,664	21,369,238	20,049,979
Transfers in (out)	(48,155)	(59,672)	48,155	59,672	-	-
Increase (decrease) in net position	(815,651)	(388,116)	(192,722)	(66,244)	(1,008,373)	(454,360)
Net position, beginning	9,083,556	9,471,672	169,601	235,845	9,253,157	9,707,517
Net position, restatement	(27,210,082)	-	(1,133,753)	-	(28,343,835)	-
Net position, ending	\$ (18,942,177)	\$ 9,083,556	\$ (1,156,874)	\$ 169,601	\$ (20,099,051)	\$ 9,253,157

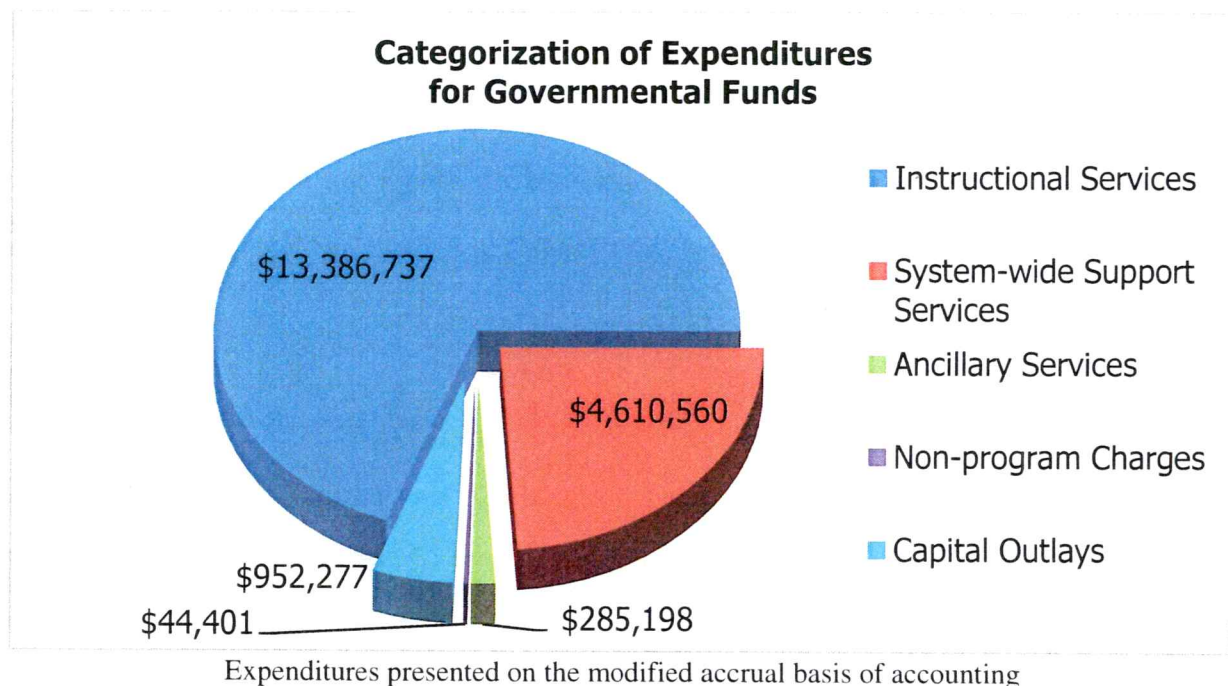
Total governmental activities generated revenues of \$19.3 million while expenses in this category totaled \$20.1 million for the year ended June 30, 2018. Comparatively, revenues were \$18. million and expenses totaled \$18.9 million for the year ended June 30, 2017. After transfers to the business-type activities and restatements to net previous net position due to the GASB 75 reporting requirement for postemployment benefits other than pensions, the decrease in the net position of governmental activities stands at \$28,025,733 at June 30, 2018, compared to a decrease of \$388,119 in 2017. Instructional services expenses comprised 70.6% of total governmental-type expenses while system-wide support services made up 25.6% of those expenses for 2018. County funding comprised 19.4% of total governmental revenue for 2018. In 2017, county funding was 17.3%. Much of the remaining 80.6% of total governmental revenue for 2018 consists of restricted State and federal money. This revenue represented 82.7% of total revenue in 2017. Business-type activities generated revenue of \$1,017,849 and expenses of \$1,258,726. Net position decreased in the business-type activities by \$1,326,475, after transfers from the governmental activities of \$48,155 and restatements to net previous net position due to the GASB 75 reporting requirement for postemployment benefits other than pensions of \$1,133,753.

Financial Analysis of the Board's Funds

Governmental Funds: The focus of Gates 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 \$1,561,369, a \$63,686 increase over last year. All of the Board's governmental funds, except for the Capital Outlay Fund, had revenues and other financing sources that equaled or exceeded expenditures and other uses. State funding increased \$278,891 and county funding increased by \$546,359. Expenditures increased by \$660,195 over the prior year.

Proprietary Funds: The Board's business-type School Food Service Fund reflected a decrease in net position over last year of \$1,019,696, primarily due to the GASB 75 reporting requirement for postemployment benefits other than pensions. The Child Care Fund reflected a decrease in net position over last year, of \$306,779, primarily due to the GASB 75 reporting requirement for postemployment benefits other than pensions.



General Fund Budgetary Highlights

Over the course of the year, the Board revised the budget several times to account for changes in revenue expectations and to increase appropriations. The Board ended the year with a surplus of \$13,561.

Capital Assets

Capital assets increased by \$269,022 (or 2.3%) from the previous year.

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

Table 3 Summary of Capital Assets						
	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Land	\$ 65,470	\$ 65,470	\$ -	\$ -	\$ 65,470	\$ 65,470
Constuction in progress	504,021	-	-	-	504,021	-
Buildings	10,109,922	10,458,214	-	-	10,109,922	10,458,214
Furniture and equipment	154,075	160,331	61,822	71,223	215,897	231,554
Vehicles and motorized equipment	994,052	865,102	-	-	994,052	865,102
Total	\$ 11,827,540	\$ 11,549,117	\$ 61,822	\$ 71,223	\$ 11,889,362	\$ 11,620,340

Debt Outstanding

During the year the Board's outstanding debt increased by \$90,877 due mainly to the installment financing of three new buses offset by the payment towards the installment financing paying for school buses. The Board is limited by North Carolina General Statutes with regards to the types of debt it can issue and for what purpose that debt can be used. The County holds virtually all debt issued for school capital construction.

Economic Factors

Despite continuing decreases in enrollment, the Board anticipates a need for increased classroom space, teachers, and equipment due to a new state law reducing the classroom size for grades kindergarten through third grade. At the same time, the North Carolina Department of Public Instruction is advising school districts to plan for decreased State revenues. County funding is a major source of income for the Board; therefore, the County's economic outlook directly affects that of the schools. The County is enjoying a low unemployment rate of 4.4% which is slightly higher than the state average of 4.2%.

Requests for Information

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

Rube F. Blanchard, Finance Officer
Gates County Board of Education
205 Main Street
Gatesville, NC 27938

Gates County Board of Education, North Carolina
Statement of Net Position
June 30, 2018

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,605,557	\$ 68,999	\$ 1,674,556
Due from other governments	417,974	19,253	437,227
Accounts receivable (net)	3,880	8,685	12,565
Net OPEB asset	38,867	1,619	40,486
Inventories	-	23,492	23,492
Capital assets			
Land and construction in progress	569,491	-	569,491
Other capital assets, net of depreciation	11,258,049	61,822	11,319,871
Total capital assets	11,827,540	61,822	11,889,362
Total assets	13,893,818	183,870	14,077,688
DEFERRED OUTFLOWS OF RESOURCES	3,784,772	157,700	3,942,472
LIABILITIES			
Accounts payable and accrued expenses	\$ 46,086	\$ 1,140	\$ 47,226
Accrued salaries and wages payable	419,956	-	419,956
Unearned revenues	-	2,675	2,675
Long term liabilities:			
Net pension liability	5,777,542	240,731	6,018,273
Net OPEB liability	21,162,593	881,775	22,044,368
Due within one year	653,157	19,187	672,344
Due in more than one year	801,426	29,601	831,027
Total liabilities	28,860,760	1,175,109	30,035,869
DEFERRED INFLOWS OF RESOURCES	7,760,007	323,335	8,083,342
NET POSITION			
Net investment in capital assets	11,466,546	61,822	11,528,368
Restricted for:			
Individual schools	183,528	-	183,528
Stabilization by state statute	12,621	-	12,621
Alternative programs and services	219	-	219
School capital outlay	53,215	-	53,215
DIPNC OPEB Plan	38,867	1,619	40,486
Unrestricted	(30,697,173)	(1,220,315)	(31,917,488)
Total net position	\$ (18,942,177)	\$ (1,156,874)	\$ (20,099,051)

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

Gates County Board of Education, North Carolina
Statement of Activities
For the Year Ended June 30, 2018

