

**LEXINGTON CITY SCHOOLS,
NORTH CAROLINA**

Financial Statements
June 30, 2020

LEXINGTON CITY SCHOOLS, NORTH CAROLINA
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Independent Auditors' Report

To the Board of Education
Lexington City Schools, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lexington City Schools, North Carolina, as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise the Lexington City Schools' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Opinion

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 Lexington City Schools, North Carolina, as of June 30, 2020, 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 Federal Grants Fund for the year 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 the management's discussion and analysis on pages 4 through 11 and the Schedule of Proportionate Share of Net Pension and OPEB Liabilities the Schedule of Board Contributions on pages 54 through 59, 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

The individual fund schedules, 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 fund schedules, 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 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 November 10, 2020, on our consideration of the Lexington City Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lexington City Schools' internal control over financial reporting and compliance.

Anderson Smith & Wike PLLC

Gastonia, North Carolina

November 10, 2020

**LEXINGTON CITY SCHOOLS, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020**

This section of the Lexington City Schools' (*the Board*) financial report represents our discussion and analysis of the financial performance of the Board for the year ended June 30, 2020. This information should be read in conjunction with the audited financial statements included in this report.

Financial Highlights

- The liabilities of the Board exceeded its assets at the close of the fiscal year by (\$27,785,086).
- As of the close of the 2020 fiscal year, the Board's governmental funds reported combined ending fund balances of \$2,223,577, an increase of \$831,372 in comparison with the prior year. Approximately 9% of the total is comprised of the fund balances of the individual schools. Approximately 63% of the total, or \$1,397,646, is available for appropriation at the Board's discretion, of which \$0 has been designated by the Board to balance the 2020-2021 budget.

Overview of the Financial Statements

The audited financial statements of Lexington City Schools consist of four components. They are as follows:

- *Independent Auditors' Report*
- *Management's Discussion and Analysis (required supplementary information)*
- *Basic Financial Statements*
- *Required supplemental section that presents the Schedule of the Board's Proportionate Share of Net Pension and OPEB Liabilities and (Assets) and the Schedule of Board Contributions*
- *Supplementary section that presents budgetary schedules for governmental and enterprise funds*

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

Government-wide Financial Statements

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

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

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

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

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

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

Fund Financial Statements

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

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

Lexington City Schools has two types of funds:

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

The governmental fund statements are shown as Exhibits 3, 4, 5, 6 and 7 of this report.

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

The proprietary fund statements are shown as Exhibits 8, 9, and 10 of this report.

**LEXINGTON CITY SCHOOLS, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020**

Financial Analysis of the Board as a Whole

Net position is an indicator of the fiscal health of the Board. Liabilities and deferred inflows exceeded assets and deferred outflows of resources by \$27,785,086 as of June 30, 2020. The largest component of net position is net investment in capital assets, of \$20,979,606.

Following is a summary of the Statement of Net Position:

Table 1
Condensed Statement of Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>6/30/2020</u>	<u>6/30/2019</u>
Current assets	\$ 3,499,617	\$ 2,378,470	\$ 1,384,801	\$ 1,497,136	\$ 4,884,418	\$ 3,875,606
Capital assets	20,687,441	21,295,956	292,615	262,115	20,979,606	21,558,071
Total assets	<u>24,187,058</u>	<u>23,674,426</u>	<u>1,677,416</u>	<u>1,759,251</u>	<u>25,864,024</u>	<u>25,433,677</u>
Deferred outflows of resources	<u>9,751,785</u>	<u>9,523,686</u>	<u>314,750</u>	<u>255,561</u>	<u>10,066,535</u>	<u>9,779,247</u>
Current liabilities	2,209,527	2,182,266	33,937	31,290	2,243,464	2,213,556
Long-term liabilities	46,774,385	41,935,448	1,475,524	1,122,890	48,249,909	43,058,338
Total liabilities	<u>48,983,912</u>	<u>44,117,714</u>	<u>1,509,461</u>	<u>1,154,180</u>	<u>50,493,373</u>	<u>48,683,966</u>
Deferred inflows of resources	<u>12,808,851</u>	<u>16,341,466</u>	<u>413,421</u>	<u>438,511</u>	<u>13,222,272</u>	<u>16,779,977</u>
Net investment in capital assets	20,687,441	21,295,956	292,615	262,115	20,979,606	21,558,071
Restricted net position	949,851	674,533	4,001	3,921	953,852	678,454
Unrestricted net position	<u>(49,491,212)</u>	<u>(49,231,557)</u>	<u>(227,332)</u>	<u>156,085</u>	<u>(49,718,544)</u>	<u>(49,075,472)</u>
Total net position	<u>\$ (27,853,920)</u>	<u>\$ (27,261,068)</u>	<u>\$ 68,834</u>	<u>\$ 422,121</u>	<u>\$ (27,785,086)</u>	<u>\$ (26,838,947)</u>

Note that total net position of governmental activities decreased during the fiscal year ending June 30, 2020. There was a decrease in net position of the governmental activities of \$592,852. Unrestricted net position in the business-type activities decreased by \$353,287.

**LEXINGTON CITY SCHOOLS, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020**

Financial Analysis of the Board as a Whole (Continued)

The following table shows the revenues and expenses for the Board:

Table 2
Condensed Statement of Activities

	Governmental Activities		Business-type Activities		Total Primary Government	
	6/30/2020	6/30/2019	6/30/2020	6/30/2019	6/30/2020	6/30/2019
Revenues:						
Program revenues:						
Charges for services	\$ 395,493	\$ 481,186	\$ 48,166	\$ 60,818	\$ 443,659	\$ 542,004
Operating grants and contributions	23,577,103	23,361,116	2,215,672	2,319,063	25,792,775	25,680,179
Capital grants and contributions	-	-	-	-	-	-
General revenues:						
Other revenues	<u>8,677,440</u>	<u>7,858,835</u>	<u>105,211</u>	<u>10,170</u>	<u>8,782,651</u>	<u>7,869,005</u>
Total revenues	<u>32,650,036</u>	<u>31,701,137</u>	<u>2,369,049</u>	<u>2,390,0518</u>	<u>35,019,085</u>	<u>34,091,118</u>
Expenses:						
Governmental activities:						
Instructional services	26,526,206	25,787,484	-	-	26,526,206	25,787,484
System-wide support services	6,060,013	5,784,090	-	-	6,060,013	5,784,090
Ancillary services	141,461	79,188	-	-	141,461	79,188
Non-programmed charges	385,049	342,069	-	-	385,049	342,069
Interest on long-term debt	-	-	-	-	-	-
Depreciation expense	130,159	151,826	-	-	130,159	151,826
Business-type activities:						
Food service	<u>-</u>	<u>-</u>	<u>2,722,336</u>	<u>2,083,644</u>	<u>2,722,336</u>	<u>2,083,644</u>
Total expenses	<u>33,242,888</u>	<u>32,144,657</u>	<u>2,722,336</u>	<u>2,083,644</u>	<u>35,965,224</u>	<u>34,228,301</u>
Increase (decrease) in net position	<u>(592,852)</u>	<u>(443,520)</u>	<u>(353,287)</u>	<u>306,407</u>	<u>(946,139)</u>	<u>(137,113)</u>
Net position, beginning	<u>(27,261,068)</u>	<u>(26,817,548)</u>	<u>422,121</u>	<u>115,714</u>	<u>(26,838,947)</u>	<u>(26,701,834)</u>
Net position, restatement	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net position, ending	<u>\$ (27,853,920)</u>	<u>\$ (27,261,068)</u>	<u>\$ 68,834</u>	<u>\$ 422,121</u>	<u>\$ (27,785,086)</u>	<u>\$ (26,838,947)</u>

Total governmental activities generated revenues of \$32,650,036 while expenses in this category totaled \$33,242,888 for the year ended June 30, 2020. Revenues increased 2.99% from 2019 while expenses increased 3.4%. The decrease in net position stands at \$592,852 at June 30, 2020, compared to net decrease of \$443,520 in 2019. Business-type activities generated revenue of \$2,369,049 with expenses of \$2,722,336. Revenues decreased 5.1% from 2019.

**LEXINGTON CITY SCHOOLS, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020**

Financial Analysis of the Board's Funds

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

The Board's governmental funds reported a combined fund balance of \$2,223,577, a \$831,372 increase over last year. All funds except Capital had revenue that exceeded expenditures and other financing sources, thus the increase in total fund balance. State funding increased \$190,818, federal funding decreased by \$233,417 and County funding increased by \$1,040,182.

Proprietary Fund: The Board's business-type fund, the School Food Service Fund, reflected an decrease in net position of \$353,287. The School Food Service Fund had a decrease in revenue of \$128,169.

General Fund Budgetary Highlights

Over the course of the year, the Board revised the budget several times to account for changes in revenue and expense expectations and for new appropriations. There were no other significant changes in the budget during the course of the year.

Capital Assets

Capital assets decreased by \$578,465 or about 2.7% from the previous year.

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

Table 3
Summary of Capital Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>6/30/2020</u>	<u>6/30/2019</u>
Land	\$ 393,548	\$ 393,548	\$ -	\$ -	\$ 393,548	\$ 393,548
Construction in progress	-	-	-	-	-	-
Buildings	19,471,458	20,056,919	-	-	19,471,458	20,056,919
Equipment and furniture	727,965	773,860	292,165	262,115	1,020,130	1,035,975
Vehicles	94,470	71,629	-	-	94,470	71,629
Total	<u>\$ 20,687,441</u>	<u>\$ 21,295,956</u>	<u>\$ 292,165</u>	<u>\$ 262,115</u>	<u>\$ 20,979,606</u>	<u>\$ 21,558,071</u>

Economic Factors

Funding from Davidson County, which historically represents about 16 percent of total operating funding, continues to be a major source of operating revenue for the Lexington City Board of Education. The financial support received from Davidson County is provided based on the County's economic status.

