

# **Winston-Salem/Forsyth County Board of Education**

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**Comprehensive Annual Financial Statements**

**Year Ended June 30, 2017**



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**Winston-Salem/Forsyth County Board of Education**

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## **Independent Auditors' Report**

Board of Education  
Winston-Salem/Forsyth County  
Winston-Salem, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Winston-Salem/Forsyth County Board of Education as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Winston-Salem/Forsyth County Board of Education's basic financial statements as listed in the table of contents.

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

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

### ***Auditors' Responsibility***

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

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

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Winston-Salem/Forsyth County Board of Education as of June 30, 2017, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund, State Public School Fund, and the Special 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 4 through 9 and the Schedule of the Proportionate Share of the Net Pension Liability and the Schedule of Board Contributions on pages 48 and 49, respectively be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provided us will sufficient evident to express an opinion or provide any assurance.

***Supplementary and Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Winston-Salem/Forsyth 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 our opinion, the combining and individual non-major fund financial statements, budgetary schedules, other schedules, and the accompanying schedule of expenditures of federal and State awards are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2018 on our consideration of Winston-Salem/Forsyth 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 Winston-Salem/Forsyth County Board of Education's internal control over financial reporting and compliance.

*Dixon Hughes Goodman LLP*

**Winston-Salem, North Carolina  
February 26, 2018**

## **Winston-Salem/Forsyth County Board of Education Management's Discussion and Analysis**

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### ***Introduction***

This section of the Winston-Salem/Forsyth County Board of Education (the "Board") financial report represents our discussion of the financial performance of the Board for the year ended June 30, 2017. This information should be read along with the following audited financial statements and the notes thereto.

The Board's financial reports include the customary fund statements and government-wide statements. The fund statements are prepared as always, with the proprietary funds prepared on a full accrual basis of accounting and the remainder (governmental funds) prepared on a modified accrual basis of accounting. The modified accrual basis of accounting does not require that assets acquired by resources of the fund be tied to and depreciated within that fund nor that long-term financing arrangements and other long-term liabilities be accounted for within the fund that benefited from those financing sources.

### ***Financial Highlights***

The Board provides the public pre-kindergarten through 12th grade education services in metropolitan Winston-Salem and surrounding Forsyth County, North Carolina. The official student enrollment for 2016-17, as measured by a membership formula by the North Carolina Department of Public Instruction, was 54,525, an increase of 338 students over the previous year. Additionally, the Board's local current expense appropriation from the Forsyth County Commissioners must be shared on a per-pupil basis with approximately 2,610 students who reside in Forsyth County and attend state-authorized charter schools.

The Board's mission statement is "To provide students with an educational program that will ensure that they become academically proficient, responsible citizens and productive workers in a rapidly changing world." The resources to accomplish that mission are primarily people. Over 90% of the Board's total non-capital budget is spent on salaries and benefits of its staff. Teachers, principals, assistant principals, teacher assistants, housekeepers, and other school-based staff are the vast majority of the Board's people resources, supported by central services, maintenance, and student transportation staff.

Although the state of North Carolina provides the majority of the public education dollars for the Board, local property taxes, federal and other grants, and other local resources provide slightly over 40% of the total funds at the Board's disposal. Because of the increasing student population and state and local efforts to reduce class size, the Board has been aggressively building new schools, adding onto existing schools, and refurbishing older schools to meet the need for modern, safe, and conducive classrooms to carry out the Board's mission. The majority of the funds for capital construction have come from bonds approved through local referenda. Forsyth County residents approved a \$250 million bond referendum in November 2006, which were almost completely expended by the end of 2016-17, and a new \$350 million referendum approved in November of 2016 was just beginning to impact capital expenditures by the end of the school year.

The Board is facing a number of financial challenges in future years. Like most every other school board in the country, the need for an increasing number of teachers and competition for a dwindling supply of teachers are putting pressure on recruitment and incentives to attract and retain teachers. However, with its quality people resources and solid financial management processes, the Board is poised to face these challenges and will continue to achieve its educational mission.

## **Winston-Salem/Forsyth County Board of Education Management's Discussion and Analysis (Continued)**

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

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

- Independent Auditors' Report
- Management's Discussion and Analysis (required supplementary information)
- Basic Financial Statements
- Required supplementary information section that presents budget and actual statements for certain major governmental funds, non-major governmental funds and business-type 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 (district-wide) statements*. These district-wide statements are presented on the full accrual basis of accounting and include the statement of net position and the statement of activities. The Statement of Net Position includes all of the Board's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Assets and liabilities are classified in the order of relative liquidity for assets and due date for liabilities. This statement provides a summary of the Board's investment in assets, deferred inflows of resources, and obligations to creditors. Liquidity and financial flexibility can be evaluated using the information contained in this statement. The Statement of Activities summarizes the Board's revenues and expenses for the current year. A net (expense) revenue format is used to indicate to what extent each function is self-sufficient.

The second type of statement included in the basic financial statements is the *Fund Financial Statements*, which are presented for the Board's governmental and business-type 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 fund financial statements focus on the Board's most significant funds. Because a different basis of accounting is used in the government-wide statements, reconciliation from the governmental fund financial statements to the district-wide statements is required. The district-wide statements provide information about the Board as an economic unit while the fund financial statements provide information on the financial resources of the Board's major funds.

### ***District-wide Statements***

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

The two district-wide statements report the Board's net assets and how they have changed. Net position - the difference between the Board's assets, deferred outflows of resources, and the total liabilities and deferred inflows of resources - is one way to measure the Board's financial health or position.

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

The Board's activities are divided into two categories in the district-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 and childcare services are included here.

## **Winston-Salem/Forsyth County Board of Education Management's Discussion and Analysis (Continued)**

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### ***Fund Financial Statements***

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

- Some funds are required by State law, such as the State Public School Fund
- The General Fund includes another legally required fund, the Local Current Expense 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

The Board has two categories 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 determine whether there are more or fewer financial resources that can be spent in the near future to finance the Board's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, reconciliation at the bottom of the governmental funds statements explains the relationship (or differences) between them. The Board has several governmental funds - the General Fund, the State Public School Fund, the Individual Schools Fund, the Capital Outlay Fund, the Federal Grants Fund and the Special Revenue Fund.

***Proprietary funds:*** Services for which the Board charges some or all customers a fee are generally reported in the proprietary funds. The proprietary fund statements are reported on the same basis of accounting as the district-wide statements - full accrual. The Board has two proprietary funds, both enterprise funds, the Child Nutrition Fund and the Day Care Fund.

Total revenues for public school programs increased by 4% during 2016-17, the largest increase since 2008-09. As we get projects bid and approved as planned in the November 2016 \$350 million bond referendum, capital projects expenditures will be increasing. Because of unique laws in North Carolina, school boards have title to the capital assets (schools and their contents) while counties and the state assume the underlying debt.

The Board is not aware of any other potentially significant matters that would negatively (or positively) impact its financial condition.

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

Net position is an indicator of the fiscal health of the Board. Assets exceeded liabilities by \$527 million as of June 30, 2017, a decrease of \$17.7 million from the preceding year. Investments in capital assets, net of related debt, total \$602.1 million.

**Winston-Salem/Forsyth County Board of Education  
Management's Discussion and Analysis (Continued)**

The following is a summary of the Statement of Net Position:

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

	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Total Primary Government</u>	
			<u>June 30, 2017</u>	<u>June 30, 2016</u>
Current assets	\$ 55,281,253	\$ 12,263,859	\$ 67,545,112	\$ 68,656,329
Capital assets	604,296,357	4,720,464	609,016,821	616,382,585
Total assets	<u>659,577,610</u>	<u>16,984,323</u>	<u>676,561,933</u>	<u>685,038,914</u>
Deferred outflows of resources	<u>124,662,420</u>	<u>1,670,170</u>	<u>126,332,590</u>	<u>27,690,328</u>
Current liabilities	33,320,129	1,234,482	34,554,611	35,325,241
Long-term liabilities	229,594,396	2,954,126	232,548,522	115,328,842
Total liabilities	<u>262,914,525</u>	<u>4,188,608</u>	<u>267,103,133</u>	<u>150,654,083</u>
Deferred inflows of resources	<u>8,792,186</u>	<u>117,794</u>	<u>8,909,980</u>	<u>16,552,385</u>
Net investment in capital assets	598,972,994	4,720,464	603,693,458	614,531,944
Restricted net position	10,305,015	-	10,305,015	10,067,621
Unrestricted net position	<u>(96,744,690)</u>	<u>9,627,627</u>	<u>(87,117,063)</u>	<u>(79,076,791)</u>
Total net position	<u>\$ 512,533,319</u>	<u>\$ 14,348,091</u>	<u>\$ 526,881,410</u>	<u>\$ 545,522,774</u>

The following table is a summary of the revenues, expenses, and changes in net position for the Board for the current fiscal year:

**Table 2  
Condensed Statement of Revenues, Expenses and Changes in Position  
For the Fiscal Years Ended June 30, 2017 and 2016**

	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Total Primary Government</u>	
			<u>June 30, 2017</u>	<u>June 30, 2016</u>
Revenues				
<b>Program revenues</b>				
Charges for services	\$ 939,940	\$ 4,749,225	\$ 5,689,165	\$ 5,455,786
Operating grants and contributions	377,646,117	21,449,903	399,096,020	386,169,362
Other revenues	136,194,860	151,138	136,345,998	128,820,384
Total revenues	<u>514,780,917</u>	<u>26,350,266</u>	<u>541,131,183</u>	<u>520,445,532</u>
Expenses				
<b>Governmental activities</b>				
Instructional programs	430,780,966	-	430,780,966	391,152,490
Support services	76,447,940	-	76,447,940	74,074,505
Ancillary services	616,761	-	616,761	628,285
Nonprogrammed charges	6,136,508	-	6,136,508	5,951,561
Interest	5,429	-	5,429	8,030
Depreciation - unallocated	20,168,337	-	20,168,337	19,989,257
<b>Business-type activities</b>				
Food service	-	25,227,486	25,227,486	23,670,334
Day care	-	389,119	389,119	322,515
Total expenses	<u>534,155,941</u>	<u>25,616,605</u>	<u>559,772,546</u>	<u>515,796,977</u>
Change in net position	(19,375,025)	733,661	(18,641,364)	4,648,555
Net position, beginning	<u>531,908,344</u>	<u>13,614,430</u>	<u>545,522,774</u>	<u>540,874,219</u>
Ending net position	<u>\$ 512,533,319</u>	<u>\$ 14,348,091</u>	<u>\$ 526,881,410</u>	<u>\$ 545,522,774</u>

## **Winston-Salem/Forsyth County Board of Education Management's Discussion and Analysis (Continued)**

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### ***Financial Analysis of the Board's Funds***

School district financial reports are difficult to interpret. However, the N.C. Department of Public Instruction implemented a new financial chart of accounts for 2007-08. The new chart better captures total program costs, better categorizes costs as instructional or support, better segregates costs as school-based or central, and generally provides better financial management information for all financial statement users.

The Board is constantly striving to be as efficient as possible in providing supporting services so that the vast majority of its resources are for direct instructional services. Increased local, state, and national accountability for student outcomes require that resources be prioritized and focused. The Board supplements state, local, and federal governmental services appropriations by applying for and winning competitive state, local, and federal instructional grants. The Board also supports an increasing number of state-funded NC Pre-K classrooms for pre-school children to provide prospective students with a better start to their education.

The following financial statements reflect the Board's instructional priorities, its commitment to its mission, and its record of total accountability for the funds entrusted to it. They cannot, however, show the results of those priorities for children. The additional teachers to reduce class size and additional pay for teachers at schools with high percentages of free/reduced lunch-eligible students, the ever-increasing number of National Board for Professional Teaching Standards-certified teachers who are paid additional salary for attaining the additional, measurable teaching skills, the local commitment to provide schools with far more than the state-required funds for staff development - all of these financial commitments are included in the attached statements but would never announce their presence without someone to point them out.

### ***Budget variances***

There were no significant budget variances for 2016-17; however there were two budget violations at the Alternative Programs purpose function level of the General Fund and the Special Populations purpose function level of the Local Special Revenue Fund.

### ***Capital assets***

Because of consistent funding for construction projects, net assets of the Board have been increasing steadily. It must be noted, again, that all of the construction-related debt is in the name of Forsyth County and the state of North Carolina and does not appear on the financial statements of the Board. The Board holds title to all assets reported herein.