Function/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
Instructional services:							
Regular instructional	\$ 8,056,459	\$ 89,678	\$ 6,178,650	\$ -	\$ (1,788,131)	\$ -	\$ (1,788,131)
Special populations	2,007,447	-	1,855,026	-	(152,421)	-	(152,421)
Alternative programs	989,735	-	908,140	-	(81,595)	-	(81,595)
School leadership	1,337,339	-	632,191	-	(705,148)	-	(705,148)
Co-curricular	136,025	-	-	-	(136,025)	-	(136,025)
School-based support	1,678,628	322,724	897,401	-	(458,503)	-	(458,503)
System-wide support services:							
Support and development	53,468	-	10,120	-	(43,348)	-	(43,348)
Special populations support							
and development	189,697	-	90,751	-	(98,946)	-	(98,946)
Technology support	345,938	-	28,057	-	(317,881)	-	(317,881)
Operational support	3,223,151	6,325	1,249,721	3,600	(1,963,505)	-	(1,963,505)
Financial and human resources	604,091	-	193,025	-	(411,066)	-	(411,066)
Accountability	121,293	-	100,049	-	(21,244)	-	(21,244)
System-wide pupil support	1,695	-	-	-	(1,695)	-	(1,695)
Policy, leadership, and public relations							
Ancillary services	602,957	-	265,518	-	(337,439)	-	(337,439)
Non-programmed charges	290,123	-	301,043	-	10,920	-	10,920
Unallocated depreciation expense	7,194	-	49,409	-	42,215	-	42,215
Unallocated depreciation expense	465,272	-	-	-	(465,272)	-	(465,272)
Total governmental activities	20,110,512	418,727	12,759,101	3,600	(6,929,084)	-	(6,929,084)
Business-type activities:							
School food service	994,575	217,730	559,292	-	-	(217,553)	(217,553)
Child care	264,151	230,314	-	-	-	(33,837)	(33,837)
Total business-type activities	1,258,726	448,044	559,292	-	-	(251,390)	(251,390)
Total primary government	\$ 21,369,238	\$ 866,771	\$ 13,318,393	\$ 3,600	(6,929,084)	(251,390)	(7,180,474)
General revenues:							
Unrestricted county appropriations - operating					2,708,000	-	2,708,000
Unrestricted county appropriations - capital					801,255	-	801,255
Unrestricted State appropriations - operating					2,320,648	-	2,320,648
Unrestricted State appropriations - capital					168,296	-	168,296
Unrestricted federal grants					49,809	-	49,809
Investment earnings, unrestricted					2,773	18	2,791
Miscellaneous, unrestricted					110,807	10,495	121,302
Transfers					(48,155)	48,155	-
Total general revenues and transfers					6,113,433	58,668	6,172,101
Change in net position					(815,651)	(192,722)	(1,008,373)
Net position, beginning, previously reported					9,083,556	169,601	9,253,157
Restatement					(27,210,082)	(1,133,753)	(28,343,835)
Net position, beginning, restated					(18,126,526)	(964,152)	(19,090,678)
Net position, ending					(18,942,177)	(1,156,874)	(20,099,051)

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

Gates County Board of Education, North Carolina
Balance Sheet
Governmental Funds
June 30, 2018

	Major Funds			Non-major Funds	
	General	State Public School	Other Specific Revenue	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 1,141,837	\$ -	\$ 225,824	\$ 237,896	\$ 1,605,557
Accounts receivable	-	-	3,880	-	3,880
Due from other funds	1,153	-	-	-	1,153
Due from other governments	-	375,807	7,588	34,579	417,974
Total assets	<u>\$ 1,142,990</u>	<u>\$ 375,807</u>	<u>\$ 237,292</u>	<u>\$ 272,475</u>	<u>\$ 2,028,564</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE					
Liabilities:					
Accounts payable and accrued expenses	\$ 46,086	\$ -	\$ -	\$ -	\$ 46,086
Accrued salaries and wages payable	7,008	375,807	2,562	34,579	419,956
Due to other funds	-	-	-	1,153	1,153
Total liabilities	<u>53,094</u>	<u>375,807</u>	<u>2,562</u>	<u>35,732</u>	<u>467,195</u>
Fund balances:					
Restricted:					
Individual Schools	-	-	-	183,528	183,528
Stabilization by State Statute	1,153	-	11,468	-	12,621
School Capital Outlay	-	-	-	53,215	53,215
Committed:					
North Carolina Pre-Kindergarten	-	-	219	-	219
Community Center	-	-	83,578	-	83,578
Assigned:					
Activity bus purchases	-	-	76,707	-	76,707
Subsequent years expenditures	264,561	-	62,758	-	327,319
Unassigned:	<u>824,182</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>824,182</u>
Total fund balances	<u>1,089,896</u>	<u>-</u>	<u>234,730</u>	<u>236,743</u>	<u>1,561,369</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,142,990</u>	<u>\$ 375,807</u>	<u>\$ 237,292</u>	<u>\$ 272,475</u>	

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

Net OPEB asset	\$ 38,867
Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds.	11,827,540
Deferred outflows of resources related to pensions	2,966,859
Deferred outflows of resources related to OPEB	817,913
Some liabilities, including bonds payable and accrued interest, are not due in the current period and therefore are not reported in the funds (Note 6).	(1,454,583)
Net pension liability	(5,777,542)
Net OPEB liability	(21,162,593)
Deferred inflows of resources related to pensions	(406,664)
Deferred inflows of resources related to OPEB	(7,353,343)
Net position of governmental activities	<u>\$ (18,942,177)</u>

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

Gates County Board of Education, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2018

	Major Funds			Non-major Funds	
	General	Other Specific Revenue	State Public School	Other Governmental Funds	Total Governmental Funds
REVENUES					
State of North Carolina	\$ -	\$ 287,243	\$ 13,195,792	\$ 168,296	\$ 13,651,331
Gates County	2,708,000	238,500	-	801,255	3,747,755
U. S. Government	49,809	-	-	1,032,925	1,082,734
Contributions and donations	-	-	-	62,509	62,509
Other	46,979	465,249	-	323,670	835,898
Total revenues	<u>2,804,788</u>	<u>990,992</u>	<u>13,195,792</u>	<u>2,388,655</u>	<u>19,380,227</u>
EXPENDITURES					
Current:					
Instructional services					
Regular instructional	251,336	94,277	7,179,249	57,729	7,582,591
Special populations	10,647	109,820	1,238,843	530,210	1,889,520
Alternative programs	7,021	172,604	391,722	366,909	938,256
School leadership	110,918	38,728	1,099,993	-	1,249,639
Co-curricular	128,262	-	-	-	128,262
School-based support	78,367	163,774	963,808	392,520	1,598,469
System-wide support services					
Support and development	12,730	-	29,059	4,798	46,587
Special populations support and development	82,649	2,374	87,023	3,728	175,774
Technology support	113,935	1,525	225,170	-	340,630
Operational support	1,601,744	50,349	1,151,529	-	2,803,622
Financial and human resources	194,685	2,880	358,779	16,769	573,113
Accountability	9,246	1,061	100,049	-	110,356
System-wide pupil support	1,695	-	-	-	1,695
Policy, leadership, and public relations	165,334	64,480	322,316	6,653	558,783
Ancillary services	14,017	270,484	697	-	285,198
Non-programmed charges	8,641	-	(600)	36,360	44,401
Capital outlay:					
Real property and buildings	-	-	-	693,104	693,104
Vehicles	-	-	-	259,173	259,173
Debt service:					
Principal	-	-	-	168,296	168,296
Total expenditures	<u>2,791,227</u>	<u>972,356</u>	<u>13,147,637</u>	<u>2,616,339</u>	<u>19,527,559</u>
Excess (deficiency) of revenues over expenditures	<u>13,561</u>	<u>18,636</u>	<u>48,155</u>	<u>(227,684)</u>	<u>(147,332)</u>
OTHER FINANCING SOURCES (USES)					
Transfers from (to) other funds	-	-	(48,155)	-	(48,155)
Installment purchase obligation issued	-	-	-	259,173	259,173
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(48,155)</u>	<u>259,173</u>	<u>211,018</u>
Net change in fund balance	13,561	18,636	-	31,489	63,686
Fund balances, beginning	1,076,335	216,094	-	205,254	1,497,683
Fund balances, ending	<u>\$ 1,089,896</u>	<u>\$ 234,730</u>	<u>\$ -</u>	<u>\$ 236,743</u>	<u>\$ 1,561,369</u>

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

Gates County Board of Education, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2018

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

Net changes in fund balances - total governmental funds	\$	63,686
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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 a depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

278,423

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

1,133,078

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

650,626

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

(90,877)

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		(1,492,466)
Net OPEB expense		(1,099,701)
Compensated absences		(258,420)

Total changes in net position of governmental activities

\$ (815,651)

Gates County Board of Education, North Carolina
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

	General Fund			Variance with Final Budget- Positive (Negative)
	Original Budget	Final Budget	Actual	
REVENUES				
Gates County	\$ 2,708,000	\$ 2,708,000	\$ 2,708,000	\$ -
U.S. Government	-	49,809	49,809	-
Other	58,000	46,979	46,979	-
Total revenues	<u>2,766,000</u>	<u>2,804,788</u>	<u>2,804,788</u>	<u>-</u>
EXPENDITURES				
Current:				
Instructional services				
Regular instructional	325,218	265,296	251,336	13,960
Special populations	16,152	10,647	10,647	-
Alternative programs	-	7,172	7,021	151
School leadership	52,045	111,331	110,918	413
Co-curricular	124,714	128,262	128,262	-
School-based support	145,985	78,462	78,367	95
System-wide support services				
Support and development	13,600	12,730	12,730	-
Special populations support and development	79,299	82,649	82,649	-
Technology support	124,001	114,012	113,935	77
Operational support	1,494,157	1,620,905	1,601,744	19,161
Financial and human resources	197,497	195,690	194,685	1,005
Accountability	12,740	9,246	9,246	-
System-wide pupil support	2,561	2,072	1,695	377
Policy, leadership, and public relations	193,983	169,958	165,334	4,624
Ancillary services	7,678	14,017	14,017	-
Non-programmed charges	2,370	8,641	8,641	-
Capital Outlay	-	0	0	-
Total expenditures	<u>2,792,000</u>	<u>2,831,090</u>	<u>2,791,227</u>	<u>39,863</u>
Net change in fund balance	<u>(26,000)</u>	<u>(26,302)</u>	<u>13,561</u>	<u>(39,863)</u>
Other financing sources (uses)				
Fund balance appropriated	26,000	26,302	-	(26,302)
Operating transfer in (out)	-	-	-	-
Total other financing sources (uses)	<u>26,000</u>	<u>26,302</u>	<u>-</u>	<u>(26,302)</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>13,561</u>	<u>\$ 13,561</u>
Fund balance, beginning			<u>1,076,335</u>	
Fund balance, ending			<u>\$ 1,089,896</u>	