The following factors have affected the economic outlook of Davidson County:

- Davidson County's unemployment rate of 7.4% at June 2020 has increased significantly from 4.2% at June 2019.
- The County's rate remains slightly below the statewide rate of 7.6%. The unemployment rate ranks Davidson County as having the 50th lowest unemployment rate out of the 100 counties in the state. The current unemployment rate can be attributed to the negative effect of the nationwide pandemic of Coronavirus.
- The Davidson County Board of Commissioners increased the per pupil allocation by \$1.41 or .1% as compared to the previous year. Davidson County Board of Commissioners continue their commitment to the education of the students at Lexington City Schools, in spite of the circumstances of our current economic outlook.
- Davidson County's property tax rate of \$0.54 per \$100 of assessed property valuation remained the same as it was for the prior fiscal year. This rate remains well below its peers in terms of the overall property tax rate.

***LEXINGTON CITY SCHOOLS, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020***

Requests for Information

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

Lisa Jones, Director of Finance
Lexington City Schools, North Carolina
1010 Fair Street
Lexington, NC 27292

LEXINGTON CITY SCHOOLS, NORTH CAROLINA
STATEMENT OF NET POSITION
June 30, 2020

Exhibit 1

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Cash and cash equivalents	\$ 2,282,980	\$ 1,088,545	\$ 3,371,525
Due from other governments	1,154,731	125,826	1,280,557
Net OPEB asset	45,513	1,469	46,982
Internal balances	16,393	(16,393)	-
Inventories	-	185,354	185,354
Capital assets:			
Land and construction in progress	393,548	-	393,548
Other capital assets, net of depreciation	20,293,893	292,165	20,586,058
Total capital assets	20,687,441	292,165	20,979,606
Total assets	24,187,058	1,676,966	25,864,024
DEFERRED OUTFLOWS OF RESOURCES	9,751,785	314,750	10,066,535
LIABILITIES			
Accounts payable and accrued expenses	522,741	2,178	524,919
Accrued salaries and wages payable	707,786	-	707,786
Long-term liabilities:			
Net pension liability	12,420,951	400,901	12,821,852
Net OPEB liability	33,294,630	1,074,623	34,369,253
Due within one year	979,000	31,759	1,010,759
Due in more than one year	1,058,804	-	1,058,804
Total liabilities	48,983,912	1,509,461	50,493,373
DEFERRED INFLOWS OF RESOURCES	12,808,851	413,421	13,222,272
NET POSITION			
Net investment in capital assets, net of related debt	20,687,441	292,165	20,979,606
Restricted for:			
Stabilization by State Statue	31,561	-	31,561
Individual schools	193,978	-	193,978
Schlarships and grants	48,381	-	48,381
School Capital Outlay	180,928	-	180,928
Local Special Expense	371,083	-	371,083
DIPNC OPEB plan	123,920	4,001	127,921
Unrestricted (deficit)	(49,491,212)	(227,332)	(49,718,544)
Total net position	\$ (27,853,920)	\$ 68,834	\$ (27,785,086)

LEXINGTON CITY SCHOOLS, NORTH CAROLINA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2020

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Primary government:							
Governmental Activities:							
Instructional services:							
Regular instructional	\$ 16,305,983	\$ -	\$ 12,720,367	\$ -	\$ (3,585,616)	\$ -	\$ (3,585,616)
Special populations	3,910,169	-	3,624,398	-	(285,771)	-	(285,771)
Alternative programs and services	1,515,798	-	1,246,144	-	(269,654)	-	(269,654)
School leadership services	2,169,430	-	1,602,695	-	(566,735)	-	(566,735)
Co-curricular	488,863	324,993	-	-	(163,870)	-	(163,870)
School-based support services	2,135,963	-	2,032,184	-	(103,779)	-	(103,779)
System-wide support services:							
Support and development	117,804	-	35,482	-	(82,322)	-	(82,322)
Special population support and development	375,382	-	328,924	-	(46,458)	-	(46,458)
Alternative programs and services support and development	37,983	-	36,976	-	(1,007)	-	(1,007)
Technology support	507,997	-	10,077	-	(497,920)	-	(497,920)
Operational support	3,437,434	70,500	951,650	-	(2,415,284)	-	(2,415,284)
Financial and human resource services	453,796	-	301,102	-	(152,694)	-	(152,694)
Accountability services	140,343	-	-	-	(140,343)	-	(140,343)
System-wide pupil support	20,822	-	-	-	-	-	-
Policy, leadership and public relations	968,452	-	531,523	-	(436,929)	-	(436,929)
Ancillary services	141,461	-	68,338	-	(73,123)	-	(73,123)
Non-programmed charges	385,049	-	87,243	-	(297,806)	-	(297,806)
Interest on long-term debt	-	-	-	-	-	-	-
Unallocated depreciation expense**	130,159	-	-	-	(130,159)	-	(130,159)
Total governmental activities	<u>33,242,888</u>	<u>395,493</u>	<u>23,577,103</u>	<u>-</u>	<u>(9,270,292)</u>	<u>-</u>	<u>(9,270,292)</u>
Business-type activities:							
School food service	2,722,336	48,166	2,215,672	-	-	(458,498)	(458,498)
Total business-type activities	<u>2,722,336</u>	<u>48,166</u>	<u>2,215,672</u>	<u>-</u>	<u>-</u>	<u>(458,498)</u>	<u>(458,498)</u>
Total primary government	<u>\$ 35,965,224</u>	<u>\$ 443,659</u>	<u>\$ 25,792,775</u>	<u>-</u>	<u>(9,270,292)</u>	<u>(458,498)</u>	<u>(9,728,790)</u>
General revenues:							
Unrestricted county appropriations - operating	-	-	-	-	-	-	-
Unrestricted county appropriations - capital	-	-	-	1,387,956	-	-	1,387,956
Unrestricted State appropriations - operating	-	-	-	-	-	-	-
Unrestricted State appropriations - capital	-	-	-	8,913	-	-	8,913
Investment earnings, unrestricted	-	-	-	4,690	7,533	7,533	12,223
Miscellaneous, unrestricted	-	-	-	7,370,332	3,227	3,227	7,373,559
Transfers	-	-	-	(94,451)	94,451	94,451	-
Total general revenues and transfers	-	-	-	<u>8,677,440</u>	<u>105,211</u>	<u>105,211</u>	<u>8,782,651</u>
Change in net position	-	-	-	(592,852)	(353,287)	(353,287)	(946,139)
Net position-beginning	-	-	-	(27,261,068)	422,121	422,121	(26,838,947)
Net position-ending	-	-	-	<u>\$ (27,853,920)</u>	<u>\$ 68,834</u>	<u>\$ 68,834</u>	<u>\$ (27,785,086)</u>

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

LEXINGTON CITY SCHOOLS, NORTH CAROLINA
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2020

Exhibit 3

	Major Funds				Non-major Fund		Total Governmental Funds
	General	State Public School	Capital Outlay	Federal Grants	School Activity Fund	Local Special Expense	
ASSETS							
Cash and cash equivalents	\$ 1,636,312	\$ -	\$ 26,875	\$ -	\$ 193,978	\$ 425,815	\$ 2,282,980
Accounts receivable	-	-	-	-	-	-	-
Due from other governments	31,561	527,346	527,520	68,304	-	-	1,154,731
Due from other funds	-	-	-	-	-	16,393	16,393
Total assets	<u>\$ 1,667,873</u>	<u>\$ 527,346</u>	<u>\$ 554,395</u>	<u>\$ 68,304</u>	<u>\$ 193,978</u>	<u>\$ 442,208</u>	<u>\$ 3,454,104</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable and accrued expenditures	\$ 95,372	\$ -	\$ 373,467	\$ -	\$ -	\$ 53,902	\$ 522,741
Accrued salaries and wages payable	94,913	527,346	-	68,304	-	17,223	707,786
Total liabilities	<u>190,285</u>	<u>527,346</u>	<u>373,467</u>	<u>68,304</u>	<u>-</u>	<u>71,125</u>	<u>1,230,527</u>
Deferred inflows of resources	-	-	-	-	-	-	-
Fund balances:							
Restricted:							
Stabilization by State Statute	31,561	-	-	-	-	-	31,561
Individual Schools	-	-	-	-	193,978	-	193,978
Scholarships and grants	48,381	-	-	-	-	-	48,381
School Capital Outlay	-	-	180,928	-	-	-	180,928
Local Special Expense	-	-	-	-	-	371,083	371,083
Assigned:							
Subsequent years expenditures	-	-	-	-	-	-	-
Unassigned:	1,397,646	-	-	-	-	-	1,397,646
Total fund balances	<u>1,477,588</u>	<u>-</u>	<u>180,928</u>	<u>-</u>	<u>193,978</u>	<u>371,083</u>	<u>2,223,577</u>
Total liabilities and fund balances	<u>\$ 1,667,873</u>	<u>\$ 527,346</u>	<u>\$ 554,395</u>	<u>\$ 68,304</u>	<u>\$ 193,978</u>	<u>\$ 442,208</u>	