The Board is not responsible for, nor does it own, any material amount of infrastructure. Immaterial amounts of infrastructure are capitalized and depreciated (if appropriate) with the associated land and land improvements owned by the Board.

At June 30, 2017, the Board had approximately \$609 million invested in a broad range of capital assets, including land, buildings and improvements, and equipment. This investment represents a decrease of \$7.4 million.

**Winston-Salem/Forsyth County Board of Education  
Management's Discussion and Analysis (Continued)**

The following table is a summary of the capital assets, net of depreciation:

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Land	\$ 20,624,498	\$ 20,624,498	\$ -	\$ -	\$ 20,624,498	\$ 20,624,498
Buildings and improvements	837,146,268	829,876,934	-	-	837,146,268	829,876,934
Equipment, furniture and vehicles	89,789,489	88,395,379	15,052,437	13,890,708	104,841,926	102,286,087
Construction in progress	<u>4,200,192</u>	<u>603,189</u>	<u>-</u>	<u>-</u>	<u>4,200,192</u>	<u>603,189</u>
Total assets	951,760,447	939,500,000	15,052,437	13,890,708	966,812,884	953,440,708
Less accumulated depreciation	<u>(347,464,090)</u>	<u>(327,407,192)</u>	<u>(10,331,973)</u>	<u>(9,600,931)</u>	<u>(357,796,063)</u>	<u>(337,008,123)</u>
	<u>\$ 604,296,357</u>	<u>\$ 612,092,808</u>	<u>\$ 4,720,464</u>	<u>\$ 4,289,777</u>	<u>\$ 609,016,821</u>	<u>\$ 616,382,585</u>

With interest rates so low, in accordance with authorization in state law, the Board has been financing certain instructional equipment and vehicle purchases in the last seven years. Classroom computers and musical instruments have been purchased for immediate use by students with funds budgeted annually to retire the debt. All intended purchases are consolidated and the debt is bid to obtain the lowest financing rate possible, with the term of each debt agreement being three years. The debt is secured by liens on such equipment and vehicles.

The state of North Carolina entered into an installment purchase agreement to replace school buses to which the Board holds title. The total debt under this agreement, and other capital leases, is \$5,323,363.

GASB Statement #45 requires government entities to calculate liabilities for non-pension-related benefits provided to employees who have retired from service. The General Assembly mandates a state health plan for school district employees and retirees, funding the retirees' health benefits through the Teachers' and State Employees' Retirement System. These benefits are not the financial responsibility of the board of education. However, the board of education does provide dental benefits to current employees and certain eligible retirees. In accordance with GASB Statement #45, we have estimated a future liability of \$11.2 million, as of June 30, 2017, to provide those future dental benefits to retirees.

***Requests for Information***

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

Mr. Kerry Crutchfield, Interim Finance Officer  
Winston-Salem/Forsyth County Schools  
P.O. Box 2513  
Winston-Salem, NC 27102

## ***Basic Financial Statements***

**Winston-Salem/Forsyth County Board of Education**  
**Statement of Net Position**  
**June 30, 2017**

**Exhibit 1**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Current assets			
Cash and investments	\$ 33,243,237	\$ 10,956,447	\$ 44,199,684
Receivables	21,245,412	680,694	21,926,106
Internal balances	(24,433)	24,433	-
Inventories	817,037	602,285	1,419,322
Total current assets	<u>55,281,253</u>	<u>12,263,859</u>	<u>67,545,112</u>
Capital assets			
Land and construction in progress	24,824,690	-	24,824,690
Other capital assets, net of accumulated depreciation	<u>579,471,667</u>	<u>4,720,464</u>	<u>584,192,131</u>
Total capital assets, net	<u>604,296,357</u>	<u>4,720,464</u>	<u>609,016,821</u>
 Total assets	 659,577,610	 16,984,323	 676,561,933
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	 <u>124,662,420</u>	 <u>1,670,170</u>	 <u>126,332,590</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable and accrued expenses	24,412,898	990,236	25,403,134
Unearned revenues	6,415,894	244,246	6,660,140
Current portion of long-term obligations	<u>2,491,337</u>	<u>-</u>	<u>2,491,337</u>
Total current liabilities	33,320,129	1,234,482	34,554,611
Noncurrent liabilities			
Compensated absences	29,166,588	461,739	29,628,327
Claims and judgments	400,000	-	400,000
Net pension liability	186,033,163	2,492,387	188,525,550
Non-current portion of long-term obligations	<u>13,994,645</u>	<u>-</u>	<u>13,994,645</u>
Total liabilities	262,914,525	4,188,608	267,103,133
 <b>DEFERRED INFLOWS OF RESOURCES</b>	 <u>8,792,186</u>	 <u>117,794</u>	 <u>8,909,980</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	598,972,994	4,720,464	603,693,458
Restricted for			
Stabilization by State Statute	4,116,544	-	4,116,544
Individual schools	6,188,471	-	6,188,471
Unrestricted	<u>(96,744,690)</u>	<u>9,627,627</u>	<u>(87,117,063)</u>
 Total net position	 <u>\$ 512,533,319</u>	 <u>\$ 14,348,091</u>	 <u>\$ 526,881,410</u>

**Winston-Salem/Forsyth County Board of Education**  
**Statement of Activities**  
**For the Year Ended June 30, 2017**

**Exhibit 2**  
**Page 1 of 2**

	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Government Activities	Business-type Activities	Total
Governmental activities:						
Instructional services:						
Regular instructional	\$ 232,362,842	\$ 255,190	\$ 181,462,557	\$ (50,645,095)	\$ -	\$ (50,645,095)
Special populations	77,823,263	31,497	67,072,297	(10,719,469)	-	(10,719,469)
Alternative programs	40,947,161	176,651	38,322,060	(2,448,450)	-	(2,448,450)
School leadership	27,856,411	-	19,772,295	(8,084,116)	-	(8,084,116)
Co-curricular	17,476,453	-	12,968,306	(4,508,147)	-	(4,508,147)
School-based support	34,314,836	-	24,143,270	(10,171,566)	-	(10,171,566)
System-wide support services:						
Support and development	2,880,605	-	1,471,421	(1,409,184)	-	(1,409,184)
Special population support and development	2,134,890	-	4,891,714	2,756,824	-	2,756,824
Alternative programs and services support and development	1,441,710	-	920,677	(521,033)	-	(521,033)
Technology support	3,609,156	-	373,792	(3,235,364)	-	(3,235,364)
Operational support	57,056,077	476,602	22,210,268	(34,369,207)	-	(34,369,207)
Financial and human resource	4,764,950	-	890,601	(3,874,349)	-	(3,874,349)
Accountability	917,017	-	50,067	(866,950)	-	(866,950)
System-wide pupil support	776,104	-	24,382	(751,722)	-	(751,722)
Policy, leadership and public relations	2,867,431	-	625,395	(2,242,036)	-	(2,242,036)
Ancillary services	616,761	-	179,011	(437,750)	-	(437,750)
Nonprogrammed charges	6,136,508	-	2,268,004	(3,868,504)	-	(3,868,504)
Interest	5,429	-	-	(5,429)	-	(5,429)
Depreciation-unallocated	20,168,337	-	-	(20,168,337)	-	(20,168,337)
Total governmental activities	<u>534,155,941</u>	<u>939,940</u>	<u>377,646,117</u>	<u>(155,569,884)</u>	<u>-</u>	<u>(155,569,884)</u>
Business-type activities:						
Child nutrition	25,227,486	4,405,775	21,449,903	-	628,192	628,192
Day care	389,119	343,450	-	-	(45,669)	(45,669)
Total business-type activities	<u>25,616,605</u>	<u>4,749,225</u>	<u>21,449,903</u>	<u>-</u>	<u>582,523</u>	<u>582,523</u>
Total primary government	<u>\$ 559,772,546</u>	<u>\$ 5,689,165</u>	<u>\$ 399,096,020</u>	<u>(155,569,884)</u>	<u>582,523</u>	<u>(154,987,361)</u>

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

**Winston-Salem/Forsyth County Board of Education**  
**Statement of Activities**  
**For the Year Ended June 30, 2017**

**Exhibit 2**  
**Page 2 of 2**

	Program Revenues		Net (Expenses) Revenues and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Government Activities	Business- type Activities	Total
General revenues:						
Unrestricted state appropriations - capital				1,250,697	-	1,250,697
Unrestricted county appropriations - operating				112,778,008	-	112,778,008
Unrestricted county appropriations - capital				18,159,073	-	18,159,073
Unrestricted investment earnings				-	94,175	94,175
Unrestricted, miscellaneous				4,007,081	56,963	4,064,044
Total general revenues				<u>136,194,859</u>	<u>151,138</u>	<u>136,345,997</u>
Change in net position				(19,375,025)	733,661	(18,641,364)
Net position - beginning				<u>531,908,344</u>	<u>13,614,430</u>	<u>545,522,774</u>
Net position - ending				<u>\$ 512,533,319</u>	<u>\$ 14,348,091</u>	<u>\$ 526,881,410</u>

**Winston-Salem/Forsyth County Board of Education  
Balance Sheet  
Governmental Funds  
June 30, 2017**

**Exhibit 3  
Page 1 of 2**

	Major Funds				Major Funds	Non-major Fund	Total
	General	State Public School	Individual Schools	Capital Outlay	Special Revenue	Other Governmental	Governmental Funds
<b>ASSETS</b>							
Cash and investments	\$ 19,199,474	\$ -	\$ 6,190,759	\$ 2,210,759	\$ 5,642,245	\$ -	\$ 33,243,237
Receivables							
Forsyth County	-	-	-	2,061,837	-	-	2,061,837
State of North Carolina	260,075	14,998,622	-	77,887	479,857	-	15,816,441
Federal and other	438,948	-	-	-	1,013,173	1,915,013	3,367,134
Inventories	817,037	-	-	-	-	-	817,037
Total assets	<u>\$ 20,715,534</u>	<u>\$ 14,998,622</u>	<u>\$ 6,190,759</u>	<u>\$ 4,350,483</u>	<u>\$ 7,135,275</u>	<u>\$ 1,915,013</u>	<u>\$ 55,305,686</u>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>LIABILITIES</b>							
Accounts payable and accrued expenses	\$ 4,387,561	\$ 14,998,622	\$ -	\$ 2,072,003	\$ 1,039,699	\$ 1,915,013	\$ 24,412,898
Due to other funds	22,145	-	2,288	-	-	-	24,433
Unearned revenues	711,853	-	-	295,066	5,408,975	-	6,415,894
Total liabilities	<u>5,121,559</u>	<u>14,998,622</u>	<u>2,288</u>	<u>2,367,069</u>	<u>6,448,674</u>	<u>1,915,013</u>	<u>30,853,225</u>
<b>Fund balances</b>							
Nonspendable							
Inventories	817,037	-	-	-	-	-	817,037
Restricted							
Stabilization by State Statute	1,446,529	-	-	1,983,414	686,601	-	4,116,544
Individual Schools	-	-	6,188,471	-	-	-	6,188,471
Unassigned	13,330,409	-	-	-	-	-	13,330,409
Total fund balances	<u>15,593,975</u>	<u>-</u>	<u>6,188,471</u>	<u>1,983,414</u>	<u>686,601</u>	<u>-</u>	<u>24,452,461</u>
Total liabilities and fund balances	<u>\$ 20,715,534</u>	<u>\$ 14,998,622</u>	<u>\$ 6,190,759</u>	<u>\$ 4,350,483</u>	<u>\$ 7,135,275</u>	<u>\$ 1,915,013</u>	

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

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**RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION**

Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	604,296,357
Deferred outflows of resources related to pensions	124,662,420
Some liabilities, including compensated absences and long-term obligations, are not due and payable in the current period and therefore are not reported in the funds:	
Leases and installment purchase obligations	(16,485,982)
Claims and judgements	(400,000)
Compensated absences	(29,166,588)
Net pension liability	(186,033,163)
Deferred inflows of resources related to pensions	<u>(8,792,186)</u>
Net position of governmental activities	<u>\$ 512,533,319</u>