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

Gates County Board of Education, North Carolina
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

	State Public School Fund			Variance with Final Budget- Positive (Negative)
	Original Budget	Final Budget	Actual	
REVENUES				
State of North Carolina	\$ 12,624,141	\$ 13,353,307	\$ 13,195,792	\$ (157,515)
EXPENDITURES				
Current:				
Instructional services				
Regular instructional	7,284,604	7,305,845	7,179,249	126,596
Special populations	1,082,671	1,248,533	1,238,843	9,690
Alternative programs	419,073	416,402	391,722	24,680
School leadership	947,259	1,090,079	1,099,993	(9,914)
School-based support	996,965	970,271	963,808	6,463
System-wide support services				
Support and development	3,882	29,059	29,059	-
Special populations support and development	65,649	87,023	87,023	-
Technology support	74,801	225,170	225,170	-
Operational support	936,538	1,151,529	1,151,529	-
Financial and human resources	338,094	358,779	358,779	-
Accountability	97,497	100,049	100,049	-
Policy, leadership, and public relations	330,162	322,316	322,316	-
Ancillary services	46,946	697	697	-
Non-programmed charges	-	(600)	(600)	-
Total expenditures	12,624,141	13,305,152	13,147,637	157,515
Revenues over (under) expenditures	-	48,155	48,155	-
Other financing sources (uses)				
Transfers to other funds	-	(48,155)	(48,155)	-
Net change in fund balance	\$ -	\$ -	-	\$ -
Fund balance, beginning			-	
Fund balance, ending			\$ -	

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

Gates County Board of Education, North Carolina
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

	Other Specific Revenue Fund			Variance with Final Budget- Positive (Negative)
	Original Budget	Final Budget	Actual	
REVENUES				
State of North Carolina	\$ 289,981	\$ 296,509	\$ 287,243	\$ (9,266)
U.S. Government	23,799	-	-	-
Gates County Community Center appropriation	238,500	238,500	238,500	-
Other	290,707	486,029	465,249	(20,780)
Total revenues	<u>842,987</u>	<u>1,021,038</u>	<u>990,992</u>	<u>(30,046)</u>
EXPENDITURES				
Current:				
Instructional services				
Regular instructional	88,875	101,973	94,277	7,696
Special populations	63,847	130,015	109,820	20,195
Alternative programs	187,243	172,739	172,604	135
School leadership	35,617	38,728	38,728	-
School-based support	155,860	180,415	163,774	16,641
System-wide support services				-
Support and development	250	-	-	-
Special populations support and development	1,310	2,374	2,374	-
Technology support	3,084	1,525	1,525	-
Operational support	25,274	65,411	50,349	15,062
Financial and human resources	2,870	2,880	2,880	-
Accountability	1,061	1,061	1,061	-
System-wide pupil support	73,647	88,567	-	88,567
Policy, leadership, and public relations	37,661	70,004	64,480	5,524
Ancillary services	286,943	285,901	270,484	15,417
Total expenditures	<u>963,542</u>	<u>1,141,593</u>	<u>972,356</u>	<u>169,237</u>
Net change in fund balance	<u>(120,555)</u>	<u>(120,555)</u>	<u>18,636</u>	<u>(139,191)</u>
Other financing sources (uses)				
Fund balance appropriated	120,555	120,555	-	(120,555)
Operating transfer in (out)	-	-	-	-
Total other financing sources (uses)	<u>120,555</u>	<u>120,555</u>	<u>-</u>	<u>(120,555)</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>18,636</u>	<u>\$ 18,636</u>
Fund balance, beginning			216,094	
Fund balance, ending			<u>\$ 234,730</u>	

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

Gates County Board of Education, North Carolina
Statement of Net Position
Proprietary Funds
June 30, 2018

	Enterprise Funds		
	Major Funds		
	School Food Service	Child Care	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 54,844	\$ 14,155	\$ 68,999
Due from other governments	17,492	1,761	19,253
Accounts receivable (Net of allowance of \$1,750)	6,067	2,618	8,685
OPEB asset	1,214	405	1,619
Inventories	23,492	-	23,492
Total current assets	<u>103,109</u>	<u>18,939</u>	<u>122,048</u>
Noncurrent assets:			
Capital assets:			
Food service equipment, net	61,822	-	61,822
Total noncurrent assets	<u>61,822</u>	<u>-</u>	<u>61,822</u>
Total assets	<u>164,931</u>	<u>18,939</u>	<u>183,870</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>118,275</u>	<u>39,425</u>	<u>157,700</u>
LIABILITIES			
Current liabilities:			
Accounts payable	-	1,140	1,140
Compensated absences	12,061	7,126	19,187
Unearned revenues	-	2,675	2,675
Total current liabilities	<u>12,061</u>	<u>10,941</u>	<u>23,002</u>
Noncurrent liabilities:			
Compensated absences	27,787	1,814	29,601
Net OPEB liability	661,330	220,445	881,775
Net pension liability	180,548	60,183	240,731
Total noncurrent liabilities	<u>869,665</u>	<u>282,442</u>	<u>1,152,107</u>
DEFERRED INFLOWS OF RESOURCES	<u>242,502</u>	<u>80,833</u>	<u>323,335</u>
NET POSITION			
Net investment in capital assets	61,822	-	61,822
DIPNC OPEB plan	1,214	405	1,619
Unrestricted	(904,058)	(316,257)	(1,220,315)
Total net position	<u>\$ (841,022)</u>	<u>\$ (315,852)</u>	<u>\$ (1,156,874)</u>

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

Gates County Board of Education, North Carolina
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2018

	Enterprise Funds		
	Major Funds		
	School Food Service	Child Care	Total
OPERATING REVENUES			
Food sales	\$ 217,730	\$ -	\$ 217,730
Child care fees	-	230,314	230,314
Other	-	10,495	10,495
Total operating revenues	<u>217,730</u>	<u>240,809</u>	<u>458,539</u>
OPERATING EXPENSES			
Food cost:			
Purchase of food	273,438	17,707	291,145
Donated commodities	62,595	-	62,595
Salaries and benefits	615,712	238,103	853,815
Materials and supplies	11,502	7,086	18,588
Depreciation	9,401	-	9,401
Contracted services	12,382	-	12,382
Travel	652	529	1,181
Bad debt expense	-	416	416
Other	8,893	310	9,203
Total operating expenses	<u>994,575</u>	<u>264,151</u>	<u>1,258,726</u>
Operating loss	<u>(776,845)</u>	<u>(23,342)</u>	<u>(800,187)</u>
NONOPERATING REVENUES			
Federal reimbursements	496,522	-	496,522
Federal commodities	62,595	-	62,595
Sales tax refund	175	-	175
Interest earned	18	-	18
Total nonoperating revenues	<u>559,310</u>	<u>-</u>	<u>559,310</u>
Loss before contributions and transfers	<u>(217,535)</u>	<u>(23,342)</u>	<u>(240,877)</u>
OTHER FINANCING SOURCES			
Transfer from other funds	48,155	-	48,155
Total other financing sources	<u>48,155</u>	<u>-</u>	<u>48,155</u>
Change in net position	<u>(169,380)</u>	<u>(23,342)</u>	<u>(192,722)</u>
Total net position, beginning, previously reported	178,674	(9,073)	169,601
Restatement	<u>(850,316)</u>	<u>(283,437)</u>	<u>(1,133,753)</u>
Total net position, beginning, restated	<u>(671,642)</u>	<u>(292,510)</u>	<u>(964,152)</u>
Total net position, ending	<u>\$ (841,022)</u>	<u>\$ (315,852)</u>	<u>\$ (1,156,874)</u>

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

Gates County Board of Education, North Carolina
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2018

	Enterprise Funds		
	Major Funds		
	School Food Service	Child Care	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 216,610	\$ 245,768	\$ 462,378
Cash paid for goods and services	(279,979)	(26,052)	(306,031)
Cash paid to employees for services	(529,803)	(228,624)	(758,427)
Net cash used by operating activities	(593,172)	(8,908)	(602,080)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
(Increase) Decrease in due from other funds	1,560	-	1,560
Federal reimbursements	500,953	-	500,953
State reimbursements	175	-	175
Net cash provided by noncapital financing activities	502,688	-	502,688
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	18	-	18
Net decrease in cash and cash equivalents	(90,466)	(8,908)	(99,374)
Balances - beginning of year	145,310	23,063	168,373
Balances - end of year	\$ 54,844	\$ 14,155	\$ 68,999
Reconciliation of operating loss to net cash provided (used) by operating activities:			
Operating loss	\$ (776,845)	\$ (23,342)	\$ (800,187)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:			
Depreciation	9,401	-	9,401
Bad debt expense	-	416	416
Donated commodities consumed	62,595	-	62,595
Salaries paid by special revenue fund	48,155	-	48,155
Changes in assets, deferred outflows of resources, and liabilities:			
(Increase) decrease in accounts receivable	(1,120)	3,224	2,104
(Increase) decrease in net OPEB asset	80	26	106
(Increase) decrease in inventory	27,100	-	27,100
(Increase) decrease in due from other governments	-	(360)	(360)
(Increase) decrease in deferred outflows	24,918	8,306	33,224
Increase (decrease) in accounts payable	(212)	(420)	(632)
Increase (decrease) in net pension liability	(37,417)	(12,472)	(49,889)
Increase (decrease) in net OPEB liability	(190,280)	(63,423)	(253,703)
Increase (decrease) in deferred inflows	227,963	75,987	303,950
Increase (decrease) in unearned revenues	-	2,095	2,095
Increase (decrease) in compensated absences	12,490	1,055	13,545
Total adjustments	183,673	14,434	198,107
Net cash used by operating activities	\$ (593,172)	\$ (8,908)	\$ (602,080)

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

Gates County Board of Education, North Carolina
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2018

Noncash investing, capital, and financing activities:

The State Public School Fund paid salaries and benefits of \$48,155 to administrative personnel of the School Food Service Fund during the year. The payment is reflected as an operating transfer in and an operating expense on Exhibit 8.