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

Net OPEB asset	45,513
Capital assets used in governmental activities are not financial resources and therefore are not reported in	20,687,441
Deferred outflows of resources related to pensions	4,967,554
Deferred outflows of resources related to OPEB	4,784,231
Some liabilities are not due and payable in the current period and therefore are not reported in the	(2,037,804)
Net pension liability	(12,420,951)
Net OPEB liability	(33,294,630)
Deferred in flows of resources related to pensions	(34,626)
Deferred in flows of resources related to OPEB	(12,774,225)
Net position of governmental activities	<u>\$ (27,853,920)</u>

LEXINGTON CITY SCHOOLS, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2020

Exhibit 4

	Major Funds				Non-major Fund		Total Governmental Funds
	General	State Public School	Capital Outlay	Federal Grants	School Activity Fund	Local Special Expense	
REVENUES							
State of North Carolina	\$ -	\$ 21,035,222	\$ 8,913	\$ -	\$ -	\$ 294,206	\$ 21,338,341
Davidson County	5,475,449	-	1,387,956	-	-	722,550	7,585,955
U.S. Government	-	161,300	-	2,475,032	-	66,803	2,703,135
Other	161,892	-	29,263	-	324,993	600,908	1,117,056
Total revenues	5,637,341	21,196,522	1,426,132	2,475,032	324,993	1,684,467	32,744,487
EXPENDITURES							
Current:							
Instructional services:							
Regular instructional	1,136,143	12,544,809	-	175,558	-	94,845	13,951,355
Special populations	5,959	2,804,339	-	820,059	-	176,097	3,806,454
Alternative programs and services	14,787	190,430	-	1,055,714	-	214,661	1,475,592
School leadership services	288,239	1,602,695	-	-	-	220,953	2,111,887
Co-curricular services	165,675	-	-	-	310,221	-	475,896
School-based support services	47,124	1,872,512	-	159,672	-	-	2,079,308
System-wide support services:							
Support and development	79,197	35,482	-	-	-	-	114,679
Special population support and development	36,501	211,435	-	117,489	-	-	365,425
Alternative programs and services support and development	-	-	-	36,976	-	-	36,976
Technology support	415,149	10,077	-	-	-	69,297	494,523
Operational support	1,864,198	929,329	-	22,321	-	530,410	3,346,258
Financial and human resource services	140,657	301,102	-	-	-	-	441,759
Accountability services	137,486	-	-	-	-	-	137,486
System-wide pupil support	-	-	-	-	-	-	-
Policy, leadership and public relations	427,803	531,523	-	-	-	-	959,326
Ancillary services	72,214	68,338	-	-	-	-	140,552
Non-programmed charges	297,806	-	-	87,243	-	-	385,049
Debt service:							
Principal	-	-	-	-	-	-	-
Interest and other charges	-	-	-	-	-	-	-
Capital outlay:							
Real property and buildings	-	-	1,037,149	-	-	-	1,037,149
Furniture and equipment	-	-	458,990	-	-	-	458,990
Buses and motor vehicles	-	-	-	-	-	-	-
Total expenditures	5,128,938	21,102,071	1,496,139	2,475,032	310,221	1,306,263	31,818,664
Revenues over (under) expenditures	508,403	94,451	(70,007)	-	14,772	378,204	925,823
OTHER FINANCING SOURCES							
Transfers to other fund	-	(94,451)	-	-	-	-	(94,451)
Total other financing sources	-	(94,451)	-	-	-	-	(94,451)
Net change in fund balance	508,403	-	(70,007)	-	14,772	378,204	831,372
Fund balances-beginning	969,185	-	250,935	-	179,206	(7,121)	1,392,205
Fund balances-ending	\$ 1,477,588	\$ -	\$ 180,928	\$ -	\$ 193,978	\$ 371,083	\$ 2,223,577

LEXINGTON CITY SCHOOLS, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2020

Exhibit 4
(Continued)

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

Net changes in fund balances - total governmental funds	\$ 831,372
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(608,515)
Contribution to the pension plan in the current fiscal year are not included on the Statement of Activities	2,258,290
Contribution to the OPEB plans in the current fiscal year are not included on the Statement of Activities	1,126,533
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Pension expense	(4,131,100)
OPEB expense	124,236
Change in compensated absences	<u>(193,668)</u>
Total changes in net position of governmental activities	<u>\$ (592,852)</u>

LEXINGTON CITY SCHOOLS, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET
AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2020

Exhibit 5

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
State of North Carolina	\$ -	\$ -	\$ -	\$ -
Davidson County	5,436,246	5,436,246	5,475,449	39,203
U.S. Government	-	-	-	-
Other	86,000	124,517	161,892	37,375
Total revenues	<u>5,522,246</u>	<u>5,560,763</u>	<u>5,637,341</u>	<u>76,578</u>
Expenditures:				
Current:				
Instructional services:				
Regular instructional	1,308,561	1,323,322	1,136,143	187,179
Special populations	2,559	6,559	5,959	600
Alternative programs and services	22,853	22,853	14,787	8,066
School leadership services	314,913	314,913	288,239	26,674
Co-curricular services	196,435	169,174	165,675	3,499
School-based support services	45,947	47,447	47,124	323
System-wide support services:				
Support and development	96,734	96,734	79,197	17,537
Special population support and development	11,468	36,968	36,501	467
Alternative programs and services support and development	25,486	-	-	-
Technology support	403,285	427,883	415,149	12,734
Operational support	1,976,861	1,964,742	1,864,198	100,544
Financial and human resource services	143,107	143,107	140,657	2,450
Accountability services	121,414	140,114	137,486	2,628
System-wide Pupil Support Services	-	-	-	-
Policy, leadership and public relations	466,525	471,367	427,803	43,564
Ancillary services	65,098	74,580	72,214	2,366
Non-programmed charges	321,000	321,000	297,806	23,194
Debt service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Total expenditures	<u>5,522,246</u>	<u>5,560,763</u>	<u>5,128,938</u>	<u>431,825</u>
Revenues over (under) expenditures	-	-	508,403	508,403
Other financing sources (uses):				
Capital lease obligations issued	-	-	-	-
Transfers to other fund	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other sources over (under) expenditures and other uses	-	-	508,403	508,403
Appropriated fund balance	-	-	-	-
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	508,403	<u>\$ 508,403</u>
Fund balances, beginning of year	-	-	969,185	-
Fund balances, end of year	-	-	<u>\$ 1,477,588</u>	-

LEXINGTON CITY SCHOOLS, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET
AND ACTUAL - STATE PUBLIC SCHOOL FUND
For the Year Ended June 30, 2020

Exhibit 6

	State Public School Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
State of North Carolina	\$ 22,025,844	\$ 22,211,648	\$ 21,035,222	\$ (1,176,426)
Davidson County	-	-	-	-
U.S. Government	-	161,300	161,300	-
Other	-	-	-	-
Total revenues	<u>22,025,844</u>	<u>22,372,948</u>	<u>21,196,522</u>	<u>(1,176,426)</u>
Expenditures:				
Current:				
Instructional services:				
Regular instructional	13,281,977	13,414,702	12,544,809	869,893
Special populations	2,809,011	2,864,011	2,804,339	59,672
Alternative programs and services	117,767	193,923	190,430	3,493
School leadership services	1,569,442	1,608,239	1,602,695	5,544
Co-curricular services	-	-	-	-
School-based support services	1,966,021	1,885,523	1,872,512	13,011
System-wide support services:				
Support and development	37,861	37,861	35,482	2,379
Special population support and development	144,134	214,134	211,435	2,699
Alternative programs and services support and development	-	-	-	-
Technology support	10,077	10,077	10,077	-
Operational support	924,786	934,786	929,329	5,457
Financial and human resource services	366,697	366,697	301,102	65,595
Accountability services	21,650	21,650	-	21,650
System-wide Pupil Support Services	-	-	-	-
Policy, leadership and public relations	551,590	551,590	531,523	20,067
Ancillary services	130,380	175,304	68,338	106,966
Non-programmed charges	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Total expenditures	<u>21,931,393</u>	<u>22,278,497</u>	<u>21,102,071</u>	<u>1,176,426</u>
Revenues over (under) expenditures	94,451	94,451	94,451	-
Other financing sources (uses):				
Transfers to other fund	(94,451)	(94,451)	(94,451)	-
Total other financing sources (uses)	<u>(94,451)</u>	<u>(94,451)</u>	<u>(94,451)</u>	<u>-</u>
Revenues and other sources over (under) expenditures and other uses	-	-	-	-
Appropriated fund balance	-	-	-	-
Net change in fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, beginning of year			-	
Fund balances, end of year			<u>\$ -</u>	

LEXINGTON CITY SCHOOLS, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET
AND ACTUAL - FEDERAL GRANTS FUND
For the Year Ended June 30, 2020