**Winston-Salem/Forsyth County Board of Education**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2017**

**Exhibit 4**  
**Page 1 of 3**

	Major Funds					Non-major	Total
	General	State Public School	Individual Schools	Capital Outlay	Special Revenue	Fund Other Governmental	Governmental Funds
Revenues							
Forsyth County	\$ 112,778,008	\$ -	\$ -	\$ 18,159,073	\$ -	\$ -	\$ 130,937,081
State of North Carolina	-	312,304,161	-	1,250,697	1,452,292	-	315,007,150
Federal	-	-	-	-	1,480,042	39,220,196	40,700,238
Other	2,055,358	-	12,962,947	573,278	12,544,864	-	28,136,447
Total revenues	<u>114,833,366</u>	<u>312,304,161</u>	<u>12,962,947</u>	<u>19,983,048</u>	<u>15,477,198</u>	<u>39,220,196</u>	<u>514,780,916</u>
Expenditures							
Current							
Instructional services:							
Regular instructional	37,897,593	176,366,893	-	-	2,384,645	2,056,353	218,705,484
Special populations	6,240,057	53,116,180	-	-	3,160,628	13,897,764	76,414,629
Alternative programs	1,820,241	16,118,020	-	-	3,308,528	19,068,157	40,314,946
School leadership	7,372,338	19,677,380	-	-	90,543	4,373	27,144,634
Co-curricular	3,950,433	-	12,933,670	-	462,203	-	17,346,306
School-based support	9,629,472	20,966,693	-	-	1,354,622	1,833,293	33,784,080
System-wide support services:							
Support and development	1,356,696	1,338,502	-	-	100	132,819	2,828,117
Special population support and development	649,999	781,198	-	-	-	641,603	2,072,800
Alternative programs and support services and development	431,615	26,593	-	-	52,333	894,084	1,404,625
Technology support	2,964,461	373,792	-	-	-	-	3,338,253
Operational support	28,408,731	21,987,504	-	-	3,946,140	30,443	54,372,818
Financial and human resource	3,804,384	881,545	-	-	2,717	-	4,688,646
Accountability	845,983	-	-	-	56,381	-	902,364
System-wide pupil support	749,094	-	-	-	13,713	-	762,807
Policy, leadership and public relations	2,194,726	606,179	-	-	19,216	-	2,820,121
Ancillary services	433,974	63,682	-	-	115,329	-	612,985
Nonprogrammed charges	5,464,158	-	-	-	11,043	661,307	6,136,508
Capital outlay							
Real property and buildings	-	-	-	13,784,471	-	-	13,784,471
Furniture and equipment	-	-	-	3,054,284	-	-	3,054,284
Buses and motor vehicles	-	-	-	6,894,225	-	-	6,894,225
Debt service							
Interest	-	-	-	-	5,429	-	5,429
Principal	-	-	-	2,707,099	93,368	-	2,800,467
Total expenditures	<u>114,213,955</u>	<u>312,304,161</u>	<u>12,933,670</u>	<u>26,440,079</u>	<u>15,076,938</u>	<u>39,220,196</u>	<u>520,188,999</u>

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

**Winston-Salem/Forsyth County Board of Education**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2017**

**Exhibit 4**  
**Page 2 of 3**

	Major Funds				Major Funds	Non-major Fund	Total Governmental Funds
	General	State Public School	Individual Schools	Capital Outlay	Special Revenue	Other Governmental	
Revenues over (under) expenditures	619,411	-	29,277	(6,457,031)	400,260	-	(5,408,083)
Other financing sources							
Capital lease obligations issued	-	-	-	6,273,190	-	-	6,273,190
Total other financing sources	-	-	-	6,273,190	-	-	6,273,190
Net change in fund balance	619,411	-	29,277	(183,841)	400,260	-	865,107
Fund balances							
Beginning of year	14,942,353	-	6,159,194	2,167,255	286,341	-	23,555,143
Increase in reserve for inventories	32,211	-	-	-	-	-	32,211
End of year	<u>\$ 15,593,975</u>	<u>\$ -</u>	<u>\$ 6,188,471</u>	<u>\$ 1,983,414</u>	<u>\$ 686,601</u>	<u>\$ -</u>	<u>\$ 24,452,461</u>

**Winston-Salem/Forsyth County Board of Education**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2017**

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

Amounts reported for governmental activities in the Statement of Activities are different because	
Net change in fund balances - total governmental funds	\$ 865,107
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 as annual depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(7,412,674)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(3,472,723)
Increase in net OPEB obligation	(336,244)
Increase in reserve for inventories	32,211
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	28,915,228
Proceeds from disposal of capital assets	(60,282)
Loss on disposal of capital assets	(323,493)
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.	
Compensated absences	(1,073,731)
Pension expense	(36,508,424)
Total changes in net position of governmental activities	<u>\$ (19,375,025)</u>

**Winston-Salem/Forsyth County Board of Education**  
**Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**General and State Public School**  
**For the Year Ended June 30, 2017**

	General Fund				State Public School Fund			
	Budgeted Amounts		Actual Amounts	Variance With Final Budget Favorable (Unfavorable)	Budgeted Amounts		Actual Amounts	Variance With Final Budget Favorable (Unfavorable)
	Original	Final			Original	Final		
Revenues								
Forsyth County	\$ 112,778,008	\$ 112,778,008	\$ 112,778,008	\$ -	\$ -	\$ -	\$ -	\$ -
State of North Carolina	-	-	-	-	301,506,934	322,078,043	312,304,161	(9,773,882)
U.S. Government	-	-	-	-	-	-	-	-
Other	1,885,000	2,025,743	2,055,358	29,615	-	-	-	-
Total revenues	<u>114,663,008</u>	<u>114,803,751</u>	<u>114,833,366</u>	<u>29,615</u>	<u>301,506,934</u>	<u>322,078,043</u>	<u>312,304,161</u>	<u>(9,773,882)</u>
Expenditures and encumbrances								
Instructional services:								
Regular instructional	37,359,985	37,882,340	37,807,127	75,213	172,160,856	181,494,726	176,366,893	5,127,833
Special populations	5,261,219	6,310,079	6,239,375	70,704	48,866,515	54,067,525	53,116,180	951,345
Alternative programs	1,644,987	1,644,987	1,820,144	(175,157)	15,837,761	18,533,126	16,118,020	2,415,106
School leadership	7,584,549	7,417,140	7,372,338	44,802	19,427,657	19,840,454	19,677,380	163,074
Co-curricular	3,888,462	3,900,144	3,856,557	43,587	-	-	-	-
School-based support	11,684,481	9,691,308	9,625,691	65,617	19,188,148	21,699,522	20,966,693	732,829
Total instructional services	<u>67,423,683</u>	<u>66,845,998</u>	<u>66,721,232</u>	<u>124,766</u>	<u>275,480,937</u>	<u>295,635,353</u>	<u>286,245,166</u>	<u>9,390,187</u>

**Winston-Salem/Forsyth County Board of Education  
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual  
General and State Public School  
For the Year Ended June 30, 2017**

	General Fund				State Public School Fund			
	Budgeted Amounts		Actual Amounts	Variance With Final Budget Favorable (Unfavorable)	Budgeted Amounts		Actual Amounts	Variance With Final Budget Favorable (Unfavorable)
	Original	Final			Original	Final		
System-wide support services:								
Support and development	1,198,164	1,434,449	1,356,850	77,599	1,184,674	1,380,123	1,338,502	41,621
Special population support and development	697,407	699,407	649,423	49,984	645,090	790,840	781,198	9,642
Alternative programs and services support and development	400,457	437,457	431,615	5,842	25,000	81,995	26,593	55,402
Technology support	2,970,442	2,988,442	2,964,461	23,981	-	373,800	373,792	8
Operational support	27,892,505	28,729,448	28,473,994	255,454	22,553,783	22,167,432	21,987,504	179,928
Financial and human resource	4,269,798	3,812,916	3,804,743	8,173	870,370	899,220	881,545	17,675
Accountability	758,693	825,693	819,351	6,342	-	-	-	-
System-wide pupil support	769,207	777,410	749,432	27,978	12,500	12,500	-	12,500
Policy, leadership and public relations	2,448,776	2,414,155	2,195,122	219,033	659,580	661,380	606,179	55,201
Total system-wide support services	41,405,449	42,119,377	41,444,991	674,386	25,950,997	26,367,290	25,995,313	371,977
Ancillary services	433,876	438,376	433,974	4,402	75,000	75,400	63,682	11,718
Nonprogrammed charges	5,400,000	5,400,000	5,464,158	(64,158)	-	-	-	-
Total expenditures and encumbrances	114,663,008	114,803,751	114,064,355	739,396	301,506,934	322,078,043	312,304,161	9,773,882

**Winston-Salem/Forsyth County Board of Education**  
**Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**General and State Public School**  
**For the Year Ended June 30, 2017**

	General Fund				State Public School Fund			
	Budgeted Amounts		Actual Amounts	Variance With Final Budget Favorable (Unfavorable)	Budgeted Amounts		Actual Amounts	Variance With Final Budget Favorable (Unfavorable)
	Original	Final			Original	Final		
Revenues over expenditures	-	-	769,011	769,011	-	-	-	-
Appropriated fund balance	-	-	-	-	-	-	-	-
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	769,011	<u>\$ 769,011</u>	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Fund balance								
Beginning of year			14,942,353				-	
Increase in reserve for inventories			32,211				-	
Decrease in reserve for encumbrances			<u>(149,600)</u>				-	
End of year			<u>\$ 15,593,975</u>				<u>\$ -</u>	

**Winston-Salem/Forsyth County Board of Education**  
**Statement of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget and Actual Special Revenue**  
**For the Year Ended June 30, 2017**

**Exhibit 5**  
**Page 4 of 5**

	<b>Special Revenue Fund</b>			<b>Variance With Final Budget Favorable (Unfavorable)</b>
	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	
	<b>Original</b>	<b>Final</b>		
Revenues				
Forsyth County	\$ -	\$ -	\$ -	\$ -
State of North Carolina	-	1,807,135	1,452,292	(354,843)
U.S. Government	3,816,221	1,778,301	1,480,042	(298,259)
Other	4,702,300	13,649,679	12,544,864	(1,104,815)
Total revenues	<u>8,518,521</u>	<u>17,235,115</u>	<u>15,477,198</u>	<u>(1,757,917)</u>
Expenditures and encumbrances				
Instructional services:				
Regular instructional	1,599,741	3,242,763	2,512,739	730,024
Special populations	2,510,698	2,649,069	3,212,383	(563,314)
Alternative programs	-	4,369,749	3,315,269	1,054,480
School leadership	-	103,736	90,543	13,193
Co-curricular	440,000	470,671	462,203	8,468
School-based support	13,000	1,557,231	1,363,021	194,210
Total instructional services	<u>4,563,439</u>	<u>12,393,219</u>	<u>10,956,158</u>	<u>1,437,061</u>
System-wide support services:				
Support and development	-	3,200	100	3,100
Special population support and development	52,422	-	-	-
Alternative programs and services support and development	-	52,422	52,333	89
Operational support	3,902,660	4,307,353	4,140,069	167,284
Financial and human resource	-	66,359	2,717	63,642
Accountability	-	72,784	56,381	16,403
System-wide pupil support	-	64,104	24,674	39,430
Policy, leadership and public relations	-	26,300	19,216	7,084
Total system-wide support services	<u>3,955,082</u>	<u>4,592,522</u>	<u>4,295,490</u>	<u>297,032</u>
Ancillary services	<u>-</u>	<u>129,305</u>	<u>115,329</u>	<u>13,976</u>
Nonprogrammed charges	<u>-</u>	<u>120,069</u>	<u>11,043</u>	<u>109,026</u>
Debt service				
Interest	-	5,429	5,429	-
Principal	-	93,368	93,368	-
Total debt service	<u>-</u>	<u>98,797</u>	<u>98,797</u>	<u>-</u>
Total expenditures and encumbrances	<u>8,518,521</u>	<u>17,333,912</u>	<u>15,476,817</u>	<u>1,857,095</u>

**Winston-Salem/Forsyth County Board of Education**  
**Statement of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget and Actual Special Revenue**  
**For the Year Ended June 30, 2017**

**Exhibit 5**  
**Page 5 of 5**

	<u>Special Revenue Fund</u>			<b>Variance With Final Budget Favorable (Unfavorable)</b>
	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	
	<u>Original</u>	<u>Final</u>		
Revenues over expenditures	-	-	381	381
Appropriated fund balance	-	-	-	-
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	381	<u>\$ 381</u>
Fund balance				
Beginning of year			286,341	
Increase in reserve for encumbrances			<u>399,879</u>	
End of year			<u>\$ 686,601</u>	