The School Food Service Fund received donated commodities with a value of \$62,595 during the fiscal year. The receipt of the commodities is recognized as a nonoperating revenue. The Fund recorded the consumption of \$62,595 worth of donated commodities during the fiscal year as an operating expense. These transactions are reported on Exhibit 8.

Gates County Board of Education, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2018

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

The Gates 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 Gates County, North Carolina. The Board receives State, local, and federal government funding and must adhere to the legal requirements of each funding entity.

B. Basis of Presentation – Fund Accounting

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

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

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

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

The Board reports the following major governmental funds:

General Fund. The General Fund is the general operating fund of the Board. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. This fund is the "Local Current Expense Fund," which is mandated by State law [G.S. 115C-426].

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.

Gates County Board of Education, North Carolina
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For the Year Ended June 30, 2018

Other Specific Revenue Fund. The Other Special Revenue Fund accounts for reimbursements, including indirect costs, fees for actual costs, tuition, sales tax refunds, gifts and grants restricted as to use, federal grants restricted as to use, federal appropriations made directly to the local school administrative units, funds received for prekindergarten programs, and special programs and appropriated fund balances.

The Board reports the following major enterprise funds:

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

Child Care Fund. The Child Care Fund is used to account for the child care program within the school system and is reported as an enterprise fund.

The Board reports the following non-major governmental funds:

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

Federal Grants Fund. The Federal Grants 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 fundraising activities. The primary expenditures are for athletic teams, club programs, activity buses, and instructional needs. The Individual Schools Fund is reported as a special revenue fund.

C. Measurement Focus and Basis of Accounting

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

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Board considers all revenues reported in the governmental funds to be available if the revenues are collected within 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

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

D. Budgetary Data

The Board's budgets are adopted as required by the North Carolina General Statutes. Annual budgets are adopted for all funds, except for the Individual Schools Special Revenue Funds, as required by North Carolina General Statutes. Per State law, no budget is required for Individual School Funds. All appropriations lapse at the fiscal year-end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds. The superintendent is authorized by the governing Board to transfer appropriations within a fund. The superintendent may transfer amounts and objects of expenditures within a function without limitations and without a report being required. All amendments must be approved by the governing Board. During the year, several immaterial amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing Board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

1. Deposit 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.

2. Cash and Cash Equivalents

The Board pools money from several funds to facilitate disbursement and investment and to maximize investment income. All cash and investments with original maturities of three months or less are considered cash and cash equivalents.

3. Inventories

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

4. Capital Assets

Donated assets received prior to July 1, 2015 are recorded at their estimated fair value at the date of donation or forfeiture. Donated capital assets received after July 1, 2015 are recorded at acquisition value. All other capital assets are recorded at original cost. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. Certain items acquired before July 1, 2000 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. 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.

Gates County Board of Education, North Carolina
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Gates 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>
Building and improvements	15-50
Equipment, furniture, and vehicles	5-15

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

5. Deferred outflows and inflows of resources

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

6. Long-Term Obligations

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

7. Compensated Absences

The Board follows the State's policy for vacation and sick leave. Employees may accumulate up to thirty (30) days earned vacation leave with such leave being fully vested when earned. The Board's liability for accumulated earned vacation and the salary-related payments as of June 30, 2018 is recorded in the government-wide and proprietary fund financial statements on a FIFO basis. An estimate of the current portion of compensated absences is based on the current amount used.

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

8. Net Position/Fund Balances

Net Position

Net position in the government-wide and proprietary fund financial statements is classified as net investment in capital assets, net of related debt, restricted, and unrestricted. Restricted net position

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Notes to the Financial Statements
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represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments, or imposed by law through state statute.

Fund Balance

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

The governmental fund types classify fund balances as follows:

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

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 are collected.

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

Assigned fund balance – portion of fund balance that Gates County 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 or committed. The governing body approves the appropriation.

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

9. Reconciliation of Government-wide and Fund Financial Statements

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

The governmental fund balance sheet includes 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 \$(20,503,546) consists of several elements as follows:

Gates County Board of Education, North Carolina
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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)	\$ 25,269,658
Less - Accumulated Depreciation	<u>(13,442,118)</u>
Net capital assets	11,827,540
Net OPEB Asset	38,867
Pension related deferred outflows of resources	2,966,859
OPEB related deferred outflows of resources	817,913
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 Purchase Obligations	(360,994)
Compensated Absences	(1,093,589)
Net pension liability	(5,777,542)
Net OPEB liability	(21,162,593)
Deferred inflows of resources related to pensions	(406,664)
Deferred inflows of resources related to OPEB	<u>(7,353,343)</u>
Total adjustment	<u>\$ (20,503,546)</u>

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes 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 \$(879,337) as follows:

Capital outlay expenditures recorded in the fund statements but capitalized as assets in the statement of activities	\$ 857,261
Depreciation expense, the allocation of those assets over their useful lives, that is recorded on the statement of activities but not in the fund statements.	(578,838)
New debt issued during the years is recorded as a source of funds on the fund statements; but only affect the statement of net assets in the government-wide statements	(259,173)
Principal payments on debt owed are recorded as a use of funds on the fund statements but affect only the statement of net position in the government-wide statements	168,296
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	1,133,078
Contributions to the OPEB plans in the current fiscal year are not included on the Statement of Activities	650,626
Expenses reported in the statement of activities that do not require the use of current resources to pay are not recorded as expenditures in the fund statements.	
Pension expense	(1,492,466)
OPEB expense	(1,099,701)
Compensated absences are accrued in the government-wide statements but not in the fund statements because they do not use current resources	<u>(258,420)</u>
	<u>\$ (879,337)</u>

Gates County Board of Education, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2018

10. 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.

II. Stewardship, Compliance, and Accountability

There are no items to report.

III. Detail Notes on All Funds

A. Assets

1. Deposits

All of the Board's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the Board's agents in the unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity of 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 the adequacy of their pooled collateral covering uninsured deposits to the State Treasurer. 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 with a carrying amount of \$1,674,506. The bank balances with the financial institutions and the State Treasurer were \$1,818,248 and \$69,989, respectively. Of these balances, \$267,400 was covered by federal depository insurance, \$1,550,848 was covered by collateral held under the pooling method, and \$69,989 was covered by collateral held by authorized escrow agents in the name of the State Treasurer.

At June 30, 2018, the Board had petty cash of \$50.

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Notes to the Financial Statements
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2. Accounts Receivable

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

	Due from other funds (internal balances)	Due from other governments	Other	Total
Governmental activities:				
General Fund	\$ 1,153	\$ -	\$ -	\$ 1,153
Other governmental	(1,153)	417,974	-	416,821
Total governmental activities:	\$ -	\$ 417,974	\$ -	\$ 417,974
Business-type activities				
School Food Service	\$ -	\$ 17,492	\$ 6,067	\$ 23,559
Child Care	-	1,761	2,618	4,379
	\$ -	\$ 19,253	\$ 8,685	\$ 27,938

Internal balances consist of cost due to the General Fund from the Individual Schools Fund.

Due from other governments consists of the following:

Governmental activities:		
State Public School Fund	\$ 375,807	Operating revenues from DPI
Federal Grants Fund	34,579	Federal grants funds
Other Specific Revenue Fund	7,588	JCPC Grant funds
Total governmental activities	<u>\$ 417,974</u>	
Business-type activities:		
School Food Service Fund	\$ 17,492	USDA reimbursement
Child Care Fund	1,761	CACFP
Total governmental activities	<u>\$ 19,253</u>	

Gates County Board of Education, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2018

3. 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	\$ 65,470	\$ -	\$ -	\$ 65,470
Construction in progress	-	504,021	-	504,021
Total capital assets not being depreciated	65,470	504,021	-	569,491
Capital assets being depreciated:				
Buildings	21,175,574	47,425	-	21,222,999
Equipment and furniture	1,111,451	46,642	-	1,158,093
Vehicles	2,083,922	259,173	24,020	2,319,075
Total capital assets being depreciated	24,370,947	353,240	24,020	24,700,167
Less accumulated depreciation for:				
Buildings	10,717,360	395,717	-	11,113,077
Equipment and furniture	951,120	52,898	-	1,004,018
Vehicles	1,218,820	130,223	24,020	1,325,023
Total accumulated depreciation	12,887,300	578,838	24,020	13,442,118
Total capital assets being depreciated, net	11,483,647			11,258,049
Governmental activity capital assets, net	<u>\$ 11,549,117</u>			<u>\$ 11,827,540</u>

Depreciation was charged to governmental functions as follows:

Unallocated depreciation	\$ 465,272
Operational support services	113,566
Total	<u>\$ 578,838</u>

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
School Food Service Fund:				
Capital assets being depreciated:				
Food service equipment	\$ 331,276	\$ -	\$ -	\$ 331,276
Total capital assets being depreciated	331,276	-	-	331,276
Less accumulated depreciation for:				
Food service equipment	260,053	9,401	-	269,454
Total accumulated depreciation	260,053	9,401	-	269,454
Business-type activities capital assets, net	<u>\$ 71,223</u>			<u>\$ 61,822</u>

Gates County Board of Education, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2018

4. Construction Commitments

Gates County has an active construction project as of June 30, 2018. The project is for the renovation of Central Middle School for the benefit of Gates County Board of Education. At year-end, the County's commitments with contractors for school construction are as follows:

Project	Spent-to-date	Remaining Commitment
Central Middle School Renovation	\$ 504,021	\$ 10,441
Total	\$ 504,021	\$ 10,441

B. Liabilities

1. Pensions Plan and Other Postemployment Obligations

a. Teachers' and State Employees' Retirement System

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

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

TSERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have

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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 benefits earned by employees during the year. Contributions to the pension plan from the Board were \$1,180,290 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 \$6,018,273 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 proportion of the net pension liability was based on a projection of the Board's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating TSERS employers, actuarially determined. At June 30, 2017 and at June 30, 2016, the Board's proportion was .079% and .082%, respectively.