Exhibit 7

Federal Grants Fund				
	Original	Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:				
State of North Carolina	\$ -	\$ -	\$ -	\$ -
Davidson County	-	-	-	-
U.S. Government	4,604,929	4,592,697	2,475,032	(2,117,665)
Other	-	-	-	-
Total revenues	<u>4,604,929</u>	<u>4,592,697</u>	<u>2,475,032</u>	<u>(2,117,665)</u>
Expenditures:				
Current:				
Instructional services:				
Regular instructional	187,501	191,024	175,558	15,466
Special populations	990,838	1,027,304	820,059	207,245
Alternative programs and services	2,390,345	2,341,676	1,055,714	1,285,962
School leadership services	-	-	-	-
Co-curricular services	-	-	-	-
School-based support services	220,514	251,063	159,672	91,391
System-wide support services:				
Support and development	-	-	-	-
Special population support and development	264,971	285,009	117,489	167,520
Alternative programs and services support and development	40,262	40,286	36,976	3,310
Technology support	-	-	-	-
Operational support	174,864	174,877	22,321	152,556
Financial and human resource services	-	-	-	-
Accountability services	-	-	-	-
System-wide Pupil Support Services	-	-	-	-
Policy, leadership and public relations	13,494	13,445	-	13,445
Ancillary services	-	-	-	-
Non-programmed charges	322,140	268,013	87,243	180,770
Debt service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Total expenditures	<u>4,604,929</u>	<u>4,592,697</u>	<u>2,475,032</u>	<u>2,117,665</u>
Revenues over (under) expenditures	-	-	-	-
Other financing sources (uses):				
Capital lease obligations issued	-	-	-	-
Transfers to other fund	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other sources over (under) expenditures and other uses	-	-	-	-
Appropriated fund balance	-	-	-	-
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balances, beginning of year			-	
Fund balances, end of year			<u>\$ -</u>	

LEXINGTON CITY SCHOOLS, NORTH CAROLINA
STATEMENT OF NET POSITION - PROPRIETARY FUND
June 30, 2020

Exhibit 8

	<u>Enterprise Fund</u>
	<u>Major Fund</u>
	<u>School Food Service</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,088,545
Due from other governments	125,826
OPEB asset	1,469
Inventories	185,354
Total current assets	<u>1,401,194</u>
Noncurrent assets:	
Capital assets, net	<u>292,165</u>
Total assets	<u>1,693,359</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>314,750</u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	2,178
Due to other funds	16,393
Compensated absences	31,759
Total current liabilities	<u>50,330</u>
Noncurrent liabilities:	
Net pension liability	400,901
Net OPEB liability	1,074,623
Compensated absences	-
Total noncurrent liabilities	<u>1,475,524</u>
Total liabilities	<u>1,525,854</u>
DEFERRED INFLOWS OF RESOURCES	<u>413,421</u>
NET POSITION	
Net Investment in capital assets	292,165
DIPNC OPEB plan	4,001
Unrestricted	(227,332)
Total net position	<u>\$ 68,834</u>

LEXINGTON CITY SCHOOLS, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET
POSITION - PROPRIETARY FUND
For the Year Ended June 30, 2020

Exhibit 9

	<u>Enterprise Fund</u>
	<u>Major Fund</u>
	<u>School Food Service</u>
OPERATING REVENUES	
Food sales	\$ 48,166
Total operating revenues	<u>48,166</u>
OPERATING EXPENSES	
Purchase of food	943,863
Salaries and benefits	1,226,982
Indirect costs	168,393
Materials and supplies	221,820
Telephone and utilities	2,124
Repairs and maintenance	115,318
Depreciation	38,105
Contracted services	5,731
Other	-
Total operating expenses	<u>2,722,336</u>
Operating loss	<u>(2,674,170)</u>
NONOPERATING REVENUES	
Federal reimbursements	2,047,688
Federal commodities	167,984
Interest earned	7,533
Other	3,227
Total nonoperating revenue	<u>2,226,432</u>
Income before transfers	(447,738)
Transfers from other fund	<u>94,451</u>
Change in net position	(353,287)
Total net position - beginning	422,121
Total net position - ending	<u>\$ 68,834</u>

LEXINGTON CITY SCHOOLS, NORTH CAROLINA
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
For the Year Ended June 30, 2020

Exhibit 10

	<u>Enterprise Fund</u>
	<u>Major Fund</u>
	<u>School Food</u>
	<u>Service</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 48,166
Cash paid for goods and services	(1,406,835)
Cash paid to employees for services	(862,027)
Other operating revenues	-
Net cash used by operating activities	<u>(2,220,696)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Federal reimbursements	1,991,466
Other nonoperating revenues	3,227
Net cash provided by noncapital financing activities	<u>1,994,693</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	<u>(68,155)</u>
Net cash provided by capital and related financing activities	<u>(68,155)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>7,533</u>
Net increase in cash and cash equivalents	(286,625)
Balances-beginning of the year	<u>1,375,170</u>
Balances-end of the year	<u>\$ 1,088,545</u>

LEXINGTON CITY SCHOOLS, NORTH CAROLINA
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
For the Year Ended June 30, 2020

Exhibit 10
(Continued)

Reconciliation of operating loss to net cash used by operating activities

Operating loss	<u>\$ (2,674,170)</u>
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	38,105
Donated commodities consumed	167,984
Salaries paid by other fund	94,451
Changes in assets and liabilities:	
Increase in OPEB asset	(610)
Increase in inventory	(133,852)
Increase in deferred outflows	(59,189)
Increase in accounts payable and accrued liabilities	(111)
Increase in due to other funds	16,393
Increase in net pension liability	83,791
Increase in net OPEB liability	282,960
Decrease in deferred inflows	(25,090)
Decrease in compensated absences	<u>(11,358)</u>
Total adjustments	<u>453,474</u>
Net cash used by operating activities	<u><u>\$ (2,220,696)</u></u>

Noncash investing, capital, and financing activities:

The State Public School Fund paid salaries and benefits of \$94,451 to administrative personnel of the School Food Service Fund during the fiscal year. The payment is reflected by a transfer in and an operating expense on Exhibit 9.

The School Food Service Fund received donated commodities with a value of \$167,984 during the fiscal year. The receipt of the commodities is recognized as a nonoperating revenue on Exhibit 9.

A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Lexington City Schools, North Carolina conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

Reporting Entity

The Lexington City Schools, North Carolina, (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 within the City of Lexington, North Carolina. The Board receives State, local, and federal government funding and must adhere to the legal requirements of each funding entity.

Basis of Presentation

Government-wide Financial 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 on revenues and expenses. These statements distinguish between the *governmental* and *business-type activities* of the Board. Governmental activities generally are financed through intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

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

A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

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.

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 North Carolina Department of Public Instruction for the current operating expenditures of the public school system.

Federal Grants Fund. The Federal Grants Fund is used to account for funds provided by the federal government under various federal programs.

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 Davidson County appropriations, restricted sales tax monies, proceeds of Davidson County bonds issued for public school construction, lottery proceeds, as well as certain State assistance.

The Board reports the following major enterprise fund:

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

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, includes grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

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

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

Budgetary Data

The Board's budgets are adopted as required by the North Carolina General Statutes. Annual budgets are adopted for all funds, except for the individual schools special revenue funds, as required by the North Carolina General Statutes. No budget is required by the State law for individual school funds. All appropriations lapse at 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 \$10,000) from function to another within a fund. Such transfers must be reported to the governing board at its next regular meeting. Transfers between funds require governing board approval. During the year, several immaterial amendments to the original budget were necessary. Amendments which alter the County appropriation or transfer monies to or from the Capital Outlay Fund also require the approval of the Davidson County Board of Commissioners.

A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Data (Continued)

A budget calendar is included in G.S. 115C, Article 31, and 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 no later than May 1. |
| May 15 | The Board of Education makes changes, if necessary, to the budget request as submitted by the Superintendent and forwards an approved budget request to the Board of County Commissioners no later than May 15, unless the County Commissioners have established a later date. |
| July 1 | The Board of County Commissioners must complete its actions on the school budget not later than July 1, unless a later date is agreed upon between the Board of Education and the County Commissioners. |
| Month of 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 as set forth in State law [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-process at year end are completed. Encumbrances outstanding at year end do not constitute expenditures or liabilities. At June 30, 2020, the Capital Outlay Fund has no outstanding encumbrances. These encumbrances outstanding are reported as “reserved for encumbrances” in the fund balance section of the balance sheet – governmental funds. Encumbrances are reappropriated in the subsequent fiscal year since appropriations lapse at year end.

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

Deposits and Investments

All deposits of the Board with banks and savings and associations 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.

A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Deferred Outflows, Liabilities, Deferred Inflows and Fund Equity (Continued)

Cash and Cash Equivalents

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

Inventories

The inventories of the Board are valued at cost and the Board uses the first-in, first-out (FIFO) flow assumption in determining cost.

School Food Service Fund inventories consist of food and supplies and are recorded as expenses when consumed.

Capital Assets

The Board's capital assets are recorded at original cost. Donated assets are listed at their estimated fair value at the date of donation. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

It is the policy of the Board to capitalize all land, buildings, and improvements to buildings costing \$50,000 or more, and equipment costing \$5,000 or more. 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.

A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Deferred Outflows, Liabilities, Deferred Inflows and Fund Equity (Continued)

Capital Assets (Continued)

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

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

Buildings and improvements	50 years
Equipment and furniture	3 to 10 years
Vehicles	6 years

Depreciation for buildings and equipment that serve multiple purposes cannot be allocated ratably and is, therefore, reported as “unallocated depreciation” on the statement of activities.

Deferred Inflows of Resources

The statement of financial position will sometimes report separate sections for deferred outflows and inflows of resources. The 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 until then. The Board has an item that meets this criterion – contributions made to the pension plan in the current fiscal year. The 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 a revenue until then. The Board has several items that meet this criterion – grants receivable in the General Fund and pension related deferrals.