**Winston-Salem/Forsyth County Board of Education**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2017**

**Exhibit 6**

	<b>Enterprise Funds</b>		
	<b>Major Fund</b>	<b>Non-major Fund</b>	<b>Total</b>
	<b>Child Nutrition</b>	<b>Day Care</b>	
<b>ASSETS</b>			
Current assets			
Cash and investments	\$ 10,904,079	\$ 52,368	\$ 10,956,447
Receivables, net	680,694	-	680,694
Due from other funds	970	23,463	24,433
Inventories	602,285	-	602,285
Total current assets	<u>12,188,028</u>	<u>75,831</u>	<u>12,263,859</u>
Capital assets, net	<u>4,720,464</u>	<u>-</u>	<u>4,720,464</u>
Total assets	<u>16,908,492</u>	<u>75,831</u>	<u>16,984,323</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>1,554,403</u>	<u>115,767</u>	<u>1,670,170</u>
<b>LIABILITIES AND NET POSITION</b>			
Current liabilities			
Accounts payable and accrued expenses	988,778	1,458	990,236
Unearned revenues	244,246	-	244,246
Total current liabilities	<u>1,233,024</u>	<u>1,458</u>	<u>1,234,482</u>
Noncurrent liabilities			
Compensated absences payable	440,564	21,175	461,739
Net pension liability	2,319,628	172,759	2,492,387
Total noncurrent liabilities	<u>2,760,192</u>	<u>193,934</u>	<u>2,954,126</u>
Total liabilities	<u>3,993,216</u>	<u>195,392</u>	<u>4,188,608</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>109,629</u>	<u>8,165</u>	<u>117,794</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	4,720,464	-	4,720,464
Unrestricted (deficit)	9,639,586	(11,959)	9,627,627
Total net position	<u>\$ 14,360,050</u>	<u>\$ (11,959)</u>	<u>\$ 14,348,091</u>

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

**Exhibit 7**

	<b>Enterprise Funds</b>		
	<b>Major Fund</b>	<b>Non-major Fund</b>	<b>Total</b>
	<b>Child Nutrition</b>	<b>Day Care</b>	
Operating revenues			
Food sales	\$ 4,405,775	\$ -	\$ 4,405,775
Child care fees	-	343,450	343,450
Total operating revenues	<u>4,405,775</u>	<u>343,450</u>	<u>4,749,225</u>
Operating expenses			
Food cost	9,152,600	-	9,152,600
Salaries and benefits	9,823,495	389,119	10,212,614
Materials and supplies	1,462,473	-	1,462,473
Equipment maintenance	101,457	-	101,457
Utilities and telephone	12,443	-	12,443
Contracted services	2,986,514	-	2,986,514
Indirect costs	871,748	-	871,748
Depreciation	816,756	-	816,756
Total operating expenses	<u>25,227,486</u>	<u>389,119</u>	<u>25,616,605</u>
Operating loss	<u>(20,821,711)</u>	<u>(45,669)</u>	<u>(20,867,380)</u>
Nonoperating revenues			
Federal reimbursements	19,903,818	-	19,903,818
Federal commodities	1,546,085	-	1,546,085
Interest earned on investments	94,175	-	94,175
Miscellaneous revenues	56,963	-	56,963
Total nonoperating revenues	<u>21,601,041</u>	<u>-</u>	<u>21,601,041</u>
Change in net position	<u>779,330</u>	<u>(45,669)</u>	<u>733,661</u>
Net position			
Beginning of year	<u>13,580,720</u>	<u>33,710</u>	<u>13,614,430</u>
End of year	<u>\$ 14,360,050</u>	<u>\$ (11,959)</u>	<u>\$ 14,348,091</u>

**Winston-Salem/Forsyth County Board of Education**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2017**

	<b>Enterprise Funds</b>		
	<b>Major Fund</b>	<b>Non-major Fund</b>	<b>Total</b>
	<b>Child Nutrition</b>	<b>Day Care</b>	
Cash flows from operating activities			
Cash received from customers	\$ 4,477,885	\$ 353,664	\$ 4,831,549
Cash received (paid) for goods and services	(13,023,002)	96	(13,022,906)
Cash paid to employees for services	(9,727,226)	(376,540)	(10,103,766)
Net cash used by operating activities	<u>(18,272,343)</u>	<u>(22,780)</u>	<u>(18,295,123)</u>
Cash flows from noncapital financing activities			
Federal reimbursements	19,991,490	-	19,991,490
Miscellaneous revenues	56,963	-	56,963
Net cash provided by noncapital financing activities	<u>20,048,453</u>	<u>-</u>	<u>20,048,453</u>
Cash flows from capital and related financing activities			
Acquisition of capital assets	(1,259,213)	-	(1,259,213)
Payment of long-term obligation borrowings	(174,858)	-	(174,858)
Net cash used by capital and related financing activities	<u>(1,434,071)</u>	<u>-</u>	<u>(1,434,071)</u>
Cash flows from investing activities			
Interest on investments	94,175	-	94,175
Net increase (decrease) in cash and investments	436,214	(22,780)	413,434
Cash and investments			
Beginning of year	<u>10,467,865</u>	<u>75,148</u>	<u>10,543,013</u>
End of year	<u>\$ 10,904,079</u>	<u>\$ 52,368</u>	<u>\$ 10,956,447</u>

**Winston-Salem/Forsyth County Board of Education**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2017**

**Exhibit 8**  
**Page 2 of 2**

	<b>Enterprise Funds</b>		
	<b>Major Fund</b>	<b>Non-major Fund</b>	<b>Total</b>
	<b>Child Nutrition</b>	<b>Day Care</b>	
Reconciliation of operating loss to net cash provided (used) by operating activities			
Operating profit (loss)	<u>(20,821,711)</u>	<u>(45,669)</u>	<u>(20,867,380)</u>
Adjustments to reconcile operating loss to net cash used by operating activities:			
Depreciation	816,756	-	816,756
Donated commodities consumed	1,546,085	-	1,546,085
(Increase) decrease in:			
Due from other funds	57,370	10,214	67,584
Inventories	54,652	-	54,652
Deferred outflows	(1,211,138)	(92,767)	(1,303,905)
Increase (decrease) in:			
Accounts payable and accrued expenses	(48,274)	96	(48,178)
Due to other funds	2,649	-	2,649
Deferred inflows	(95,564)	(5,584)	(101,148)
Unearned revenues	12,091	-	12,091
Compensated absences payable	7,463	91	7,554
Net pension liability	1,395,508	110,839	1,506,347
Total adjustments	<u>2,549,368</u>	<u>22,889</u>	<u>2,572,257</u>
Net cash provided (used) by operating activities	<u>\$ (18,272,343)</u>	<u>\$ (22,780)</u>	<u>\$ (18,295,123)</u>

**Noncash investing, capital and financing activities**

The School Food Service Fund received donated commodities with a value of \$1,546,085 during the fiscal year. The receipt of the commodities is recognized as a nonoperating revenue on Exhibit 7.

## **Notes to Financial Statements**

### **1. Summary of Significant Accounting Policies**

The accounting policies of the Winston-Salem/Forsyth 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 Winston-Salem/Forsyth 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 Forsyth County, North Carolina. The Board receives State, local and federal government funding and must adhere to the legal requirements of each funding entity.

#### **B. Basis of Presentation**

**Government-wide Statements.** The Statement of Net Position and the Statement of Activities display information about the Board. These statements include the financial activities of the overall government. 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. The effects of interfund activity have been eliminated from the government-wide statements.

**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 of which is 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. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

**Winston-Salem/Forsyth County Board of Education  
Notes to Financial Statements**

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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.

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

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

*Special Revenue Fund.* The Special Revenue Fund includes grants, reimbursements, and other special revenues that are not accounted for in the General Fund.

The Board reports the following major enterprise fund:

*Child Nutrition Fund.* The Child Nutrition Fund is used to account for the food service program within the school system.

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

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

**Governmental Fund Financial Statements.** Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Board considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. These could include federal, state and county grants, and some charges for services. Expenditures are recorded when the related fund liability is incurred, except for claims and judgments and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Acquisitions under capital leases are reported as other financing sources.

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

**Winston-Salem/Forsyth County Board of Education  
Notes to Financial Statements**

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***D. Budgetary Data***

The Board's budgets are adopted as required by the North Carolina General Statutes. Annual budgets are adopted for all funds, except for the Individual Schools Special Revenue Funds, as required by the North Carolina General Statutes. 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 Board has authorized the Superintendent to move moneys (up to \$5,000) from one function to another within a fund. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$5,000. All amendments must be approved by the governing board. Amendments, which alter the county appropriation or transfer moneys to or from the capital projects fund, also require the approval of the Forsyth County Board of Commissioners. During the year, several amendments to the original budget were necessary. A budget calendar is included in North Carolina General Statutes, which prescribes the last day on which certain steps of the budget procedure are to be performed. The following schedule lists the tasks to be performed and the date each is required to be completed.

- May 1        The Superintendent must submit the budget request along with a copy of the budget message to the Board of Education not later than May 1 [G.S. 115C-427].
- May 15      The Board of Education should make changes, if necessary, to the budget request as submitted by the superintendent and forward an approved budget request to the Board of County Commissioners not later than May 15, unless the County Commissioners have established a later date [G.S. 115C-429(a)].
- July 1       The Board of County Commissioners must complete its actions on the Board of Education's school budget not later than July 1, unless a later date is agreed upon between the Board of Education and the County Commissioners [G.S. 115C-429(b)].
- July         The Board of Education must adopt its balanced budget resolution after the Board of County Commissioners has decided upon the amount of appropriations to be provided by the county or after the appeal procedures [G.S. 115C-431].

As required by state law, the Board maintains encumbrance accounts, which are considered to be "budgetary accounts." Encumbrances outstanding at year-end represent the estimated amounts of the expenditures ultimately to result if unperformed contracts in progress at year-end are completed. Encumbrances outstanding at year-end do not constitute expenditures of liabilities. These encumbrances outstanding are reported as "reserved for encumbrances" in the fund balance section of the balance sheet and will be charged against the subsequent year's budget.

***E. Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***F. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Fund Equity***

**1. Deposits and Investments**

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

**Winston-Salem/Forsyth County Board of Education**  
**Notes to Financial Statements**

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

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

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

**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 using the first-in, first-out ("FIFO") flow assumption in determining cost. The inventories of the Board's general fund consist of expendable materials and supplies, which are recorded as expenditures when purchased. The General Fund inventories do not reflect current appropriable resources, thus, an equivalent portion of fund balance is reserved.

Proprietary Fund inventories consist of food and supplies and are recorded as expenses when consumed.

**4. Capital Assets**

Donated assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation or forfeiture. Donated capital assets received after June 15, 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, 1970 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 \$1,000 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.

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

	<u>Years</u>
Land improvements	20
Buildings	50
Equipment and furniture	10
Vehicles	6

**Winston-Salem/Forsyth County Board of Education**  
**Notes to Financial Statements**

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

**5. Deferred Outflows and Inflows of Resources**

In addition to 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 two items that meet this criterion – a pension related deferral and contributions made to the pension plan subsequent to the measurement date. The statement of financial position also reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Board has several items that meet this criterion – pension related deferrals.

**6. Long-term Obligations**

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

**7. Compensated Absences**

The Board follows the state’s policy for vacation and sick leave. Employees may accumulate up to thirty (30) days earned vacation leave and up to 10 days of bonus leave with such leave being fully vested when earned. For the Board, the current portion of the accumulated vacation pay is not considered to be material. The Board’s liability for accumulated earned vacation and the salary-related payments as of June 30, 2017 is recorded in the government-wide and proprietary fund financial statements on a FIFO basis. An estimate of the current portion of compensated absences based on prior years’ records has been made.

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

**8. Net Position / Fund Balances**

**Net Position**

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

**Fund Balance**

In the governmental fund financial statements, fund balance is composed of four classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent. The government fund types classify fund balances as follows:

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

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

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

**Winston-Salem/Forsyth County Board of Education**  
**Notes to Financial Statements**

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

Restricted for Capital Outlay - portion of fund balance that can only be used for School Capital Outlay [G.S. 159-18 through 22].

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

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

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

**G. Reconciliation of Government-wide and Fund Financial Statements**

Explanation of certain differences between the governmental fund balance sheet and the government-wide Statement of Net Position.