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For the Year Ended June 30, 2018

For the year ended June 30, 2018, the Board recognized pension expense of \$1,554,652. At June 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 130,465	\$ 196,889
Changes of assumptions	950,796	-
Net difference between projected and actual earnings on pension plan investments	814,477	-
Changes in proportion and differences between Board contributions and proportionate share of contributions	14,450	226,720
Board contributions subsequent to the measurement date	1,180,290	-
	<u>\$ 3,090,478</u>	<u>\$ 423,609</u>

\$1,180,290 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2019	\$ 260,906
2020	1,063,502
2021	488,133
2022	(325,962)
2023	-
Thereafter	-
	<u>\$ 1,486,579</u>

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

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

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based

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on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

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

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
Total	100%	

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

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

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

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	1% Decrease (6.20%)	Discount Rate (7.20%)	1% Increase (8.20%)
Board's proportionate share of the net pension liability	\$12,388,098	\$6,018,273	\$ 681,172

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

b. Other Post-Employment Benefits

1. Healthcare Benefits

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

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

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

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

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

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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 \$662,407.

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

At June 30, 2018, Board reported a liability of \$22,044,368 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016. The total OPEB liability was then rolled forward to the measurement date of June 30, 2017 utilizing update procedures incorporating the actuarial assumptions. The Board's proportion of the net OPEB liability was based on a projection of the Board's present value of future salary, actuarially determined. At December 31, 2016, the Board's proportion was 0.067%.

\$662,407 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	\$ (1,501,851)
2020	(1,501,851)
2021	(1,501,851)
2022	(1,501,851)
2023	(1,499,803)
Thereafter	-
	<u><u>\$ (7,507,207)</u></u>

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For the Year Ended June 30, 2018

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

Inflation	2.75 percent
Salary increases	3.50 to 8.10 percent, including 3.5% inflation and productivity factor
Investment rate of return	7.20 percent, net of OPEB plan investment expense, including inflation
Healthcare cost trend rate - medical	5.00 to 6.50 percent
Healthcare cost trend rate - prescription drug	5.00 to 7.25 percent
Healthcare cost trend rate - Medicare advantage	4.00 to 5.00 percent
Healthcare cost trend rate - administrative	3.00 percent

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

Sensitivity of the Board's proportionate share of the net OPEB liability to changes in the discount rate. The following presents the Board's proportionate share of the net OPEB liability, as well as what the 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:

	1% Decrease (2.58%)	Discount Rate (3.58%)	1% Increase (4.58%)
Net OPEB liability	\$26,297,665	\$22,044,368	\$ 18,670,900

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

	Healthcare Trend Rates		
	1% Decrease	1% Decrease	1% Decrease
	(Medical - 4.00-	(Medical - 5.00-	(Medical - 6.00-
	5.50%,	6.50%,	7.50%,
	Pharmacy -	Pharmacy -	Pharmacy -
	4.00-6.25%,	5.00-7.25%,	6.00-8.25%,
	Medicare	Medicare	Medicare
	Advantage -	Advantage -	Advantage -
	3.00-4.00%,	4.00-5.00%,	5.00-6.00%,
	Administrative	Administrative	Administrative -
	- 2.00%)	- 3.00%)	4.00%)
Net OPEB liability	\$ 18,008,219	\$ 22,044,368	\$ 27,408,927

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.

2. Disability Benefits

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

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

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

Benefits Provided. Long-term disability benefits are payable as an OPEB from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. An employee is eligible to receive long-term disability benefits provide the following requirements are met: (1) the employee has five or more years of contributing membership service in TSERS or ORP, earned within 96 months prior to the end of the short-term disability period or cessation of salary continuation payments, whichever is later; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period or after salary continuation payments cease or after monthly payments for Workers' Compensation cease (excluding monthly payments for permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further

Gates County Board of Education, North Carolina
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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 \$15,328 for the year ended June 30, 2018.

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

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

At June 30, 2018, Board reported an asset of \$40,486 for its proportionate share of the net OPEB asset. The net OPEB asset was measured as of June 30, 2017, and the total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2016. The total OPEB asset was then rolled forward to the measurement date of June 30, 2017 utilizing update procedures incorporating the actuarial assumptions. The Board's proportion of the net OPEB asset was based on a projection of the Board's present value of future salary, actuarially determined. At December 31, 2016, the Board's proportion was 0.069%.

\$15,328 reported as deferred outflows of resources related to OPEB resulting from Board contributions subsequent to the measurement date will be recognized as an increase of the net OPEB asset in the year ending June 30, 2019. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:		
2019	\$	6,506
2020		6,506
2021		6,504
2022		2,217
2023		-
Thereafter		-
	\$	<u>21,733</u>

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

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

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

	1% Decrease (2.75%)	Discount Rate (3.75%)	1% Increase (4.75%)
Net OPEB asset	\$ 34,419	\$ 40,486	\$ 46,567

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

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

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

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

Gates County Board of Education, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2018

<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	100%	

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	\$ 1,123,426	\$ 22,096	\$ 1,145,522
OPEB Liability (Asset)	22,044,368	(40,486)	22,003,882
Proportionate Share of the net OPEB liability (asset)	0.06724.%	0.06624%	
Deferred Outflows of Resources:			
Differences between expected and actual experience	-	11,100	11,100
Changes of assumptions	-	-	-
Net difference between projected and actual earnings on plan investments	-	8,876	8,876
Changes in proportion and differences between Board contributions and proportionate share of contributions	152,525	1,758	154,283
Board contributions subsequent to the measurement date	662,407	15,328	677,735
Deferred Inflows of Resources:			
Differences between expected and actual experience	1,580,622	-	1,580,622
Changes of assumptions	6,070,918	-	6,070,918
Net difference between projected and actual earnings on plan investments	8,193	-	8,193
Changes in proportion and differences between Board contributions and proportionate share of contributions	-	-	-

Gates County Board of Education, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2018

3. Accounts Payable

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

	<u>Salaries and</u> <u>Benefits</u>	<u>Other</u>	<u>Total</u>
Governmental activities:			
General Fund	\$ 7,008	\$ 46,086	\$ 53,094
Other governmental	412,948	-	412,948
Total governmental activities:	<u>\$ 419,956</u>	<u>\$ 46,086</u>	<u>\$ 466,042</u>
Business-type activities:			
School Food Service	\$ -	\$ -	\$ -
Child Care	-	1,140	1,140
Total business-type activities	<u>\$ -</u>	<u>\$ 1,140</u>	<u>\$ 1,140</u>

4. Deferred Outflows and Inflows of Resources

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

	<u>Deferred</u> <u>Outflows of</u> <u>Resources</u>	<u>Deferred</u> <u>Inflows of</u> <u>Resources</u>
Differences between expected and actual experience	\$ 141,565	\$ 1,777,511
Changes of assumptions	950,796	6,070,918
Net difference between projected and actual earnings on pension plan investments	823,353	8,193
Changes in proportion and differences between Board contributions and proportionate share of contributions	168,733	226,720
Board contributions subsequent to the measurement date	1,858,025	-
	<u>\$ 3,942,472</u>	<u>\$ 8,083,342</u>

5. Risk Management

The Board is exposed to various risks of losses to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The Board participates in the North Carolina School Boards Trust (the Trust), a member funded risk management program administered by the North Carolina School Boards Association. Through the Trust, the Board maintains general liability and errors and omissions coverage of \$1 million per claim. The Trust has annual aggregate limit for general liability of \$2,550,000 and an annual aggregate limit of \$2,550,000 for errors and omission claims. The Trust is reinsured through commercial companies for losses in excess of \$150,000 per claim for errors and omissions and general liability. Statutory workers' compensation coverage is purchased

Gates County Board of Education, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2018

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

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

In accordance with G.S. 115C-442, the Board's employees who have custody of the Board's monies at any given time of the Board's funds are performance bonded through a commercial surety bond. The finance officer is bonded for \$50,000. The remaining employees who have access to funds are bonded for either \$5,000 or \$10,000.

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

6. Long-Term Obligations

a. Installment Purchases

The Board is authorized to finance the purchase of school buses under G.S. 115C-528(a). Session law 2003-284, section 7.25 authorized the State Board of Education to allot monies for the payments on financing contracts entered into pursuant to G.S. 115C-528. The state has accepted a bid to purchase replacement school buses through a special third party financing arrangement by Banc of America Public Capital Corporation (BAPCC) at total payments less than the purchase price.