Long-term Obligations

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

Compensated Absences

The Board follows the State’s policy for vacation and sick leave. Employees may accumulate up to thirty days earned vacation leave with such leave being fully vested when earned. For the Board, the current portion of the accumulated vacation pay is not considered to be material. The Board’s liability for accumulated earned vacation and the salary-related payments as of June 30, 2020 is recorded in the government-wide and proprietary fund financial statements on the FIFO basis. An estimate of the current portion of compensated absences has been made based on prior year’s records.

A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Deferred Outflows, Liabilities, Deferred Inflows and Fund Equity (Continued)

Compensated Absences (Continued)

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

Net Position/Fund Balances

Net Position

Net position in the government-wide and proprietary fund financial statements are classified as net investment in capital assets, 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 Board's fund financial statements, fund balance is composed of five classification 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. The Board had no nonspendable fund balance at year end.

A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Deferred Outflows, Liabilities, Deferred Inflows and Fund Equity (Continued)

Net Position/Fund Balances (Continued)

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

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

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

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

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

Assigned Fund Balance - portion of fund balance that Lexington City Schools, North Carolina intends to use for specific purposes.

Subsequent Year's Expenditures - portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation; however, the budget ordinance authorizes the Finance Officer to recommend modifications of the appropriations within funds for approval by the governing body.

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

Lexington City Schools, North Carolina 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 funds, Board 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.

A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Deferred Outflows, Liabilities, Deferred Inflows and Fund Equity (Continued)

Reconciliation of Government-wide and Fund Financial Statements

- a) Explanation of certain differences between the governmental funds balance sheet and the government-wide statement of net position.

The governmental funds 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 \$(30,077,497) consists of several elements as follows:

Description	Amount
Capital assets used in governmental activities are not financial resources and are; therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column)	\$ 38,569,341
Less: accumulated depreciation	(17,881,900)
Net capital assets	20,687,441
Net OPEB asset	45,513
Pension related deferred outflows of resources	4,967,554
OPEB related deferred outflows of resources	4,784,231
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not recorded in the fund statements:	
Compensated absences	(2,037,804)
Net pension liability	(12,420,951)
Net OPEB liability	(33,294,630)
Deferred inflows of resources related to pensions	(34,626)
Deferred in flows of resources related to OPEB	(12,774,225)
Total adjustment	\$ (30,077,497)

A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Deferred Outflows, Liabilities, Deferred Inflows and Fund Equity (Continued)

Reconciliation of Government-wide and Fund Financial Statements (Continued)

b) Explanation of certain differences between the governmental funds statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental funds statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. There are several elements of that total adjustment of \$(1,424,224) as follows:

Description	Amount
Capital outlay expenditures recorded in the fund statements but capitalized as assets in the statement of activities	\$ 107,105
Depreciation expense, the allocation of those assets over their useful lives, that is recorded on the statement of activities, but not in the fund statements	(715,620)
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	--
Contributions to the pension plan in the current fiscal year are not Included on the Statement of Activities	2,258,290
Contributions to the OPEB plans in the current fiscal year are not Included in the Statement of Activities	1,126,533
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:	
Compensated absences are incurred in the government-wide Statements but not in the fund statements because they do not Use current resources	(193,668)
Pension expense	(4,131,100)
OPEB expense	<u>124,236</u>
Total adjustment	<u>\$ (1,424,224)</u>

B) – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Excess of Expenditures Over Appropriations

During the fiscal year ended June 30, 2015, the Board reported expenditures within the Capital Outlay Fund that violated State law (G.S. 115C-441) because they exceeded the amounts appropriated in the budget ordinance. In the future, to eliminate expenditures that exceed the budget, the Board will review expenditures compared to budget prior to year end and make necessary budget amendments.

	Budget	Expenditure	Over Budget
Capital Outlay	\$1,433,300	\$1,496,139	\$ (62,839)
Local Special Expense			
Operation Expenditures	\$ 495,934	\$ 530,410	\$ (34,476)

B) DETAIL NOTES ON ALL FUNDS

Assets

Deposits

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

At June 30, 2020, the Board had deposits with banks and savings and loans with a carrying amount of \$3,371,525. The bank balances with the financial institutions and the State Treasurer were \$3,549,661 and \$123,894, respectively. Of these balances, \$250,000 was covered by federal depository insurance and \$3,423,555 was covered by collateral held by authorized escrow agents in the name of the State Treasurer.

LEXINGTON CITY SCHOOLS, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

B) DETAIL NOTES ON ALL FUNDS (Continued)

Assets (Continued)

Accounts Receivable

Receivables at the government-wide level at June 30, 2020, were as follows:

	Due from other funds (Internal Balances)	Due from other governments	Other	Total
Governmental activities:				
General Fund	\$ -	\$ 31,561	\$ -	\$ 31,561
Other governmental activities	<u>16,393</u>	<u>1,123,170</u>	<u>-</u>	<u>1,123,170</u>
Total	<u>\$ 16,393</u>	<u>\$ 1,154,731</u>	<u>\$ -</u>	<u>\$ 1,154,731</u>
Business-type activities:				
School Food Service Fund	<u>\$ (16,393)</u>	<u>\$ 125,826</u>	<u>\$ -</u>	<u>\$ 125,826</u>

Due from other governments consists of the following:

Governmental activities:		
General Fund	\$ 6,738	Fines and forfeitures from County
General Fund	24,823	Supplemental tax
Local Special Fund	-	Smart Start
State Public School Fund	527,346	11 th and 12 th installments due from NCDPI
Federal Grants Fund	68,304	11 th and 12 th installments due from NCDPI
Capital Outlay Fund	<u>527,520</u>	Sales tax and county reimbursement
Total	<u>\$ 1,154,731</u>	

LEXINGTON CITY SCHOOLS, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

B) DETAIL NOTES ON ALL FUNDS (Continued)

Assets (Continued)

Accounts Receivable (Continued)

Business-type activities:		
School Food Service Fund	\$ 125,864	Federal funds
School Food Service Fund	—	County portion of sales tax from State
Total	<u>\$ 125,864</u>	

Capital Assets

Capital asset activity for the year ended June 30, 2020 was as follows:

	<u>Beginning Balances</u>	<u>Increase</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 393,548	\$ -	\$ -	\$ 393,548
Construction in progress	—	—	—	—
Total capital assets not being depreciated	<u>393,548</u>	<u>-</u>	<u>-</u>	<u>393,548</u>
Capital assets being depreciated:				
Buildings and improvements	36,270,093	-	-	36,270,093
Furniture and equipment	1,354,030	66,363	-	1,420,393
Vehicles	444,565	40,742	-	485,307
Total capital assets being depreciated	<u>38,068,688</u>	<u>107,105</u>	<u>-</u>	<u>38,175,793</u>
Less accumulated depreciation for:				
Buildings and improvements	16,213,174	585,461	-	16,798,635
Furniture and equipment	580,170	112,258	-	692,428
Vehicles	372,936	17,901	-	390,837
Total accumulated depreciation	<u>17,166,280</u>	<u>715,620</u>	<u>-</u>	<u>17,881,900</u>
Total capital assets being depreciated, net	<u>20,902,408</u>			<u>20,293,893</u>
Governmental activity capital assets, net	<u>\$21,295,956</u>			<u>\$ 20,687,441</u>

Depreciation was charged to governmental functions as follows:

Operational support services	\$ 585,461
Unallocated depreciation	<u>130,159</u>
Total	<u>\$ 715,620</u>

LEXINGTON CITY SCHOOLS, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

B) DETAIL NOTES ON ALL FUNDS (Continued)

Assets (Continued)

Capital Assets (Continued)

	<u>Beginning</u> <u>Balances</u>	<u>Increase</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
Business-type activities:				
School Food Service Fund				
Capital assets being depreciated:				
Furniture and equipment	\$ 660,275	\$ 68,155	\$ 19,884	\$ 708,546
Less accumulated depreciation for:				
Furniture and equipment	<u>398,160</u>	<u>38,105</u>	<u>19,884</u>	<u>416,381</u>
School Food Service Fund				
capital assets, net	<u>\$ 262,115</u>			<u>\$ 292,165</u>

Construction Commitments

The Board does not have any significant active construction projects as of June 30, 2020.

B) DETAIL NOTES ON ALL FUNDS (Continued)

Liabilities

Pension Plan and Other Postemployment Obligations

Teachers' and State Employees' Retirement System

Plan Description. The Board is a participating employer in the statewide Teachers' and State Employees' Retirement System (TSERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State (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. retirement benefits to plan members and beneficiaries. 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 consist of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Teachers' and State Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for TSERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

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

B) DETAIL NOTES ON ALL FUNDS (Continued)

TSERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as 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. Contributions 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, 2020, was 12.97% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Board were \$2,331,179 for the year ended June 30, 2020.

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

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

At June 30, 2020, the Board reported a liability of \$12,821,852 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2018. The total pension liability was then rolled forward to the measurement date of June 30, 2019 utilizing update procedures incorporating the actuarial assumptions. The Board's proportion of the net pension liability was based on a projection of the Board's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating TSERS employers, actuarially determined. At June 30, 2019 and at June 30, 2018, the Board's proportion was .12% and .12%, respectively.