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide Statement of Net Position. The net adjustment of \$488,080,858 consists of the following elements:

<u>Description</u>	<u>Amount</u>
Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column)	\$ 951,760,447
Less accumulated depreciation	<u>(347,464,090)</u>
Net capital assets	604,296,357
Pension related deferred outflows of resources	
Differences between contributions and proportional share of contributions and changes in proportion	1,966,431
Contributions made to the pension plan subsequent to the measurement date	28,915,229
Changes of assumptions	27,435,370
Difference between projected and actual earnings on plan investments	66,345,390
Liabilities that are not due and payable in the current period, and therefore do not require current resources to pay, are not recorded in the funds (long-term liabilities on government-wide statements in governmental activities column)	(46,052,570)
Net pension liability	(186,033,163)

**Winston-Salem/Forsyth County Board of Education**  
**Notes to Financial Statements**

Deferred inflows of resources related to pensions	
Differences between expected and actual experience	<u>(8,792,186)</u>
Net adjustment	<u>\$ 488,080,858</u>

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 balance includes a reconciliation between net changes in fund balances - total governmental funds and changes in net position - governmental activities as reported in the government-wide statement of activities. The net adjustment of \$(20,240,132) consists of the following elements:

<u>Description</u>	<u>Amount</u>
Capital outlay expenditures recorded in the fund statements but capitalized as assets in the government-wide statements	\$ 17,971,265
Depreciation expense, the allocation of those assets over their useful lives, is recorded on the Statement of Activities but not in the fund statements	(25,383,939)
Proceeds from disposal of capital assets	(60,282)
Loss on disposal of capital assets	(323,493)
New debt issued during the year is recorded as a source of funds on the fund statements; it has no effect on the Statement of Activities – it affects only the government-wide Statement of Net Position	(6,273,190)
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	2,800,467
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	28,915,228
Revenues reported in the Statement of Activities that do not provide current resources are not recorded as revenues in the fund statements	
Adjustment due to the use of consumption method of recording inventory in the government-wide statements	32,211
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	(36,508,424)
Compensated absences, claims and judgments and OPEB obligations are reported in the government-wide statements but not in the fund statements because they do not use current resources	<u>(1,409,975)</u>
Net adjustment	<u>\$ (20,240,132)</u>

**Winston-Salem/Forsyth County Board of Education  
Notes to Financial Statements**

**2. Stewardship, Compliance, and Accountability**

**A. Excess of Expenditures over Appropriations**

During the fiscal year ended June 30, 2017, the Board reported expenditures in excess of the final amended budget of the General Fund in the amount of \$175,157 at the purpose function level for Alternative Programs. Additionally, the Board reported expenditures in excess of the final amended budget of the Special Revenue Fund in the amount of \$563,314 at the purpose function level for Special Populations. These amounts were not anticipated in the final budget amendment.

**B. Deficit in Fund Balance or Net Position of Individual Funds**

At June 30, 2017, the Day Care Fund had a deficit of \$11,959 in fund balance. The Board will continue to monitor this deficit and will adjust expenditures accordingly in subsequent years to build back fund balance.

**3. Notes On All Funds**

**A. Assets**

(1) Deposits

All of the Board's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the Board's agents in the unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Board, these deposits are considered to be held by the agent in the entity's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report 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, 2017, the Board had deposits with financial institutions with a carrying amount of \$4,495,393. The bank balances with the financial institutions and the State Treasurer were \$8,337,421 and \$1,848,251, respectively. Of these balances, \$1,691,527 was covered by federal depository insurance and \$8,494,145 was covered by collateral held by authorized escrow agents in the name of the State Treasurer.

(2) Investments

The following is a summary of the Board's investments at June 30, 2017:

<u>Investment Type</u>	<u>Valuation Measurement Method</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Rating</u>
Commercial Paper	Fair Value - Level 1	\$ 3,591,793	30-90 days	Various
Short Term Investment Fund (STIF)	Fair Value - Level 2	<u>36,112,498</u>	Duration of 1.5 years	Unrated
Total		<u>\$ 39,704,291</u>		

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All investments are measured using the market approach. Investments classified as Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Investments classified in Level 2 of the fair value hierarchy are valued using prices that are either directly or indirectly observable for an asset or liability.

Interest Rate Risk. The Board of Education does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Department of State Treasurer Short Term Investment Fund (STIF) had a weighted average maturity of 1.5 years as of June 30, 2017.

Credit Risk. The Board's investments in Commercial Paper were rated AAA by Standard and Poor's and AAA by Moody's Investors Service. The STIF is unrated and is authorized under NC General Statute 147-69.1. The State Treasurer's STIF is invested in highly liquid fixed income securities consisting primarily of short to intermediate treasuries and agencies, and money market instruments. The Board has no policy on credit risk.

**(3) Accounts Receivable**

The following is a summary of receivables at the government-wide level at June 30, 2017:

	<u>Due from (to) Other Funds (Internal Balances)</u>	<u>Due from Other Governments</u>
Governmental activities		
General Fund	\$ (22,145)	\$ 699,023
Other governmental activities	<u>(2,288)</u>	<u>20,546,389</u>
Total	<u>\$ (24,433)</u>	<u>\$ 21,245,412</u>
Business-type activities		
Child Nutrition Fund	\$ 970	\$ 680,694
Other business-type activities	<u>23,463</u>	<u>-</u>
Total	<u>\$ 24,433</u>	<u>\$ 680,694</u>

Due from other governments consists of the following:

Governmental activities		
General Fund	\$ 260,075	Sales tax revenue from North Carolina
General Fund	438,948	Miscellaneous revenues
State Public School Fund	14,998,622	Operating funds from DPI
Capital Outlay Fund	77,887	Sales tax revenue and grants from North Carolina
Capital Outlay Fund	2,061,837	Capital projects revenue from Forsyth County
Federal Grants Fund	1,915,013	Federal grant funds
Special Revenue Fund	<u>1,493,030</u>	Miscellaneous revenues
Total	<u>\$ 21,245,412</u>	
Business activities		
Child Nutrition Fund	<u>\$ 680,694</u>	Federal grant funds

**Winston-Salem/Forsyth County Board of Education**  
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(4) Inventories

The General Fund inventories consist of supplies and bus parts of \$817,037, which are offset by fund balance reserves and do not reflect current appropriable resources.

Proprietary fund inventories consist of \$602,285 of food and supplies inventories used for the Board's school food service program.

(5) Capital Assets

The following is a summary of capital asset activity for the year ended June 30, 2017:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 20,624,498	\$ -	\$ -	\$20,624,498
Construction in progress	<u>603,189</u>	<u>10,916,165</u>	<u>7,319,162</u>	<u>4,200,192</u>
Total capital assets not being depreciated	<u>21,227,687</u>	<u>\$ 10,916,165</u>	<u>\$ 7,319,162</u>	<u>24,824,690</u>
Capital assets being depreciated				
Buildings and land improvements	829,876,934	\$ 7,319,162	\$ 49,828	837,146,268
Equipment, furniture and vehicles	<u>88,395,379</u>	<u>7,055,098</u>	<u>5,660,988</u>	<u>89,789,489</u>
Total capital assets being depreciated	<u>918,272,313</u>	<u>\$ 14,374,260</u>	<u>\$ 5,710,816</u>	<u>926,935,757</u>
Less accumulated depreciation	<u>327,407,192</u>	<u>\$ 25,383,939</u>	<u>\$ 5,327,041</u>	<u>347,464,090</u>
Total capital assets being depreciated, net	<u>590,865,121</u>			<u>579,471,667</u>
Governmental activity capital assets, net	<u>\$ 612,092,808</u>			<u>\$604,296,357</u>
Business-type activities				
Child nutrition fund				
Capital assets being depreciated				
Furniture, equipment and vehicles	\$ 13,890,708	<u>\$ 1,259,213</u>	<u>\$ 97,484</u>	\$15,052,437
Less accumulated depreciation for				
Furniture, equipment and vehicles	<u>9,600,931</u>	<u>\$ 816,753</u>	<u>\$ 85,711</u>	<u>10,331,973</u>
Business-type activity capital assets, net	<u>\$ 4,289,777</u>			<u>\$ 4,720,464</u>

The Board has entered into several planned construction projects for school construction and improvements as of June 30, 2017. These projects, amounting to \$8,586,345, are evidenced by contractual commitments with various contractors. Of the total commitments, \$4,200,192 has been spent to date. The projects are commitments of the capital projects fund which will be funded from the proceeds of a county-issued installment purchase and from state-issued school bonds.

Depreciation was charged to governmental functions as follows:

Unallocated depreciation	\$ 20,168,326
Regular instructional	2,919,465
Co-curricular service	195,682
Technology support	98,797
Operation support	<u>2,001,670</u>
Total	<u>\$ 25,383,939</u>

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**B. Liabilities**

(1) Pension Plan and Other Postemployment Obligations

(a) **Teachers' and State Employees' Retirement System**

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

*Benefits Provided.* TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service (or 10 years of creditable service for members joining TSERS on or after August 1, 2011), 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 (or 10 years of creditable service for members joining TSERS on or after August 1, 2011). 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 (10 years for members joining on or after August 1, 2011). 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 10 years of creditable service for members joining TSERS on or after August 1, 2011), or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

*Contributions.* Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Board employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the TSERS Board of Trustees. The Board's contractually required contribution rate for the year ended June 30, 2017, was 9.98% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Board were \$29,302,621 for the year ended June 30, 2017.

*Refunds of Contributions.* Board employees who have terminated service as a contributing member of TSERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years

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of service include 4% interest. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by TSERS.

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

At June 30, 2017, the Board reported a liability of \$188,525,550 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 utilizing updated 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, 2016 and at June 30, 2015, the Board's proportion was 2.0%.

For the year ended June 30, 2017, the Board recognized pension expense of \$36,908,289. At June 30, 2017, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in proportion and differences between Board contributions and proportionate share of contributions	\$ 1,992,776	\$ -
Board contributions subsequent to the measurement date	29,302,622	-
Differences between expected and actual experience	-	8,909,980
Changes of assumptions	27,802,937	-
Net difference between projected and actual earnings on plan investments	<u>67,234,255</u>	<u>-</u>
Totals	<u>\$ 126,332,590</u>	<u>\$ 8,909,980</u>

\$29,302,622 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, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year Ended June 30:**

2018	\$ 15,119,314
2019	15,370,962
2020	36,986,791
2021	20,642,890

*Actuarial Assumptions.* The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

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

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

<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%
Totals	<u>100.0%</u>	

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

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

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

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	<u>1% Decrease (6.25%)</u>	<u>Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
Board's proportionate share of the net pension liability (asset)	\$ 354,580,129	\$ 188,525,550	\$ 48,896,411

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

**(b) Other Postemployment Healthcare Benefits**

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

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

*Funding Policy.* The Comprehensive Major Medical Plan is administered by the Executive Administrator and Board of Trustees of the Plan, which establishes premium rates except as may be established by the General Assembly in an appropriation act. The healthcare benefits for retired and disabled employees are the same as for active employees, except that the coverage becomes secondary when former employees become eligible for Medicare. For employees first hired on and after October 1, 2006, future coverage as retired employees is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on and after October 1, 2006 with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis. For such future retirees, the state will pay 50% of the State Health Plan's total noncontributory premium. For employees hire before October 1, 2006, healthcare benefits are provided to retirees (at no charge to the retirees) who have at least five years of contributing retirement membership prior to disability or retirement. In addition, person who became surviving spouses of retirees prior to October 1, 1986, receive the same coverage as retirees at the State's expense.

Contributions are determined as a percentage of covered monthly payroll. Annually, the monthly contribution rates to the Plan, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill. For the fiscal years ended June 30, 2017, 2016 and 2015, the School Board paid all annual required contributions to the Plan for postemployment healthcare benefits of \$17,058,941, \$15,751,720 and \$15,339,133, respectively. These contributions represented 5.81%, 5.60% and 5.49%, of covered payroll, respectively.

*Long-Term Disability Benefits*

*Plan Description.* Short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan. The DIPNC is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System. Long-term disability benefits are payable as an other postemployment benefit from DIPNC after the conclusion of the short-term disability period or

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after salary continuation payments cease, whichever is later, for as long as an employee is disabled. Benefit and contribution provision are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan accumulates contributions from employees and any earnings on those contributions in the Disability Income Plan Trust Fund. The Plan does not provide for automatic post-retirement benefit increases.