In April 2015, the Board entered into an installment purchase contract to finance the purchase of an additional school bus for \$80,780. Payments totaling \$20,195 were made in fiscal year 2018. The financing contract requires only principal payments of \$20,195 annually.

In February 2017, the Board entered into an installment purchase contract to finance the purchase of four school buses for \$333,231. The financing contract requires only principal payments of \$83,308 annually. Payments totaling \$83,308 were made in fiscal year 2018.

In February 2018, the Board entered into an installment purchase contract to finance the purchase of three school buses for \$259,173. The financing contract requires only principal payments of \$64,793 annually. Payments totaling \$64,793 were made in fiscal year 2018.

Gates County Board of Education, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2018

The future minimum payments of installment purchases as of June 30, 2018, including \$7,051 implied interest, are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2019	\$ 148,101	\$ 2,797
2020	148,100	2,797
2021	64,793	1,457
2022	-	-
2023	-	-
Thereafter	-	-
Total	<u>\$ 360,994</u>	<u>\$ 7,051</u>

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 June 30, 2017, restated	Increases	Decreases	Balance June 30, 2018	Current Portion
<i>Governmental activities:</i>					
Installment purchases	\$ 270,117	\$ 259,173	\$ 168,296	\$ 360,994	\$ 148,101
Net pension liability	6,974,892	-	1,197,350	5,777,542	-
Net OPEB liability	27,895,985	-	6,733,392	21,162,593	-
Compensated absences	835,169	763,476	505,056	1,093,589	505,056
Total	<u>\$ 3,901,702</u>	<u>\$ 1,022,649</u>	<u>\$ 8,604,094</u>	<u>\$ 28,394,718</u>	<u>\$ 653,157</u>
<i>Business-type activities:</i>					
Net pension liability	\$ 290,620	\$ -	\$ 49,889	\$ 240,731	\$ -
Net OPEB liability	1,162,333	-	280,558	881,775	-
Compensated absences	35,244	32,731	19,187	48,788	19,187
	<u>\$ 130,304</u>	<u>\$ 32,731</u>	<u>\$ 349,634</u>	<u>\$ 1,171,294</u>	<u>\$ 19,187</u>

Compensated absences for governmental activities are typically liquidated by the General or other governmental funds.

c. Interfund Balances and Activities

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

	Amount
From the State Public School Fund to the School Food Service Fund for salaries	\$ 48,155
	<u>\$ 48,155</u>

Gates County Board of Education, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2018

d. Fund Balance

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

Total fund balance - General Fund	\$ 1,089,896
Less:	
Stabilization for State Statute	1,153
Subsequent years expenditures	264,561
Remaining Fund Balance	\$ 824,182
Total fund balance - Other Specifice Revenue Fund	\$ 234,730
Less:	
Stabilization for State Statute	11,468
Committed for Community Center	83,578
Committed for Grants	219
Committed for Activity Bus Purchases	76,707
Subsequent years expenditures	62,758
Remaining Fund Balance	\$ -

IV. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

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

V. Subsequent Events

The Board has evaluated subsequent events though October 3, 2018, the date on which the financial statements were available to be issued, and has determined that there are no disclosures or adjustments necessary in the accompanying financial statements relating to subsequent events.

VII. 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 \$27,210,082 and \$1,133,753, respectively.

REQUIRED SUPPLEMENTAL FINANCIAL DATA

- Schedule of Proportionate Share of the Net Pension Liability for Teachers' and State Employees' Retirement System
- Schedule of Board Contributions to Teachers' and State Employees' Retirement System
- Schedule of Proportionate Share of the Net OPEB Liability for Retiree Health Benefit Fund
- Schedule of Board Contributions to Retiree Health Benefit Fund
- Schedule of Proportionate Share of the Net OPEB Asset for Disability Income Plan of North Carolina
- Schedule of Board Contributions to Disability Income Plan of North Carolina

Gates County Board of Education, North Carolina
Schedules of Required Supplementary Information
Schedule of the Board's Proportionate Share of the Net Pension Liability
Teachers' and State Employees' Retirement System
Last Five Fiscal Years

	2018	2017	2016	2015	2014
Board's proportion of the net pension liability (asset)					
Board's proportionate share of the net pension liability (asset)	\$ 6,018,273	\$ 7,265,511	\$ 3,015,966	\$ 952,123	\$ 4,838,602
Board's covered-employee payroll	\$ 10,840,597	\$ 10,389,300	\$ 11,132,481	\$ 10,403,098	\$ 10,865,571
Board's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	55.52%	69.93%	27.09%	9.15%	44.53%
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 ended June 30.

Gates County Board of Education, North Carolina
Schedules of Required Supplementary Information
Schedule of Board Contributions
Teachers' and State Employees' Retirement System
Last Five Fiscal Years

	2018	2017	2016	2015	2014
Contractually required contribution					
Contributions in relation to the contractually required contribution	\$ 1,180,290	\$ 1,081,892	\$ 950,621	\$ 1,018,622	\$ 904,029
	1,180,290	1,081,892	950,621	1,018,622	904,029
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Board's covered-employee payroll	\$ 10,948,882	\$ 10,840,597	\$ 10,389,300	\$ 11,132,481	\$ 10,403,098
Contributions as a percentage of covered-employee payroll	10.78%	9.98%	9.15%	9.15%	8.69%

Gates County Board of Education, North Carolina
Schedules of Required Supplementary Information
Schedule of the Board's Proportionate Share of the Net OPEB Liability
Retiree Health Benefit Fund
Last Two Fiscal Years

	2018	2017
Board's proportion of the net OPEB liability (asset)	0.067%	0.067%
Board's proportionate share of the net OPEB liability (asset)	\$ 22,044,368	\$ 29,058,318
Board's covered-employee payroll	\$ 10,840,597	\$ 11,486,641
Board's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	203.35%	252.97%
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 ended June 30.

Gates County Board of Education, North Carolina
Schedules of Required Supplementary Information
Schedule of Board Contributions
Retiree Health Benefit Fund
Last Two Fiscal Years

	2018	2017
Contractually required contribution	\$ 662,407	\$ 630,166
Contributions in relation to the contractually required contribution	662,407	630,166
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Board's covered-employee payroll	\$ 10,948,882	\$ 10,840,597
Contributions as a percentage of covered-employee payroll	6.05%	5.81%

Gates County Board of Education, North Carolina
Schedules of Required Supplementary Information
Schedule of the Board's Proportionate Share of the Net OPEB Asset
Disability Income Plan of North Carolina
Last Two Fiscal Years

	2018	2017
Board's proportion of the net OPEB asset	0.066%	0.069%
Board's proportionate share of the net OPEB asset	\$ 40,486	\$ 43,122
Board's covered-employee payroll	\$ 10,840,597	\$ 11,486,641
Board's proportionate share of the net OPEB asset as a percentage of its covered-employee payroll	0.37%	0.38%
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 ended June 30.

Gates County Board of Education, North Carolina
Schedules of Required Supplementary Information
Schedule of Board Contributions
Disability Income Plan of North Carolina
Last Two Fiscal Years

	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ 15,328	\$ 41,194
Contributions in relation to the contractually required contribution	15,328	41,194
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Board's covered-employee payroll	\$ 10,948,882	\$ 10,840,597
Contributions as a percentage of covered-employee payroll	0.14%	0.38%

Gates County Board of Education, North Carolina
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2018

	2018		Variance
	Budget	Actual	Positive (Negative)
Revenues			
Gates County:			
Appropriation from county	\$ 2,708,000	\$ 2,708,000	\$ -
U.S. Government	49,809	49,809	-
Other:			
Fines and forfeitures	43,254	43,254	-
Miscellaneous	125	125	-
Insurance proceeds	3,600	3,600	-
	<u>46,979</u>	<u>46,979</u>	<u>-</u>
Total revenues	<u>2,804,788</u>	<u>2,804,788</u>	<u>-</u>
Expenditures:			
Instructional services			
Regular instructional	265,296	251,336	13,960
Special populations	10,647	10,647	-
Alternative programs	7,172	7,021	151
School leadership	111,331	110,918	413
Co-curricular	128,262	128,262	-
School-based support	78,462	78,367	95
Total	<u>601,170</u>	<u>586,551</u>	<u>14,619</u>
System-wide support services			
Support and development	12,730	12,730	-
Special populations support			
and development	82,649	82,649	-
Technology support	114,012	113,935	77
Operational support	1,620,905	1,601,744	19,161
Financial and human resources	195,690	194,685	1,005
Accountability	9,246	9,246	-
System-wide pupil support	2,072	1,695	377
Policy, leadership, and public relations	169,958	165,334	4,624
Total	<u>2,207,262</u>	<u>2,182,018</u>	<u>25,244</u>
Ancillary services	<u>14,017</u>	<u>14,017</u>	<u>-</u>
Non-programmed charges	<u>8,641</u>	<u>8,641</u>	<u>-</u>
Total expenditures	<u>2,831,090</u>	<u>2,791,227</u>	<u>39,863</u>
Excess of revenues over expenditures	<u>(26,302)</u>	<u>13,561</u>	<u>(39,863)</u>
Other financing sources (uses):			
Fund balance appropriated	26,302	-	(26,302)
Operating transfer in (out)	-	-	-
Total	<u>26,302</u>	<u>-</u>	<u>(26,302)</u>
Net change in fund balance	<u>\$ -</u>	<u>13,561</u>	<u>\$ 13,561</u>
Fund balance, beginning		<u>1,076,335</u>	
Fund balance, ending		<u>\$ 1,089,896</u>	

Gates County Board of Education, North Carolina
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
Other Specific Revenue Fund
For the Year Ended June 30, 2018