LEXINGTON CITY SCHOOLS, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

B) DETAIL NOTES ON ALL FUNDS (Continued)

For the year ended June 30, 2020, the Board recognized pension expense of \$4,596,551. At June 30, 2020, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,072,533	\$ 25,669
Changes of assumptions	1,366,219	-
Net difference between projected and actual earnings on pension plan investments	245,777	-
Changes in proportion and differences between Board contributions and proportionate share of contributions	112,180	10,075
Board contributions subsequent to the measurement date	<u>2,331,179</u>	<u>-</u>
	<u>\$ 5,127,888</u>	<u>\$ 35,744</u>

\$2,331,179 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, 2021. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30	
2021	\$ 1,919,446
2022	491,979
2023	263,562
2024	85,979
2025	-
Thereafter	-

Actuarial Assumptions. The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.00 percent, net of pension plan investment expense, including inflation

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

B) DETAIL NOTES ON ALL FUNDS (Continued)

The actuarial assumptions used in the December 31, 2019 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, 2019 are summarized in the following table:

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

The information above is based on 30 year expectations developed with the consulting actuary for the 2019 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.

B) DETAIL NOTES ON ALL FUNDS (Continued)

Discount rate. The discount rate used to measure the total pension liability was 7.00%. 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 that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the County’s proportionate share of the net pension asset to changes in the discount rate. The following presents the Board’s proportionate share of the net pension liability calculated using the discount rate of 7.00 percent, as well as what the Board’s proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00 percent) or 1-percentage-point higher (8.00 percent) than the current rate:

	<u>1% Decrease (6.00%)</u>	<u>Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
Board’s proportionate share of net pension liability (asset)	\$ 24,403,552	\$ 12,821,852	\$ 3,106,283

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.

Other Postemployment Benefits

Healthcare Benefits

1. Healthcare Benefits

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

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

LEXINGTON CITY SCHOOLS, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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

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

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

Section 35.21 (c) and (d) of Session Law 2019-57 repeals retiree medical benefits for employees first hired January 1, 2021. The new legislation amends Article 3B of Chapter 135 of the General Statutes to require that retirees must earn contributory retirement service in TSERS (or in an allowed local system unit), CJRS, or LRS prior to January 1, 2021, and not withdraw that service, in order to be eligible for retiree medical benefits under the amended law. Consequently, members first hired on and after January 1, 2021 will not be eligible to receive retiree medical benefits.

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

Contributions. By General Statute, accumulated contributions from employers to RHBF and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and their applicable beneficiaries. By statute, contributions to RHBF are irrevocable. Also by law, fund assets are dedicated to providing benefits to retired and disabled employees and their applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to RHBF. However, RHBF assets may be used for reasonable expenses to administer the RHBF, including costs to conduct required actuarial valuations of state—supported retired employees' health benefits. Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis are determined by the General Assembly in the Appropriations Bill. For the current fiscal year, the Board contributed 6.47% of covered payroll which amounted to \$1,162,893.

LEXINGTON CITY SCHOOLS, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

At June 30, 2020, Board reported a liability of \$34,369,253 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2018. The total OPEB liability was then rolled forward to the measurement date of June 30, 2019 utilizing update procedures incorporating the actuarial assumptions. The Board's proportion of the net OPEB liability was based on a projection of the Board's present value of future salary, actuarially determined. At June 30, 2019 and 2018, the Board's proportion was 0.109% and 0.106%.

\$1,162,893 reported as deferred outflows of resources related to OPEB resulting from Board contributions subsequent to the measurement date will be recognized as a decrease of the net OPEB liability in the year ending June 30, 2021. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:

2021	\$ (3,007,339)
2022	(3,007,339)
2023	(3,004,030)
2024	(934,186)
2025	466,480
Thereafter	-

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

Inflation	3.00%
Salary increases	3.50-8.10%, include 3.5% inflation and productivity factor
Investment rate of return	7.00%, net of pension plan investment expense, including inflation
Healthcare cost trend rate - medical	5.00-6.50%
Healthcare cost trend rate - prescription drug	5.00-9.50%
Healthcare cost trend rate - Medicare advantage	5.00%
Healthcare cost trend rate - administrative	3.00%

Discount rate. The discount rate used to measure the total OPEB liability for the RHBF was 3.50 % and 3.87% for June 30, 2020 and 2019, respectively. The projection of cash flow used to determine the discount rate assumed that contributions from employers would be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments of current plan members. As a result, a municipal bond rate of 3.50% was used as the discount rate used to measure the total OPEB liability. The 3.50% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2019.

LEXINGTON CITY SCHOOLS, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Sensitivity of the Board's proportionate share of the net OPEB liability to changes in the discount rate. The following presents the Board's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.50 percent) or 1-percentage point higher (4.50 percent) than the current discount rate:

	1% decrease (2.50%)	Discount Rate (3.50%)	1% Increase (4.50%)
Net OPEB liability	\$ 40,843,973	\$ 34,369,253	\$ 29,186,237

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

	1% Decrease (Medical - 4.00-5.50%, Pharmacy - 4.00-8.50%, Medicare Advantage - 4.00%, Administrative - 2.00%)	Healthcare Trend Rates (Medical -5.00-6.50%, Pharmacy - 5.00-9.50%, Medicare Advantage - 5.00%, Administrative - 3.00%)	1% increase (Medical -6.00- 7.50%, Pharmacy - 6.00- 10.50%, Medicare Advantage - 6.00%, Administrative - 4.00%)
Net OPEB liability	\$ 28,301,086	\$ 34,369,253	\$ 42,349,646

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

2. Disability Benefits

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

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

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

LEXINGTON CITY SCHOOLS, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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

Contributions. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases. Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly and coincide with the State fiscal year. For the fiscal year ended June 30, 2019, employers made a statutory contribution of 0.10% of covered payroll which was equal to the actuarially required contribution. Board contributions to the plan were \$17,974 for the year ended June 30, 2020.

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

At June 30, 2020, Board reported an asset of \$46,982 for its proportionate share of the net DIPNC net OPEB asset. The net OPEB asset was measured as of June 30, 2019, and the total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2018. The total OPEB liability was then rolled forward to the measurement date of June 30, 2019 utilizing update procedures incorporating the actuarial assumptions. The Board's proportion of the net OPEB asset was based on a projection of the Board's present value of future salary, actuarially determined. At June 30, 2019 and 2018, the Board's proportion was 0.109% and 0.108%.

\$17,974 reported as deferred outflows of resources related to OPEB resulting from Board contributions subsequent to the measurement date will be recognized as a decrease of the net OPEB liability in the year ending June 30, 2021. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30	
2021	\$ 19,930
2022	13,551
2023	9,909
2024	6,205
2025	8,567
Thereafter	(495)

LEXINGTON CITY SCHOOLS, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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

Inflation	3.00%
Salary increases	3.5%-8.10%, include 3.5% inflation and productivity factor
Investment rate of return	3.75%, net of pension plan expense, including inflation

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

	1% Decrease (2.75%)	Discount Rate (3.75%)	1% Increase (4.75%)
Net OPEB asset	\$ 39,793	\$ 46,982	\$ 53,968

Common actuarial assumptions for both OPEB plans. The total OPEB liability was determined by an actuarial valuation performed as of December 31, 2018 using the following actuarial assumptions, applied to all periods in the measurement, unless otherwise specified. The total OPEB liability was calculated through the use of update procedures to roll forward from the actuarial valuation date to the measurement date of June 30, 2019. The update procedures incorporated the actuarial assumptions used in the valuation. The entry age normal cost method was utilized.

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

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	29%	1.4%
Global Equity	42%	5.3%
Real Estate	8%	4.3%
Alternatives	8%	8.9%
Opportunistic Fixed Income	7%	6.0%
Inflation Sensitive	6%	4.0%
Total	<u>100%</u>	

LEXINGTON CITY SCHOOLS, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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

	RHBF	DIPNC	Total
OPEB Expense	\$ (222,568)	\$ 45,449	\$ (177,119)
OPEB Liability (Asset)	34,369,253	(46,982)	34,322,271
Proportionate share of the net OPEB liability (asset)	0.109%	0.108%	
Deferred of Outflows of Resources			
Differences between expected and actual experience	-	47,995	47,995
Changes of assumptions	1,651,948	5,204	1,657,152
Net difference between projected and actual earnings on plan investments	-	8,949	8,949
Changes in proportion and differences between Board contributions and proportionate share of contributions	2,019,980	817	2,020,797
Board contributions subsequent to the measurement date	1,162,893	17,974	1,180,867
Deferred of Inflows of Resources			
Differences between expected and actual experience	1,732,643	4,820	1,737,463
Changes of assumptions	10,332,904	-	10,332,904
Net difference between projected and actual earnings on plan investments	22,887	-	22,887
Changes in proportion and differences between Board contributions and proportionate share of contributions	1,115,684	477	1,116,161

LEXINGTON CITY SCHOOLS, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

B) DETAIL NOTES ON ALL FUNDS (Continued)

Liabilities (Continued)

Accounts Payable

Accounts payable as of June 30, 2020, are as follows:

	<u>Vendors</u>	<u>Accrued Salaries and Benefits</u>	<u>Total</u>
Governmental activities:			
General	\$ 95,372	\$ 94,913	\$ 190,285
Other governmental	<u>427,369</u>	<u>612,873</u>	<u>1,040,242</u>
Total governmental activities	<u>\$ 522,741</u>	<u>\$ 707,786</u>	<u>\$ 1,230,527</u>
Business-type activities:			
School Food Service Fund	<u>\$ 2,178</u>	<u>\$ -</u>	<u>\$ 2,178</u>