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

*Funding Policy.* An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five or more years of contributing membership service in the Teachers' and State Employees' Retirement System of North Carolina, earned within 96 months prior to the end of the short-term disability period or cessation of salary continuation payments, whichever is later; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period or after salary continuation payments cease or after monthly payments for Workers' Compensation cease (excluding monthly payments for permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her usual occupation; (4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; (5) the employee must not be eligible to receive an unreduced retirement benefit from the Retirement System; and (6) the employee must terminate employment as a permanent, full-time employee. An employee is eligible to receive an unreduced retirement benefit from the Retirement System after (1) reaching the age of 65 and completing five years of creditable service, or (2) reaching the age of 60 and completing 25 years of creditable service, or (3) completing 30 years of creditable service, at any age.

For members with five or more years of membership service as of July 31, 2007, the monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one-twelfth of the annual longevity payment to which the participant or beneficiary would be eligible. The monthly benefits are subject to a maximum of \$3,900 per month reduced by any primary Social Security disability benefits and by monthly payments for Workers' Compensation to which the participant or beneficiary may be entitled. The monthly benefit shall be further reduced by the amount of any monthly payments from the Department of Veterans Affairs, any other federal agency or any payments made under the provisions of G.S.127A-108, to which the participant or beneficiary may be entitled on account of the same disability. Provided in any event, the benefits payable shall be no less than \$10 a month. When an employee qualifies for an unreduced service retirement allowance from the Retirement System, the benefits payable from DIPNC will cease, and the employee will commence retirement under the TSERS. For members who obtain five years of membership service on or after August 1, 2007, the monthly long-term disability benefit is reduced by the primary Social Security retirement benefit to which you might be entitled should you become age 62 during the first 36 months. After 36 months of long-term disability, there will be no further payments from the DIPNC unless the member is approved for and are in receipt of primary Social Security disability benefits. It is payable so long as the member remains disabled and is in receipt of a primary Social Security disability benefit until eligible for an unreduced service retirement benefit. When an employee qualifies for an unreduced service retirement allowance from the Retirement System, the benefits payable from DIPNC will cease, and the employee will commence retirement under the TSERS.

The Board's contributions are established in the Appropriations Bill by the General Assembly. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The contributions cannot be separated between the amounts that relate to other postemployment benefits and employment benefits for active employees. Those individuals who are receiving extended short-term disability benefit payments cannot be separated from the number of members currently eligible to receive disability benefits as another postemployment benefit. For the fiscal years ended June 30, 2017, 2016 and 2015, the Board paid all annual required contributions to the DIPNC for disability benefits of \$1,115,731, \$1,153,251, and \$1,145,545, respectively. These contributions represented .38%, .41% and .41% of covered payroll, respectively.

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*Dental Benefits*

*Plan Description.* The Board administers a single-employer dental benefit plan. As of July 1, 2009, this plan provides postemployment healthcare benefits to retirees of the Board, provided they have at least ten years of creditable service with the state of North Carolina and at least five years of credible service with the Board. The Board pays the full cost of coverage for these benefits through private insurers. A separate report was not issued for the plan.

*Funding Policy.* The Board pays the full cost of coverage for the healthcare benefits paid to qualified retirees under a Board resolution that can be amended by the Board. The Board has chosen to fund the healthcare benefits on a pay as you go basis.

The Board estimates the ARC to approximate \$2,183,908. The Board obtains healthcare coverage through private insurers.

*Summary of Significant Accounting Policies.* Postemployment expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

*Annual OPEB Cost and Net OPEB Obligation.* The Board’s annual OPEB cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount estimated by the Board in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Board’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Board’s net OPEB obligation for the healthcare benefits:

Annual required contribution	\$ 2,183,908
Interest on net OPEB obligation	378,923
Adjustment to annual required contribution	<u>(360,879)</u>
Annual OPEB cost	2,201,952
Contributions made	<u>(1,865,708)</u>
Increase (decrease) in net OPEB obligation	336,244
Net OPEB obligation, beginning of year	<u>10,826,375</u>
Net OPEB obligation, end of year	<u>\$ 11,162,619</u>

The Board’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 were as follows:

<u>For Year Ended</u> <u>June 30</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of Annual</u> <u>OPEB Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
2017	\$2,201,952	84.7 %	\$11,162,619

*Funded Status and Funding Progress.* As of June 30, 2017, the plan was not funded. The estimated actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$34,751,888. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

*Estimated Actuarial Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of

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benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The estimated actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

In the June 30, 2017 estimated actuarial valuation, the entry age normal cost method was used. The estimated actuarial assumptions included a 3.50% investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date. The UAAL is being amortized as a level projected benefit cost. The remaining amortization period at June 30, 2017, was 30 years.

*Other Employment Benefits - Death Benefits*

*Plan Description.* The Board provides disability benefits and death benefits, in accordance with state statutes, to certain employees. Death benefits are provided through the Benefit Plan for members of the Teachers' and State Employees' Retirement System (Death Benefit Plan).

*Funding Policy.* A multiple-employer state-administered cost-sharing plan funded on a one-year term cost basis. Employees who die in active service after one year of contributing membership service in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's highest 12 months' salary in a row during the 24 months prior to his/her death, with a minimum benefit of \$25,000 and a maximum of \$50,000.

(2) Accounts Payable

The following is a summary of accounts payable at June 30, 2017:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Total</u>
Governmental activities			
General Fund	\$ 1,281,296	\$ 3,106,265	\$ 4,387,561
Other governmental funds	<u>2,853,597</u>	<u>17,171,740</u>	<u>20,025,337</u>
Total governmental activities	<u>\$ 4,134,893</u>	<u>\$ 20,278,005</u>	<u>\$ 24,412,898</u>
Business-type activities			
Child Nutrition Fund	\$ 617,700	\$ 371,078	\$ 988,778
Day Care Fund	<u>-</u>	<u>1,458</u>	<u>1,458</u>
Total business-type activities	<u>\$ 617,700</u>	<u>\$ 372,536</u>	<u>\$ 990,236</u>

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(3) Deferred Outflows and Inflows of Resources

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Change in proportion and differences between employer contributions and proportionate share of contributions	\$ 1,992,776	\$ -
Board contributions subsequent to the measurement date	29,302,622	-
Differences between expected and actual experience	-	8,909,980
Changes of assumptions	27,802,937	-
Difference between projected and actual earnings on plan investments	<u>67,234,255</u>	<u>-</u>
Totals	<u>\$ 126,332,590</u>	<u>\$ 8,909,980</u>

(4) Unearned Revenues

The following is a summary of unearned revenues at June 30, 2017:

Governmental activities	
Grants not yet earned (General Fund)	\$ 711,853
Grants not yet earned (Capital Outlay Fund)	295,066
Grants not yet earned (Special Revenue Fund)	<u>5,408,975</u>
Total governmental activities	<u>\$ 6,415,894</u>
Business-type activities	
Revenues not yet earned (Child Nutrition Fund)	<u>\$ 244,246</u>

(5) Risk Management

The Board is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board participates in the North Carolina School Boards Trust (the Trust), a member funded risk management program administered by the North Carolina School Boards Association. Through the Trust, the Board maintains general liability and errors and omissions coverage of \$1 million per claim, and workers' compensation coverage up to the statutory limits for employees to the extent they are paid from federal and local funds.

The state of North Carolina provides workers' compensation for employees to the extent they are paid from state funds. The Trust has an annual aggregate limit for general liability of \$2 million, and \$1.4 million for errors and omissions. The Trust is reinsured through commercial companies for losses in excess of \$100,000 per claim for errors and omissions and general liability coverage, and for losses in excess of \$275,000 per claim for workers' compensation coverage. The Board also participates in the Public School Insurance Fund (the Fund), a voluntary, self-funded risk control and risk financing fund administered by the North Carolina Department of Public Instruction, insuring the tangible property assets of the Board. The Fund provides coverage up to \$10 million per occurrence and \$20 million in aggregate annually. Excess reinsurance is purchased through commercial insurers, who participate in property losses in excess of the Fund's self-insured retention of \$10 million. A total limit of \$100 million per occurrence is purchased for covered catastrophic events, \$400 million maximum per occurrence for any one flood or earthquake.

**Winston-Salem/Forsyth County Board of Education**  
**Notes to Financial Statements**

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

The finance officer is bonded for \$100,000. The remaining employees that have access to funds are bonded under a blanket bond for \$250,000.

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) Contingent Liabilities**

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

**(7) Long-Term Obligations**

*Capital Leases*

As authorized in state law [G.S. 115C-528(a)], the Board entered into various lease agreements to lease equipment. The lease agreements qualify as capital leases for accounting purposes; therefore, the obligations have been recorded at the present value of the future minimum lease payments as of the date of their inception. Assets recorded under capital leases at June 30, 2017 amounted to \$6,442,071. Accumulated depreciation relating to these assets was \$691,229.

The following is a schedule of the future minimum lease payments and the net present value of the minimum lease payments as of June 30, 2017:

2018	\$ 1,375,875
2019	<u>1,277,078</u>
Total minimum lease payments	2,652,953
Less: amount representing interest	<u>(135,099)</u>
Present value of the minimum lease payments	<u>\$ 2,517,854</u>

*Installment Purchase*

The Board is authorized by state law [G.S. 115C-528(a)] to enter into installment purchase contracts to finance the purchase of school buses. Session law 2003-284, section 7.25 authorized the State Board of Education to allot moneys for the payments on financing contracts entered into pursuant to G.S. 115C-528. The state has accepted the bid to purchase Thomas Built Buses through a special third party financing arrangement by Mercedes Benz Financial Services USA LLC at total payments less than the purchase price. In June 2016, the Board entered into installment purchase contract to finance the purchase of 26 school buses. The financial contract requires four principal only payments: one payment due upon acceptance of the buses and the remaining three payments are due annually.

**Winston-Salem/Forsyth County Board of Education**  
**Notes to Financial Statements**

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

**Year Ending June 30,**

2018	\$ 1,205,926
2019	1,080,967
2020	<u>518,616</u>
Total	<u>\$ 2,805,509</u>

*Notes Payable*

Note payables for governmental activities at June 30, 2017 includes loans from Bank of America and Branch Banking and Trust Company ("BB&T") for the purchase of equipment. Interest is paid annually for the Bank of America loan at 1.586%. The notes are collateralized by the equipment. The Bank of America loan was paid in full during the year ended June 30, 2017.

Notes payable for business-type activities at June 30, 2017 includes obligations due to Chartwells, a division of Compass Group USA, Inc., for investments they made to fund improvements to the premises of Child Nutrition facilities. These notes are unsecured. These notes are due in equal monthly installments including no interest and due over a 5 year period. The Chartwells investment loans were paid in full during the year ended June 30, 2017.

*Long-Term Obligation Activity*

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

	<u>Balance June 30, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2017</u>	<u>Current</u>
Governmental Activities:					
Capital leases	\$ 189,412	\$ 3,698,888	\$ 1,370,446	\$ 2,517,854	\$ 1,285,411
Installment purchase	1,481,904	2,574,302	1,250,697	2,805,509	1,205,926
Notes payable	179,325	-	179,325	-	-
Net OPEB obligation	10,826,375	336,244	-	11,162,619	-
Net pension liability	73,560,355	137,781,916	25,309,108	186,033,163	-
Compensated absences	28,092,857	1,073,731	-	29,166,588	-
Claims and judgments	<u>400,000</u>	<u>-</u>	<u>-</u>	<u>400,000</u>	<u>-</u>
	<u>\$ 114,730,228</u>	<u>\$ 145,465,081</u>	<u>\$ 28,109,576</u>	<u>\$ 232,085,733</u>	<u>\$ 2,491,337</u>
Business-type Activities:					
Compensated absences	\$ 454,185	\$ 7,554	\$ -	\$ 461,739	\$ -
Net pension liability	986,040	1,824,299	317,952	2,492,387	-
Notes payable	<u>174,858</u>	<u>-</u>	<u>174,858</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,615,083</u>	<u>\$ 1,831,853</u>	<u>\$ 492,810</u>	<u>\$ 2,954,126</u>	<u>\$ -</u>

**Winston-Salem/Forsyth County Board of Education  
Notes to Financial Statements**

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**C. Fund Balance**

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

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

Total fund balance - General Fund	\$ 15,593,975
Less:	
Inventories	817,037
Stabilization by State Statute	<u>1,446,529</u>
Remaining fund balance	<u>\$ 13,330,409</u>

**D. Encumbrances**

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

General Fund	\$ 747,506
Capital Outlay Fund	5,327,433
Special Revenue	710,819

**4. Summary Disclosure of Significant Contingencies**

***Federal and State Assisted Programs***

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

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

This section contains additional information required by generally accepted accounting principles.