	2018		Variance Positive (Negative)
	Budget	Actual	
Revenues			
State of North Carolina	\$ 296,509	\$ 287,243	\$ (9,266)
Gates County:			
Community Center appropriation	238,500	238,500	-
Other:			
Indirect cost allocation	37,207	37,207	-
Interest earned on investments	2,403	2,557	154
Miscellaneous revenue	68,844	65,255	(3,589)
Rental of school property	6,325	6,325	-
Activity bus	106,312	106,312	-
Medicaid reimbursements for services	145,547	131,594	(13,953)
Sales tax	13,649	13,649	-
Contributions	12,672	12,672	-
Tuition and fees	93,070	89,678	(3,392)
Total other	486,029	465,249	(20,780)
Total revenues	1,021,038	990,992	(30,046)
Expenditures:			
Instructional services			
Regular instructional	101,973	94,277	7,696
Special populations	130,015	109,820	20,195
Alternative programs	172,739	172,604	135
School leadership	38,728	38,728	-
School-based support	180,415	163,774	16,641
Total	623,870	579,203	44,667

Gates County Board of Education, North Carolina
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
Other Specific Revenue Fund
For the Year Ended June 30, 2018

	2018		Variance
	Budget	Actual	Positive (Negative)
System-wide support services			
Special populations support and development	2,374	2,374	-
Technology support	1,525	1,525	-
Operational support	65,411	50,349	15,062
Financial and human resources	2,880	2,880	-
Accountability	1,061	1,061	-
System-wide pupil support	88,567	-	88,567
Policy, leadership, and public relations	70,004	64,480	5,524
Total	231,822	122,669	109,153
Ancillary services	285,901	270,484	15,417
Total expenditures	1,141,593	972,356	169,237
Excess of revenues over expenditures	(120,555)	18,636	(139,191)
Other financing sources (uses)			
Fund balance appropriated	120,555	-	120,555
Total	120,555	-	120,555
Net change in fund balance	\$ -	18,636	\$ 18,636
Fund balance, beginning		216,094	
Fund balance, ending		\$ 234,730	

Gates County Board of Education, North Carolina
Combining Balance Sheet
Non-major Governmental Funds
June 30, 2018

Special Revenue Funds

	Federal Grants	Individual Schools	Total Special Revenue Funds	Capital Outlay	Total Non-major Governmental Funds
ASSETS					
Current assets:					
Cash and cash equivalents	\$ -	\$ 184,681	\$ 184,681	\$ 53,215	\$ 237,896
Due from other governments	34,579	-	34,579	-	34,579
Total current assets	<u>\$ 34,579</u>	<u>\$ 184,681</u>	<u>\$ 219,260</u>	<u>\$ 53,215</u>	<u>\$ 272,475</u>
LIABILITIES					
Current liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued salaries and wages payable	34,579	-	34,579	-	34,579
Due to other funds	-	1,153	1,153	-	1,153
Total liabilities	<u>34,579</u>	<u>1,153</u>	<u>35,732</u>	<u>-</u>	<u>35,732</u>
Fund balances:					
Restricted:					
School Capital Outlay	-	-	-	53,215	53,215
Individual Schools	-	183,528	183,528	-	183,528
Unassigned	-	-	-	-	-
Total fund balance	<u>-</u>	<u>183,528</u>	<u>183,528</u>	<u>53,215</u>	<u>236,743</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 34,579</u>	<u>\$ 184,681</u>	<u>\$ 219,260</u>	<u>\$ 53,215</u>	<u>\$ 272,475</u>

Gates County Board of Education, North Carolina
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-major Governmental Funds
For the Year Ended June 30, 2018

	Special Revenue Funds				Total Non-major Governmental Funds
	Federal Grants	Individual Schools	Total Special Revenue Funds	Capital Outlay	
Revenues					
Gates County:					
County appropriation	\$ -	\$ -	\$ -	\$ 801,255	\$ 801,255
Total Gates County	-	-	-	801,255	801,255
U. S. Government	1,032,925	-	1,032,925	-	1,032,925
State of North Carolina:					
Appropriation for buses	-	-	-	168,296	168,296
Total State of North Carolina	-	-	-	168,296	168,296
Contributions and donations	-	62,509	62,509	-	62,509
Other:					
Interest income	-	-	-	216	216
Sales and use tax refund	-	-	-	730	730
Clubs and organizations	-	107,829	107,829	-	107,829
Fundraisers	-	81,861	81,861	-	81,861
Athletics	-	133,034	133,034	-	133,034
Total other	-	322,724	322,724	946	323,670
Total revenues	1,032,925	385,233	1,418,158	970,497	2,388,655

Gates County Board of Education, North Carolina
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-major Governmental Funds
For the Year Ended June 30, 2018

	Special Revenue Funds			Total
	Federal Grants	Individual Schools	Total Special Revenue Funds	Non-major Governmental Funds
Expenditures:				
Instructional services				
Regular instructional	57,729	-	57,729	57,729
Special populations	530,210	-	530,210	530,210
Alternative programs	366,909	-	366,909	366,909
School-based support	9,769	382,751	392,520	392,520
Total	964,617	382,751	1,347,368	1,347,368
System-wide support services				
Support and development	4,798	-	4,798	4,798
Special populations support and development	3,728	-	3,728	3,728
Financial and human resources	16,769	-	16,769	16,769
Policy, leadership, and public relations	6,653	-	6,653	6,653
Total	31,948	-	31,948	31,948
Non-programmed charges	36,360	-	36,360	36,360

Gates County Board of Education, North Carolina
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-major Governmental Funds
For the Year Ended June 30, 2018

	<u>Special Revenue Funds</u>			
	<u>Federal Grants</u>	<u>Individual Schools</u>	<u>Total Special Revenue Funds</u>	<u>Total Non-major Governmental Funds</u>
Capital outlay:				
Real property and buildings	-	-	-	693,104
Furniture and equipment	-	-	-	80,090
Buses and motor vehicles	-	-	-	259,173
Total	-	-	-	1,032,367
Debt service	-	-	-	168,296
Total expenditures	1,032,925	382,751	1,415,676	2,616,339
Excess of revenues over (under) expenditures	-	2,482	2,482	(227,684)
Other financing sources (uses):				
Installment purchase obligation issued	-	-	-	259,173
Total other financing sources (uses)	-	-	-	259,173
Net change in fund balances	-	2,482	2,482	31,489
Fund balances, beginning	-	181,046	181,046	205,254
Fund balances, ending	\$ -	\$ 183,528	\$ 183,528	\$ 236,743

Gates County Board of Education, North Carolina
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
Federal Grants Fund
For the Year Ended June 30, 2018

	2018		Variance
	Budget	Actual	Positive (Negative)
Revenues			
U. S. Government	\$ 1,116,150	\$ 1,032,925	\$ (83,225)
Expenditures:			
Instructional services			
Regular instructional	82,988	57,729	25,259
Special populations	543,441	530,210	13,231
Alternative programs	387,487	366,909	20,578
School-based support	12,226	9,769	2,457
Total	1,026,142	964,617	61,525
System-wide support services			
Support and development	6,499	4,798	1,701
Special populations support and development	3,859	3,728	131
Financial and human resources	22,053	16,769	5,284
Policy, leadership, and public relations	6,653	6,653	-
Total	39,064	31,948	7,116
Non-programmed charges	50,944	36,360	14,584
Total expenditures	1,116,150	1,032,925	83,225
Net change in fund balance	\$ -	-	\$ -
Fund balance, beginning		-	
Fund balance, ending		\$ -	

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

	2018		Variance
	Budget	Actual	Positive (Negative)
Revenues			
Gates County:			
Appropriation from county	\$ 850,000	\$ 801,255	\$ (48,745)
Total Gates County	850,000	801,255	(48,745)
State of North Carolina:			
State appropriations-buses	438,414	168,296	(270,118)
Other:			
Interest earned on investments	150	216	66
Sales tax refund	732	730	(2)
Total other	882	946	64
Total revenues	1,289,296	970,497	(318,799)
Expenditures:			
Capital Outlay:			
Land and buildings	742,701	693,104	49,597
Furniture and equipment	108,181	80,090	28,091
Vehicles	259,173	259,173	-
Debt service:			
Principal	438,414	168,296	270,118
Total expenditures	1,548,469	1,200,663	347,806
Excess of revenues over expenditures	(259,173)	(230,166)	(29,007)
Other financing sources			
Installment purchase obligation	259,173	259,173	-
Total	259,173	259,173	-
Net change in fund balance	\$ -	29,007	\$ 29,007
Fund balance, beginning		24,208	
Fund balance, ending		\$ 53,215	

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

	2018		Variance
	Budget	Actual	Positive (Negative)
Operating revenues, food sales	\$ 292,034	\$ 217,730	\$ (74,304)
Operating expenditures:			
Business support services:			
Purchase of food	-	246,338	-
Donated commodities	-	62,595	-
Salaries and benefits	-	598,097	-
Materials and supplies	-	11,502	-
Contracted services	-	12,382	-
Travel	-	652	-
Other	-	8,893	-
Total operating expenditures	1,259,115	940,459	318,656
Operating loss	(967,081)	(722,729)	244,352
Nonoperating revenues (expenditures):			
Federal reimbursements	597,928	496,522	(101,406)
Federal commodities	53,988	62,595	8,607
Sales tax refund	175	175	-
Interest earned	16	18	2
Indirect costs not paid	96,366	-	(96,366)
Depreciation expense	(11,000)	-	11,000
Total nonoperating revenues (expenditures)	737,473	559,310	(178,163)
Excess of revenues over (under) expenditures before other financing sources	(229,608)	(163,419)	66,189
Other financing sources:			
Fund balance appropriated	181,453	-	(181,453)
Transfer from other funds	48,155	48,155	-
Total other financing sources	229,608	48,155	(181,453)
Excess of revenues and other sources over (under) expenditures	\$ -	(115,264)	\$ (115,264)
Reconciliation of modified accrual to full accrual:			
Reconciling items:			
Depreciation		(9,401)	
Net OPEB asset		(80)	
Net pension liability		37,417	
Net OPEB liability		210,419	
Deferred outflows		(24,918)	
Deferred inflows		(227,963)	
Decrease in inventory		(27,100)	
Increase in accrued vacation pay		(12,490)	
Change in net position (full accrual)		\$ (169,380)	