Deferred Outflows and Deferred Inflows of Resources

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Change in proportion and difference between Employer contributions and proportionate Share of contributions	\$ 2,132,977	\$ 1,126,236
Change in assumptions	3,023,371	10,337,724
Difference between projected and actual earning On plan investments	277,613	-
Board contributions subsequent to the measurement date	3,512,046	-
Difference between expected and actual experience	<u>1,120,528</u>	<u>1,758,312</u>
Totals	<u>\$ 10,066,535</u>	<u>\$ 13,222,272</u>

B) DETAIL NOTES ON ALL FUNDS (Continued)

Liabilities (Continued)

Risk Management

The Board is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board participates in the North Carolina School Boards Trust (the Trust), a member funded risk management program administered by the North Carolina School Boards Association. Through the Trust, the Board maintains general liability and errors and omissions coverage of \$1 million per claim. The Trust has an annual aggregate limit for general liability of \$2,550,000 and an annual aggregate limit of \$2,550,000 for errors and omissions claims. The Trust is reinsured through commercial companies for losses in excess of \$150,000 per claim for errors and omissions and general liability. Statutory workers' compensation coverage is purchased through private insurers (or self-insured by the local board). Coverage is provided to the extent employees are paid from Federal or local funds. Workers' compensation coverage is provided by the State of North Carolina through a self-insured fund, to the extent employees are paid from State funds. The Board also participates in the Public School Insurance Fund (the Fund), a voluntary, self-insured risk control and risk financing fund administered by the North Carolina Department of Public Instruction, insuring the tangible property assets of the Board. Coverage is provided on an "all risk" perils contract. Buildings and contents are insured on a replacement cost basis. The Fund purchases excess reinsurance to protect the assets of the Fund in the event of a catastrophic event. The Fund maintains a self-insured retention of \$10 million. Excess reinsurance is purchased through commercial insurers. A limit of \$5 million per occurrence is provided on flood, earthquake, business interruption and extra expense. \$10 million per occurrence is provided on increased cost of construction.

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

In accordance with G.S. 115C-442, the Board's employees who have custody of the Board's monies at any given time are performance bonded through a commercial surety bond. The Finance Officer is bonded for \$50,000.

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.

B) DETAIL NOTES ON ALL FUNDS (Continued)

Liabilities (Continued)

Contingent Liabilities

At June 30, 2020, the Board was a defendant to various lawsuits and claims. In the opinion of the Board's management and the Board's attorney, the ultimate effect of these lawsuits and claims will not have a material adverse effect on the Board's financial position.

LEXINGTON CITY SCHOOLS, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

B) DETAIL NOTES ON ALL FUNDS (Continued)

Liabilities (Continued)

Long-Term Obligations (Continued)

Long-Term Obligation Activity

The following is a summary of changes in the Board's long-term obligations for the fiscal year ended June 30, 2020:

	Beginning Balance, Restated	Increases	Decreases	Ending Balance	Current Portion
Governmental activities:					
Net pension liability	\$ 11,817,371	\$ 603,580	\$ -	\$ 12,420,951	\$ -
Installment purchase Obligation	-	-	-	-	-
Net OPEB liability	29,501,941	3,792,689	-	33,294,630	-
Compensated absences	1,844,136	1,172,431	978,763	2,037,804	979,000
Totals	<u>\$ 43,163,448</u>	<u>\$ 5,568,700</u>	<u>\$ 978,763</u>	<u>\$ 47,753,385</u>	<u>\$ 979,000</u>
Business-type activities:					
Net pension liability	\$ 317,110	\$ 83,791	\$ -	\$ 400,901	\$ -
Net OPEB liability	791,663	282,960	-	1,074,623	-
Compensated absences	43,117	21,385	32,743	31,759	31,759
Totals	<u>\$ 1,151,890</u>	<u>\$ 388,136</u>	<u>\$ 32,743</u>	<u>\$ 1,507,283</u>	<u>\$ 31,759</u>

Compensated absences are paid by the General Fund and School Food Service Fund when leave is taken.

Interfund Balances and Activity

Transfers to/from other funds at June 30, 2020, consist of the following:

	<u>Amount</u>
From the State Public School Fund to the School Food Service Fund	
for administrative cost	<u>\$ 94,451</u>

C) 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 monies 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 monies.

**LEXINGTON CITY SCHOOLS, NORTH CAROLINA
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM
 LAST SEVEN FISCAL YEARS***

	2020	2019
Board's proportion of the net pension liability (asset)	0.124%	0.122%
Board's proportionate share of the net pension liability (asset)	\$12,821,852	\$12,134,481
Board's covered-employee payroll	\$19,193,648	\$18,485,208
Board's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	66.80%	65.64%
Plan fiduciary net position as a percentage of the total pension liability	87.56%	87.61%

	2018	2017	2016	2015	2014
Board's proportion of the net pension liability (asset)	0.123%	0.122%	0.124%	0.131%	0.130%
Board's proportionate share of the net pension liability (asset)	\$9,733,179	\$11,232,361	\$4,586,229	\$1,523,796	\$7,965,177
Board's covered-employee payroll	\$17,862,830	\$17,115,320	\$17,401,039	\$17,250,606	\$17,182,937
Board's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	54.49%	65.63%	26.36%	8.83%	46.36%
Plan fiduciary net position as a percentage of the total pension liability	89.51%	87.32%	94.64%	98.24%	90.60%

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

**LEXINGTON CITY SCHOOLS, NORTH CAROLINA
 SCHEDULE OF BOARD CONTRIBUTIONS
 TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM
 LAST SEVEN FISCAL YEARS***

	2020		2019	
Contractually required contribution	\$	2,331,179	\$	2,358,899
Contributions in relation to the contractually required contribution		<u>2,331,179</u>		<u>2,358,899</u>
Contribution deficiency (excess)	\$	<u>-</u>	\$	<u>-</u>
Board's covered-employee payroll	\$	17,973,624	\$	19,193,648
Contributions as a percentage of covered-employee payroll		12.97%		12.29%

	2018	2017	2016	2015	2014
Contractually required contribution	\$ 1,992,705	\$ 1,782,710	\$ 1,566,052	\$ 1,592,195	\$ 1,499,078
Contributions in relation to the contractually required contribution	<u>1,992,705</u>	<u>1,782,710</u>	<u>1,566,052</u>	<u>1,592,195</u>	<u>1,499,078</u>
Contribution deficiency (excess)	<u>\$ -</u>				
Board's covered-employee payroll	\$ 18,485,208	\$ 17,862,830	\$ 17,115,320	\$ 17,401,039	\$ 17,250,606
Contributions as a percentage of covered-employee payroll	10.78%	9.98%	9.15%	9.15%	8.69%

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

**LEXINGTON CITY BOARD OF EDUCATION
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE BOARD'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
RETIREE HEALTH BENEFIT FUND
LAST FOUR FISCAL YEARS***

	2019	2019	2018	2017
Board's proportion of the net OPEB liability (asset)	0.109%	0.106%	0.110%	0.105%
Board's proportionate share of the net OPEB liability (asset)	\$ 34,369,253	\$ 30,293,604	\$ 36,132,586	\$ 45,536,024
Board's covered payroll	\$ 19,193,648	\$ 18,485,208	\$ 17,862,830	\$ 17,115,320
Board's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	179.07%	163.88%	202.28%	266.05%
Plan fiduciary net position as a percentage of the total OPEB liability	4.40%	4.40%	3.52%	2.41%

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

Note: This is a ten year schedule. However, GASB 75 was not adopted until the fiscal year ended June 30, 2018. Therefore, there are only four years of data presented.

**LEXINGTON CITY BOARD OF EDUCATION
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF BOARD CONTRIBUTIONS
RETIREE HEALTH BENEFIT FUND
LAST SEVEN FISCAL YEARS**

	<u>2020</u>	<u>2019</u>			
Contractually required contribution	\$ 1,162,893	\$ 1,203,442			
Contributions in relation to the contractually required	<u>1,162,893</u>	<u>1,203,442</u>			
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>			
Board's covered payroll	\$ 17,973,624	\$ 19,193,648			
Contributions as a percentage of covered payroll	6.47%	6.27%			
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 1,118,355	\$ 1,037,830	\$ 958,458	\$ 955,317	\$ 931,533
Contributions in relation to the contractually required contribution	<u>1,118,355</u>	<u>1,037,830</u>	<u>958,458</u>	<u>955,317</u>	<u>931,533</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Board's covered payroll	\$ 18,485,208	\$ 17,862,830	\$ 17,115,320	\$ 17,401,039	\$ 17,250,606
Contributions as a percentage of covered payroll	6.05%	5.81%	5.60%	5.49%	5.40%

**LEXINGTON CITY BOARD OF EDUCATION
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE BOARD'S PROPORTIONATE SHARE OF THE NET OPEB ASSET
DISABILITY INCOME PLAN OF NORTH CAROLINA
LAST FOUR FISCAL YEARS***

	2020	2019	2018	2017
Board's proportion of the net OPEB asset	0.109%	0.108%	0.108%	0.109%
Board's proportionate share of the net OPEB asset	\$ 46,982	\$ 32,858	\$ 66,211	\$ 67,565
Board's covered payroll	\$ 19,193,648	\$ 18,485,208	\$ 17,862,830	\$ 17,115,320
Board's proportionate share of the net OPEB asset as a percentage of its covered payroll	0.24%	0.18%	0.37%	0.39%
Plan fiduciary net position as a percentage of the total OPEB asset	113.00%	108.47%	116.23%	116.06%

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

Note: This is a ten year schedule. However, GASB 75 was not adopted until the fiscal year ended June 30, 2018. Therefore, there are only four years of data presented.