- Schedule of the Proportionate Share of the Net Pension Liability
- Schedule of Board Contributions

**Winston-Salem/Forsyth County Board of Education  
Schedules of Required Supplementary Information  
Schedule of Board's Proportionate Share of the Net Pension Liability  
Teachers' and State Employees' Retirement System  
Last Four Fiscal Years \***

**Schedule 1**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Board's proportion of the net pension liability liability (asset)	<b>2.051%</b>	2.023%	1.996%	1.975%
Board's proportionate share of the net pension liability (asset)	<b>\$ 188,525,550</b>	\$ 74,546,395	\$ 23,397,537	\$ 119,932,980
Board's covered-employee payroll	<b>\$ 284,764,814</b>	\$ 279,694,551	\$ 269,159,328	\$ 269,114,520
Board's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	<b>66.20%</b>	26.65%	8.69%	44.57%
Plan fiduciary net position as a percentage of the total pension liability	<b>87.32%</b>	94.64%	98.24%	90.60%

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

**Winston-Salem/Forsyth County Board of Education  
Schedules of Required Supplementary Information  
Schedule of Board Contributions  
Teachers' and State Employees' Retirement System  
Last Four Fiscal Years**

**Schedule 2**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 29,302,622	\$ 25,396,755	\$ 25,689,473	\$ 23,389,911
Contributions in relation to the contractually required contribution	<u>29,302,622</u>	<u>25,396,755</u>	<u>\$ 25,689,473</u>	<u>23,389,911</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Board's covered-employee payroll	\$ 317,872,361	\$ 284,764,814	279,694,551	\$ 269,159,328
Contributions as a percentage of covered-employee payroll	9.22%	8.92%	9.18%	8.69%

***Individual Fund Statements and Schedules***

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Forsyth County:			
County appropriation	\$ 112,778,008	\$ 112,778,008	\$ -
Other			
Fines and forfeitures	1,904,870	1,888,111	(16,759)
Tuition and fees	75,000	59,772	(15,228)
Other	45,873	107,475	61,602
Total other	<u>2,025,743</u>	<u>2,055,358</u>	<u>29,615</u>
Total revenues	<u>114,803,751</u>	<u>114,833,366</u>	<u>29,615</u>
Expenditures and encumbrances:			
Instructional services:			
Regular instructional	37,882,340	37,807,127	75,213
Special populations	6,310,079	6,239,375	70,704
Alternative programs	1,644,987	1,820,144	(175,157)
School leadership	7,417,140	7,372,338	44,802
Co-curricular	3,900,144	3,856,557	43,587
School-based support	9,691,308	9,625,691	65,617
Total instructional services	<u>66,845,998</u>	<u>66,721,232</u>	<u>124,766</u>
System-wide support services:			
Support and development	1,434,449	1,356,850	77,599
Special population support and development	699,407	649,423	49,984
Alternative programs and services support and development	437,457	431,615	5,842
Technology support	2,988,442	2,964,461	23,981
Operational support	28,729,448	28,473,994	255,454
Financial and human resource	3,812,916	3,804,743	8,173
Accountability	825,693	819,351	6,342
System-wide pupil support	777,410	749,432	27,978
Policy, leadership and public relations	2,414,155	2,195,122	219,033
Total supporting services	<u>42,119,377</u>	<u>41,444,991</u>	<u>674,386</u>

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

**Schedule 3**  
**Page 2 of 2**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Ancillary services	438,376	433,974	4,402
Nonprogrammed charges	5,400,000	5,464,158	(64,158)
Total expenditures and encumbrances	<u>114,803,751</u>	<u>114,064,355</u>	<u>739,396</u>
Revenues over expenditures and encumbrances	-	769,011	769,011
Appropriated fund balance	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other financing sources under expenditures and encumbrances	<u>\$ -</u>	769,011	<u>\$ 769,011</u>
Fund balance:			
Beginning of year		14,942,353	
Increase in reserve for inventories		32,211	
Decrease in reserve for encumbrances		<u>(149,600)</u>	
End of year		<u>\$ 15,593,975</u>	

**Winston-Salem/Forsyth County Board of Education**  
**Schedule of Revenues and Expenditures - Budget and Actual**  
**Capital Outlay Fund**  
**For the Year Ended June 30, 2017**

**Schedule 4**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
State of North Carolina	\$ -	\$ 1,250,697	\$ 1,250,697
Forsyth County	47,089,482	18,159,073	(28,930,409)
Other	1,471,981	573,278	(898,703)
Total revenues	<u>48,561,463</u>	<u>19,983,048</u>	<u>(28,578,415)</u>
Expenditures and Encumbrances:			
Capital outlay:			
Real property and buildings	35,958,440	18,018,110	17,940,330
Furniture and equipment	9,554,634	3,406,183	6,148,451
Buses and motor vehicles	6,614,480	6,605,479	9,001
Total capital outlay	<u>52,127,554</u>	<u>28,029,772</u>	<u>24,097,782</u>
Debt service:			
Principal	2,707,099	2,707,099	-
Total debt service	<u>2,707,099</u>	<u>2,707,099</u>	<u>-</u>
Total expenditures and encumbrances	<u>54,834,653</u>	<u>30,736,871</u>	<u>24,097,782</u>
Revenues under expenditures and encumbrances	(6,273,190)	(10,753,823)	(4,480,633)
Other financing sources:			
Capital lease obligations issued	6,273,190	6,273,190	-
Total other financing sources	<u>6,273,190</u>	<u>6,273,190</u>	<u>-</u>
Revenues and other financing sources under expenditures	-	(4,480,633)	(4,480,633)
Appropriated fund balance	<u>-</u>	<u>-</u>	<u>-</u>
Revenues under expenditures and encumbrances	<u>\$ -</u>	<u>(4,480,633)</u>	<u>\$ (4,480,633)</u>
Fund balance:			
Beginning of year		2,167,255	
Decrease in reserve for encumbrances		<u>4,296,792</u>	
End of year		<u>\$ 1,983,414</u>	

**Winston-Salem/Forsyth County Board of Education**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance -**  
**Budget and Actual**  
**Special Revenue Fund**  
**For the Year Ended June 30, 2017**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
State of North Carolina:			
More at Four	\$ 1,807,135	\$ 1,452,292	\$ (354,843)
U. S. Government	1,778,301	1,480,042	(298,259)
Other:			
Tuition and fees	398,550	403,566	5,016
Rental of school property	463,240	476,602	13,362
Indirect cost	1,675,000	1,595,656	(79,344)
Other	11,112,889	10,069,040	(1,043,849)
Total other	<u>13,649,679</u>	<u>12,544,864</u>	<u>(1,104,815)</u>
Total revenues	<u>17,235,115</u>	<u>15,477,198</u>	<u>(1,757,917)</u>
Expenditures and encumbrances:			
Instructional services:			
Regular instructional	3,242,763	2,512,739	730,024
Special populations	2,649,069	3,212,383	(563,314)
Alternative programs	4,369,749	3,315,269	1,054,480
School leadership	103,736	90,543	13,193
Co-curricular	470,671	462,203	8,468
School-based support	1,557,231	1,363,021	194,210
Total instructional services	<u>12,393,219</u>	<u>10,956,158</u>	<u>1,437,061</u>
System-wide support services:			
Support and development	3,200	100	3,100
Alternative programs and services support and development	52,422	52,333	89
Operational support	4,307,353	4,140,069	167,284
Financial and human resource	66,359	2,717	63,642
Accountability	72,784	56,381	16,403
System-wide pupil support	64,104	24,674	39,430
Policy, leadership and public relations	26,300	19,216	7,084
Total supporting services	<u>4,592,522</u>	<u>4,295,490</u>	<u>297,032</u>

**Winston-Salem/Forsyth County Board of Education**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance -**  
**Budget and Actual**  
**Special Revenue Fund**  
**For the Year Ended June 30, 2017**

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Expenditures and encumbrances (continued):			
Ancillary services	<u>129,305</u>	<u>115,329</u>	<u>13,976</u>
Nonprogrammed charges	<u>120,069</u>	<u>11,043</u>	<u>109,026</u>
Debt service:			
Interest	5,429	5,429	-
Principal	<u>93,368</u>	<u>93,368</u>	-
Total debt service	<u>98,797</u>	<u>98,797</u>	-
Total expenditures and encumbrances	<u>17,333,912</u>	<u>15,476,817</u>	<u>1,857,095</u>
Revenues over expenditures and encumbrances		381	
Fund balance:			
Beginning of year		286,341	
Increase in reserve for encumbrances		<u>399,879</u>	
End of year		<u><u>\$ 686,601</u></u>	

**Winston-Salem/Forsyth County Board of Education**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**Non-Major Governmental Fund**  
**For the Year Ended June 30, 2017**

**Schedule 6**

	<b>Federal Grants Fund</b>		
	<b>Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
Revenues:			
State of North Carolina	\$ -	\$ -	\$ -
U.S. Government	47,167,977	39,220,196	(7,947,781)
Other	-	-	-
Total revenues	<u>47,167,977</u>	<u>39,220,196</u>	<u>(7,947,781)</u>
Expenditures and encumbrances:			
Instructional services	42,744,448	36,859,940	5,884,508
System-wide support services	1,753,385	1,698,949	54,436
Nonprogrammed charges	<u>2,670,144</u>	<u>661,307</u>	<u>2,008,837</u>
Total expenditures and encumbrances	<u>47,167,977</u>	<u>39,220,196</u>	<u>7,947,781</u>
Revenues over expenditures and encumbrances	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balance:			
Beginning of year		-	
Increase in reserve for encumbrances		<u>-</u>	
End of year		<u>\$ -</u>	

**Winston-Salem/Forsyth County Board of Education**  
**Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)**  
**Child Nutrition Fund**  
**For the Year Ended June 30, 2017**

**Schedule 7**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating revenues:			
Food sales	\$ 4,444,439	<u>\$ 4,405,775</u>	\$ (38,664)
Operating expenditures:			
Food		9,097,948	
Salaries and benefits		9,727,226	
Materials and supplies		1,462,473	
Equipment maintenance		101,457	
Utilities and telephone		12,443	
Contracted services		2,986,514	
Indirect costs		871,748	
Capital outlay		1,259,213	
Total operating expenditures	<u>26,069,033</u>	<u>25,519,022</u>	<u>550,011</u>
Operating loss	<u>(21,624,594)</u>	<u>(21,113,247)</u>	511,347
Nonoperating revenues:			
Federal reimbursements	19,921,372	19,903,818	
Federal commodities	1,546,572	1,546,085	
Interest earned on investments	91,667	94,175	
Miscellaneous revenues	64,983	56,963	
Total nonoperating revenues	<u>21,624,594</u>	<u>21,601,041</u>	<u>(23,553)</u>
Revenues over expenditures	<u>\$ -</u>	<u>\$ 487,794</u>	<u>\$ 487,794</u>
Reconciliation of modified accrual to full accrual basis:			
Depreciation		(816,756)	
Equipment acquisitions		1,259,213	
Increase in compensated absences payable		(7,463)	
Net pension liability		(1,395,508)	
Deferred outflows - pension		1,211,138	
Deferred inflows - pension		95,564	
Decrease in inventories		<u>(54,652)</u>	
Change in net assets		<u>\$ 779,330</u>	

**Winston-Salem/Forsyth County Board of Education**  
**Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)**  
**Day Care Fund**  
**For the Year Ended June 30, 2017**

**Schedule 8**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating revenues:			
Child care fees	\$ 415,832	<u>\$ 343,450</u>	\$ (72,382)
Operating expenditures:			
Salaries and benefits		376,540	
Materials and supplies		-	
Total operating expenditures	<u>415,832</u>	<u>376,540</u>	<u>39,292</u>
Revenues under expenditures	<u>\$ -</u>	<u>(33,090)</u>	<u>\$ 33,090</u>
Reconciliation of modified accrual to full accrual basis:			
Increase in compensated absences payable		(91)	
Net pension liability		(110,839)	
Deferred outflows - pension		92,767	
Deferred inflows - pension		<u>5,584</u>	
Change in net assets		<u>\$ (45,669)</u>	

## ***Compliance Section***

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

Board of Education  
Winston-Salem/Forsyth County  
Winston-Salem, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Winston-Salem/Forsyth County Board of Education, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements and have issued our report thereon dated February 26, 2018.