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

	2018		Variance
	Budget	Actual	Positive (Negative)
Revenues:			
Child care fees	\$ 232,968	\$ 230,314	\$ (2,654)
Other operating revenues	9,685	10,495	810
Total revenues	<u>242,653</u>	<u>240,809</u>	<u>(1,844)</u>
Expenditures:			
Regular community service:			
Salaries and benefits	228,625	228,625	-
Purchase of food	17,707	17,707	-
Materials and supplies	7,086	7,086	-
Workshops	529	529	-
Travel	416	416	-
Other	290	310	(20)
Total expenditures	<u>254,653</u>	<u>254,673</u>	<u>(20)</u>
Revenues over (under) expenditures	<u>(12,000)</u>	<u>(13,864)</u>	<u>(1,864)</u>
Other financing sources:			
Fund balance appropriated	12,000	-	(12,000)
Total	<u>12,000</u>	<u>-</u>	<u>(12,000)</u>
Revenues and other sources over expenditures	<u>\$ -</u>	<u>(13,864)</u>	<u>\$ (13,864)</u>
Reconciliation of modified accrual to full accrual:			
Reconciling items:			
Net OPEB asset		(26)	
Net pension liability		12,472	
Net OPEB liability		63,423	
Deferred outflows		(8,306)	
Deferred inflows		(75,987)	
Increase in accrued vacation pay		(1,054)	
Change in net position (full accrual)		<u>\$ (23,342)</u>	

DONNA H. WINBORNE, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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 Auditor's Report

To the Board of Education
Gates County, North Carolina

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Gates 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 Gates County Board of Education's basic financial statements, and have issued my report thereon dated October 3, 2018.

Internal Control Over Financial Reporting

In planning and performing the audit of the financial statements, I considered Gates 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Gates County Board of Education's internal control. Accordingly, I do not express an opinion on the effectiveness of the Board's internal control.

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

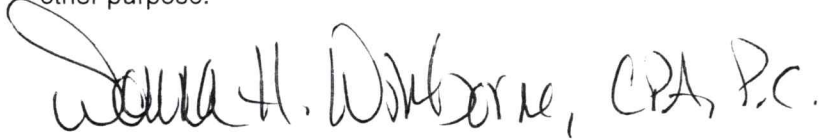
My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during the audit I did not identify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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gates County Board of Education's financial statements are free from material misstatement, I 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 my audit, and accordingly, I 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 my 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.

 Sandra H. Wimborne, CPA, P.C.

Edenton, North Carolina
October 3, 2018

DONNA H. WINBORNE, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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

Independent Auditor's Report

To the Board of Education
Gates County, North Carolina

Report on Compliance for Each Major Federal Program

I have audited Gates County Board of Education, North Carolina, 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 Gates County Board of Education's major federal programs for the year ended June 30, 2018. Gates County Board of Education's major federal programs are identified in the summary of auditor's 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.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of Gates County Board of Education's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted the audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State Single Audit Implementation Act. Those standards, the Uniform Guidance, and the State Single Audit Implementation Act require that I 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 Gates County Board of Education's compliance with those requirements and performing such other procedures, as I considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In my opinion, Gates 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.

Report on Internal Control Over Compliance

Management of Gates 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 the audit of compliance, I considered Gates 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 my 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, I 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.

My 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. I did not identify any deficiencies in internal control over compliance that I 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 my 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.



Steven H. Wiberne, CPA, P.C.

Edenton, North Carolina
October 3, 2018

DONNA H. WINBORNE, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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 Auditor's Report

To the Board of Education
Gates County, North Carolina

Report on Compliance for Each Major State Program

I have audited Gates County Board of Education, North Carolina, 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 Gates County Board of Education's major state programs for the year ended June 30, 2018. Gates County Board of Education's major state programs are identified in the summary of auditor's 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.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of Gates County Board of Education's major state programs based on my audit of the types of compliance requirements referred to above. I conducted the audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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 I 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 Gates County Board of Education's compliance with those requirements and performing such other procedures, as I considered necessary in the circumstances.

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

Opinion on Each Major State Program

In my opinion, Gates 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 Gates 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 the audit of compliance, I considered Gates 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 my 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, I 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.

My 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. I did not identify any deficiencies in internal control over compliance that I 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 my 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.

 William H. Wilborne, CPA P.C.

Edenton, North Carolina
October 3, 2018

Gates County Board of Education, North Carolina
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Section I. Summary of Auditor's Results
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Financial Statements

Type of report the auditor 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(ies) identified ☐ 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(ies) identified ☐ 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

Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Names of Federal Program or Cluster</u>
84.027, 84.173	Special Education Cluster

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

Auditee qualified as low-risk auditee? ☒ yes ☐ no

Gates County Board of Education, North Carolina
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Section I. Summary of Auditor's Results (contd.)

State Awards

Internal control over major State programs:

Material weakness(es) identified? _____ yes X no

Significant Deficiency(ies) identified _____ yes X none reported

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

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

Identification of major State programs:

_____ Program Name
State Public School Fund

Section II. Financial Statement Findings

None reported.

Section III. Federal Award Findings and Questioned Costs

None reported.

Section IV. State Award Findings and Questioned Costs

None reported.

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

No items to report.

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

No items to report.

Gates County Board of Education, North Carolina
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>			
School Nutrition Program (Note 3)			
<u>Child Nutrition Cluster:</u>			
Non-Cash Assistance (Commodities)			
Passed-through the N.C. Department of Agriculture:			
National School Lunch Program	10.555	PRC 035	62,595
Non-Cash Assistance			62,595
Cash Assistance			
Passed-through the N.C. Department of Public Instruction:			
School Breakfast Program	10.553	PRC 035	\$ 158,337
National School Lunch Program	10.555	PRC 035	329,572
Summer Food Service Program for Children	10.559	PRC 035	5,659
Total Cash Assistance			493,568
Total Child Nutrition Cluster:			556,163
Total School Nutrition Program (Note 3)			556,163
Cash Assistance			
Child and Adult Care Food Program	10.558		17,368
Total U. S. Department of Agriculture			573,531
<u>U.S. Department of Education</u>			
Cash Assistance			
Passed-through the N.C. Department of Public Instruction:			
Title I Grants to Local Education Agencies (Title I, Part A of ESEA)	84.010	PRC 050	364,677
Total Title I Grants for Local Education Agencies (Title I)			364,677
<u>Special Education Cluster:</u>			
Special Education - Grants to States (IDEA, Part B) - Education of the Handicapped	84.027	PRC 060	427,792
IDEA - Children with Disabilities - Risk Pool	84.027	PRC 114	79,761
IDEA VI-B Special Needs Targeted Assistance	84.027	PRC 118	8,141
Special Education - Preschool Grants (IDEA Preschool) - Preschool Handicapped	84.173	PRC 049	28,603
IDEA - Targeted Assistance for Preschool Federal Grant	84.173	PRC 119	3,333
Total Special Education Cluster:			547,630
Special Education - Grants to States (IDEA, Part B) - Special Education State Improvement Grant	84.323	PRC 082	5,382
Career and Technical Education - Capacity Building Grant	84.048	PRC 017	21,440
Total Career and Technical Education - Basic Grants to States			21,440
Student Support and Academic Enrichment Grant	84.424	PRC 108	8,104
Supporting Effective Instruction State Grants	84.367	PRC 103	49,730
Rural Education	84.358	PRC 109	35,962
Total U. S. Department of Education			1,032,925
<u>Federal Emergency Management Agency</u>			
Cash Assistance			
Disaster Grant - Public Assistance (Presidentially Declared Disasters)	97.036		49,809
Total federal assistance			1,656,265

Gates County Board of Education, North Carolina
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>
State Grants:			
Cash Assistance			
<u>N. C. Department of Public Instruction:</u>			
State Public School Fund			\$ 12,389,704
Driver Training - SPSF		PRC 012	23,893
School Technology Fund - SPSF		PRC 015	18,934
Vocational Education			
- State Months of Education		PRC 013	605,243
- Program Support Funds		PRC 014	137,011
State Breakfast			2,954
Total N.C. Department of Public Instruction			<u>13,177,739</u>
<u>N. C. Arts Council - Department of Cultural Resources:</u>			
Cultural Resources Grant			8,159
<u>N. C. Department of Health and Human Services:</u>			
School Nurse Grant			139,846
Division of Child Development and Early Education:			
NC Pre-Kindergarten Program			153,471
<u>Department of Juvenile Justice:</u>			
Passed-through Gates County:			
Juvenile Crime Prevention Program			30,331
<u>N.C. Tobacco Trust Fund Commission:</u>			
Agricultural Projects Grant			1,782
Non-Cash Assistance			
<u>N. C. Department of Public Instruction:</u>			
School Buses Appropriation		PRC 120	259,173
Textbooks		PRC 130	21,007
Total State Assistance			<u>13,791,508</u>
Total federal and State Assistance			<u>\$ 15,447,773</u>

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

1. Basis of Presentation

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

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.

Gates County Schools has elected not to use the 10-percent de minimus indirect cost rate as allowed under the Uniform Guidance.

3. Cluster of Programs

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