### ***Internal Control over Financial Reporting***

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying schedule of findings and questioned costs as item 2017-001 to be a material weakness.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2017-002 and 2017-003 to be significant deficiencies.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the financial statements of the Winston-Salem/Forsyth County Board of Education are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

***Winston-Salem/Forsyth County Board of Education's Response to Findings***

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

***Purpose of this Report***

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

*Dixon Hughes Goodman LLP*

**Winston-Salem, North Carolina  
February 26, 2018**

## **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**

Board of Education  
Winston-Salem/Forsyth County  
Winston-Salem, North Carolina

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

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

### ***Management's Responsibility***

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

### ***Auditors' Responsibility***

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

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

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

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

***Report on Internal Control over Compliance***

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

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

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

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

*Dixon Hughes Goodman LLP*

**Winston-Salem, North Carolina  
February 26, 2018**

## **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**

Board of Education  
Winston-Salem/Forsyth County  
Winston-Salem, North Carolina

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

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

### ***Management's Responsibility***

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

### ***Auditors' Responsibility***

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

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

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

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

***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with applicable sections of the Uniform Guidance as described in the *Audit Manual for Governmental Auditors in North Carolina* and which is described in the accompanying schedule of findings and questioned costs as items 2017-04. Our opinion on each major state program is not modified with respect to these matters.

The Winston-Salem/Forsyth County Board of Education's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Winston-Salem/Forsyth County Board of Education's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

***Report on Internal Control over Compliance***

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-04 that we consider to be significant deficiencies.

The Winston-Salem/Forsyth County Board of Education's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Winston-Salem/Forsyth County Board of Education's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion of the response.



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

*Dixon Hughes Goodman LLP*

**Winston-Salem, North Carolina**  
**February 26, 2018**

**1. Summary of Auditors' Results**

***Financial Statements***

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

Internal control over financial reporting:

- Material weaknesses identified?  yes  no
- Significant deficiencies identified that are not considered to be material weaknesses  yes  none reported

Noncompliance material to financial statements noted  yes  no

***Federal Awards***

Internal control over major federal programs:

- Material weaknesses identified?  yes  no
- Significant deficiencies identified that are not considered to be material weaknesses  yes  none reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200516(a)  yes  no

Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Names of Federal Program or Cluster</u>
	Special Education Cluster:
84.027	Handicapped - State Grants
84.173	Handicapped - Preschool Grants
84.027	Special Needs Targeted Assistance
84.010	Title I Grants to Local Education Agencies

Dollar threshold used to distinguish between Type A and Type B Programs: \$ 1,864,504

Auditee qualified as low-risk auditee?  yes  no

**State Awards**

Internal control over major state programs:

- Material weaknesses identified? \_\_\_\_\_ yes      X   no
- Significant deficiencies identified that are not considered to be material weaknesses   X   yes    \_\_\_\_\_ none reported

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

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

Identification of major state programs:

<u>Program Name</u>
State Public School Fund

**2. Financial Statement Findings**

***Finding 2017-001***

***Bank reconciliations not performed in a timely manner***

**MATERIAL WEAKNESS**

*Criteria:* Bank reconciliations should be performed timely and miscellaneous differences should be resolved.

*Condition:* The Board did not complete bank reconciliations for various cash accounts timely and did not resolve miscellaneous differences.

*Effect:* Cash and other accounts may be misstated.

*Cause:* Management did not perform reconciliations timely and did not resolve miscellaneous differences.

*Recommendation:* We recommend management complete bank reconciliations on a monthly basis and resolve any miscellaneous differences.

*Views of Responsible Officials and Planned Corrective Actions:* The Board of Education agrees with this finding.

***Finding 2017-002***

***Deficit in Fund Balance of Day Care Fund***

**SIGNIFICANT DEFICIENCY**

*Criteria:* Adequate resources must be available for fund operations.

*Condition:* The Day Care Fund has a deficit in fund balance of \$11,959

*Effect:* The Day Care Fund did not have sufficient assets to pay its liabilities at June 30, 2017.

---

*Cause:* As a result of the Board recognizing their proportionate share of the pension liability, the Day Care Fund recognized an additional \$12,488 in expenses.

*Recommendation:* We recommend that management identify means to reduce expenditures in the Day Care Fund in order to reduce the deficit.

*Views of Responsible Officials and Planned Corrective Actions:* The Board of Education agrees with this finding.

***Finding 2017-003***

***Expenditures in excess of budget for General Fund and Local Special Expense Fund***

**SIGNIFICANT DEFICIENCY**

*Criteria:* General statutes state that all monies received and expended by a local government or public authority should be included in the budget ordinance.

*Condition:* For the General Fund, the Board expended \$175,157 more for Alternative Programs than appropriated in the annual budget ordinance. For the Local Special Expense Fund, the Board expended \$563,314 more for Special Populations than appropriated in the annual budget ordinance.

*Effect:* Monies were spent that had not been appropriated.

*Cause:* The Board received and expended appropriations that had not been budgeted for in the budget ordinance and a budget amendment was not adopted.

*Recommendation:* Budget amendments should be adopted when it is known that funds are going to be expended in a different budgetary control level that what was originally adopted prior to expending the funds.

*Views of Responsible Officials and Planned Corrective Actions:* The Board of Education agrees with this finding.

**3. Federal Award Findings and Questioned Costs**

None noted

**4. State Award Findings and Questioned Costs**

**N.C. Department of Public Instruction  
Program Name: State Public School Fund**

***Finding 2017-004***

**SIGNIFICANT DEFICIENCY**

Activities Allowed or Unallowed

*Criteria:* DPI allocates to LEAs funding for operations and a specific number of months of employment for classroom teachers, school building administration, instructional support, vocational education, family support nurses and literacy coaches.

*Condition:* Winston-Salem/Forsyth County Schools exceeded the months of employment in classroom teachers, school building administration, instructional support and vocational education.

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*Effect and Questioned Cost:* Winston-Salem/Forsyth County Schools refunded \$314,215 from the General Fund to the state.

*Cause:* The number of employees paid from the State Fund exceeded the allowable.

*Recommendation:* We recommend management develop processes to ensure compliance with state allotment requirements.

*Views of Responsible Officials and Planned Corrective Actions:* The Board of Education agrees with this finding.



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**Winston-Salem/Forsyth County Board of Education  
Corrective Action Plan  
For the Fiscal Year Ended June 30, 2017**

**Schedule 10**

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***Finding 2017-001***

*Name of Contact Person:* Kerry Crutchfield

*Corrective Action:* Financial Services staff members monitored bank account reconciliations each month on a timely basis and investigated differences attempting to discover patterns that would reveal necessary process improvements to eliminate the differences. Due to unique outsourcing processes on certain payables expenditures and payroll error correction processes, these investigations took an excessive amount of time and effort. We will continue to monitor bank account reconciliations promptly each month and investigate and clear up miscellaneous differences.

*Proposed Completion Date:* 01/01/2018

***Finding 2017-002***

*Name of Contact Person:* Kerry Crutchfield

*Corrective Action:* The Day Care Fund deficit was caused by an unexpected sizable increase in allocated pension liabilities, an amount unknown and unknowable to WS/FCS before the end of the fiscal year. We will attempt to increase revenues and/or decrease expenditures to eliminate this deficit, but the GAAP requirement to accrue pension liability numbers that are outside of our control makes this a moving target that is difficult to predict.

*Proposed Completion Date:* 01/01/2018

***Finding 2017-003***

*Name of Contact Person:* Kerry Crutchfield

*Corrective Action:* Sizable payables that were unknown to us before the end of the fiscal year caused these budgetary over-expenditures. We will attempt to do a better job of anticipating these types of payables in time to process budget amendments and/or transfers to prevent these exceptions.

*Proposed Completion Date:* 05/31/2018

***Finding 2017-004***

*Name of Contact Person:* Kerry Crutchfield

*Corrective Action:* Overuse of state allotments continues to decline in dollar value and we continue to accrue and make the refunds on a timely basis. In a district the size of WS/FCS, we will never be able to balance our state position allotments to -0- due to the impacts of payrolls occurring in late June beyond the available time to submit adjustments to NCDPI. We will continue to try to get as close to -0- balances as possible.

*Proposed Completion Date:* 06/30/2018

***Finding 2016-01***

Repeat, see finding 2017-001

***Finding 2016-02***

Corrected

***Finding 2016-03***

Repeat, see finding 2017-004

**Winston-Salem/Forsyth County Board of Education  
Schedule of Expenditures of Federal and State Awards  
For the Year Ended June 30, 2017**

Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Expenditures
<b>FEDERAL GRANTS</b>			
Cash Assistance:			
U.S. Department of Education:			
Direct programs:			
Reading Railroad	84.215G	PRC 324	\$ 648,175
Passed through the NC Department of Public Instruction:			
Improving America School Act of 1994 (IASA):			
Title I, Part A:			
Educationally Deprived Children	84.010	PRC 050	19,830,548
School Improvement, Title I	84.010	PRC 105	1,068,602
Total Title I, Part A			20,899,150
School Improvement Grant 1003 (G)	84.377	PRC 117	716,373
Improving Teacher Quality	84.367	PRC 103	1,391,693
Language Acquisition Grant	84.365	PRCs 104 & 111	922,697
Special Education Cluster:			
Handicapped State Grants	84.027	PRCs 60 & 118	13,822,618
Handicapped Preschool Grants	84.173	PRCs 49 & 119	306,295
Special Needs Targeted Assistance	84.027	PRC 118	23,354
Total Special Education Cluster			14,152,267
Carl D. Perkins Vocational and Applied Technology Education Act Amendments of 1990:			
Basic Grants to States:			
Program Development	84.048	PRC 017	807,355
Twenty-First Century Community Learning Centers	84.287	PRC 110	295,023
Education for Homeless Children and Youth:			
McKinney-Vento Homeless Assistance	84.196	PRC 026	35,638
Total U.S. Department of Education			39,868,371

**Winston-Salem/Forsyth County Board of Education  
Schedule of Expenditures of Federal and State Awards  
For the Year Ended June 30, 2017**

Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Expenditures
<b>FEDERAL GRANTS (Continued)</b>			
U.S. Department of Agriculture: Child Nutrition Cluster: Passed through the NC Department of Public Instruction: Noncash Assistance: Food Distribution Program	10.555	PRC 035	\$ 1,546,085
Passed through the NC Department of Public Instruction: Cash Assistance: National School Lunch Program	10.555	PRC 035	19,565,336
School Breakfast Program (Special Milk Program)	10.553	PRC 035	51,312
Summer Food Service Program	10.559	PRC 035	<u>287,170</u>
Total U.S. Department of Agriculture			<u>21,449,903</u>
U.S. Department of Health and Human Services: Direct Program: Head Start	93.600	PRC 647	<u>224,987</u>
U.S. Department of Defense Direct Program: ROTC	None		<u>606,880</u>
Total federal assistance			<u><u>\$ 62,150,141</u></u>

**Winston-Salem/Forsyth County Board of Education  
Schedule of Expenditures of Federal and State Awards  
For the Year Ended June 30, 2017**

<u>Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Expenditures</u>
<b>STATE GRANTS</b>			
NC Department of Public Instruction:			
Cash Assistance:			
State Public School Fund	N/A		\$ 294,266,837
Driver Training	N/A	PRC 012	1,004,372
School Technology Fund - SPSF	N/A	PRC 015	999,154
Vocational Education:			
State Months of Employment	N/A	PRC 013	14,162,331
Program Support Funds	N/A	PRC 014	1,791,632
N.C. Department of Health and Human Services:			
Division of Child Development:			
NC Pre-K	N/A		1,452,292
Noncash Assistance:			
School buses	N/A	PRC 120	1,250,697
Textbooks	N/A	PRC 130	79,835
			<u>315,007,150</u>
Total state assistance			<u>315,007,150</u>
Total state and federal assistance			<u>\$ 377,157,291</u>

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

**Note 1: Basis of Presentation**

The accompanying schedule of expenditures of federal and state awards (SEFSA) includes the federal and state grant activity of the Winston-Salem/Forsyth County Board of Education (the "Board") under the programs of the federal government and the State of North Carolina for the year ended June 30, 2017. The information in this SEFSA is presented in accordance with the requirements of Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act. Because the schedule presents only a selected portion of the operations of the Board, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Board.

**Note 2: Summary of Significant Accounting Policies**

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

**Note 3: Non-cash Assistance**

Included in the amounts reported on the SEFSA, the Board received non-cash assistance in the form of food commodities, school buses, and textbooks. Non-cash items with a fair value of \$2,876,618 were received during the year ended June 30, 2017. These non-cash items received were included in the determination of federal and state awards expended for the year ended June 30, 2017.