**LEXINGTON CITY BOARD OF EDUCATION
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF BOARD CONTRIBUTIONS
DISABILITY INCOME PLAN OF NORTH CAROLINA
LAST SEVEN FISCAL YEARS**

	2020	2019			
Contractually required contribution	\$ 17,974	\$ 26,871			
Contributions in relation to the contractually required	17,974	26,871			
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>			
Board's covered payroll	\$ 17,973,624	\$ 19,193,648			
Contributions as a percentage of covered payroll	0.10%	0.44%			
	2018	2017	2016	2015	2014
Contractually required contribution	\$ 25,879	\$ 67,879	\$ 70,173	\$ 71,344	\$ 75,903
Contributions in relation to the contractually required contribution	25,879	67,879	70,173	71,344	75,903
Contribution deficiency (excess)	<u>\$ -</u>				
Board's covered payroll	\$ 18,485,208	\$ 17,862,830	\$ 17,115,320	\$ 17,401,039	\$ 17,250,606
Contributions as a percentage of covered payroll	0.14%	0.38%	0.41%	0.41%	0.44%

LEXINGTON CITY SCHOOLS, NORTH CAROLINA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2020

Schedule 1

	Budget	Actual	Variance - Favorable (Unfavorable)
Revenues:			
Davidson County:			
County appropriation	\$ 3,910,246	\$ 3,910,246	\$ -
Supplemental school taxes	1,526,000	1,565,203	39,203
Total Davidson County	<u>5,436,246</u>	<u>5,475,449</u>	<u>39,203</u>
Other :			
Fines and forfeitures	86,000	79,880	(6,120)
Interest earned on investments	-	3,394	3,394
Other	38,517	78,618	40,101
Total other	<u>124,517</u>	<u>161,892</u>	<u>37,375</u>
Total revenues	<u>5,560,763</u>	<u>5,637,341</u>	<u>76,578</u>
Expenditures:			
Instructional services:			
Regular instructional	1,323,322	1,136,143	187,179
Special populations	6,559	5,959	600
Alternative programs and services	22,853	14,787	8,066
School leadership services	314,913	288,239	26,674
Co-curricular services	169,174	165,675	3,499
School-based support services	47,447	47,124	323
Total instructional services	<u>1,884,268</u>	<u>1,657,927</u>	<u>226,341</u>
System-wide support services:			
Support and development	96,734	79,197	17,537
Special population support and development	36,968	36,501	467
Technology support	427,883	415,149	12,734
Operational support	1,964,742	1,864,198	100,544
Financial and human resource services	143,107	140,657	2,450
Accountability services	140,114	137,486	2,628
Policy, leadership and public relations	471,367	427,803	43,564
Total system-wide support services	<u>3,280,915</u>	<u>3,100,991</u>	<u>179,924</u>

LEXINGTON CITY SCHOOLS, NORTH CAROLINA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2020

	Schedule 1		
	(Continued)		
	Budget	Actual	Variance - Favorable (Unfavorable)
Expenditures (continued)			
Ancillary services	74,580	72,214	2,366
Non-programmed charges	321,000	297,806	23,194
Debt service:			
Principal	-	-	-
Interest	-	-	-
Total debt service	-	-	-
Total expenditures	5,560,763	5,128,938	431,825
Revenues over (under) expenditures	-	508,403	508,403
Other financing sources (uses):			
Operating transfers out	-	-	-
Total other financing sources	-	-	-
Revenues and other sources over (under) expenditures and other uses	-	508,403	508,403
Appropriated fund balance	-	-	-
Revenue, other sources, and appropriated fund balance under expenditures and other uses	\$ -	508,403	\$ 508,403
Fund balance, beginning of year		969,185	
Fund balance, end of year		<u>\$ 1,477,588</u>	

LEXINGTON CITY SCHOOLS, NORTH CAROLINA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - CAPITAL OUTLAY FUND
For the Year Ended June 30, 2020

			Schedule 2
	Budget	Actual	Variance - Favorable (Unfavorable)
Revenues:			
State of North Carolina:			
Sales tax refund	\$ -	\$ 8,913	\$ 8,913
Total State of North Carolina	<u>-</u>	<u>8,913</u>	<u>8,913</u>
Davidson County:			
Appropriations from county	1,417,513	1,387,956	(29,557)
Total Davidson County	<u>1,417,513</u>	<u>1,387,956</u>	<u>(29,557)</u>
Other:			
Interest earned	-	1,296	1,296
Other	15,787	27,967	12,180
Total other	<u>15,787</u>	<u>29,263</u>	<u>13,476</u>
Total revenues	<u>1,433,300</u>	<u>1,426,132</u>	<u>(7,168)</u>
Expenditures:			
Capital outlay:			
Real property and buildings	1,151,351	1,037,149	114,202
Furniture and equipment	281,949	458,990	(177,041)
Total expenditures	<u>1,433,300</u>	<u>1,496,139</u>	<u>(62,839)</u>
Revenues over (under) expenditures	-	(70,007)	(70,007)
Other financing sources:			
Transfers In	-	-	-
Capital lease obligations issued	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures	-	(70,007)	(70,007)
Appropriated fund balance	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures	<u>\$ -</u>	<u>(70,007)</u>	<u>\$ (70,007)</u>
Fund balance, beginning of year		<u>250,935</u>	
Fund balance, end of year		<u>\$ 180,928</u>	

LEXINGTON CITY SCHOOLS, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - LOCAL SPECIAL EXPENSE
For the Year Ended June 30, 2020

Schedule 3

	Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:			
State of North Carolina	\$ 324,300	\$ 294,206	\$ (30,094)
Davidson County	722,550	722,550	-
U.S. Government	65,000	66,803	1,803
Other	711,200	600,908	(110,292)
Total revenues	<u>1,823,050</u>	<u>1,684,467</u>	<u>(138,583)</u>
Expenditures:			
Current:			
Instructional services:			
Regular instructional	97,404	94,845	2,559
Special populations	435,573	176,097	259,476
Alternative programs and services	336,079	214,661	121,418
School leadership services	220,953	220,953	-
Co-curricular services	-	-	-
School-based support services	167,810	-	167,810
System-wide support services:			
Technology support	69,297	69,297	-
Operational support	495,934	530,410	(34,476)
Financial and human resource services	-	-	-
Accountability services	-	-	-
System-wide Pupil Support Services	-	-	-
Policy, leadership and public relations	-	-	-
Ancillary services	-	-	-
Non-programmed charges	-	-	-
Total expenditures	<u>1,823,050</u>	<u>1,306,263</u>	<u>516,787</u>
Revenues over (under) expenditures	<u>-</u>	<u>378,204</u>	<u>378,204</u>
Net change in fund balance	<u>\$ -</u>	<u>378,204</u>	<u>\$ -</u>
Fund balances, beginning of year		<u>(7,121)</u>	
Fund balances, end of year		<u>\$ 371,083</u>	

LEXINGTON CITY SCHOOLS, NORTH CAROLINA
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-
GAAP) - SCHOOL FOOD SERVICE FUND
For the Year Ended June 30, 2020

	Schedule 4		
	Budget	Actual	Variance - Favorable (Unfavorable)
Operating revenues:			
Food sales	\$ 58,860	\$ 48,166	\$ (10,694)
Total operating revenues	<u>58,860</u>	<u>48,166</u>	<u>(10,694)</u>
Operating expenditures:			
Purchase of food		809,900	
Salaries and benefits		1,329,904	
Indirect costs		168,393	
Materials and supplies		221,820	
Telephone and utilities		2,124	
Repairs and maintenance		115,318	
Contracted services		5,731	
Capital outlay		68,155	
Other		-	
Total operating expenditures	<u>2,803,250</u>	<u>2,721,345</u>	<u>81,905</u>
Operating loss	<u>(2,744,390)</u>	<u>(2,673,179)</u>	<u>71,211</u>
Nonoperating revenues:			
Federal reimbursements	2,152,165	2,047,688	(104,477)
Federal commodities	139,805	167,984	28,179
Interest earned	7,600	7,533	(67)
Other	20	3,227	3,207
Total nonoperating revenues	<u>2,299,590</u>	<u>2,226,432</u>	<u>(73,158)</u>
Transfers from other funds	<u>46,000</u>	<u>94,451</u>	<u>48,451</u>
Appropriated Fund Balance	<u>425,800</u>	<u>-</u>	<u>(425,800)</u>
Revenues over (under) expenditures	<u>\$ 27,000</u>	<u>\$ (352,296)</u>	<u>\$ (379,296)</u>
Reconciliation of modified accrual to full accrual basis:			
Revenues over expenditures		\$ (352,296)	
Reconciling items:			
Depreciation		(38,105)	
Capital Outlay		68,155	
Increase in deferred outflows		(59,189)	
Increase in OPEB asset		(610)	
Increase in net pension liability		(83,791)	
Increase in net OPEB liability		282,960	
Decrease in deferred inflows		(25,090)	
Decrease in accounts payable and accrued expenses		(111)	
Decrease in compensated absences payable		(11,358)	
Increase in inventory		<u>(133,852)</u>	
Net loss - full accrual		<u>\$ (353,287)</u>	

Independent Auditors' Report On Internal Control Over Financial
Reporting And On Compliance And Other Matters Based On An Audit
Of Financial Statements Performed In Accordance
With *Government Auditing Standards*

To the Board of Education
Lexington City Schools, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Lexington City Schools, North Carolina, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprises the Lexington City Schools' basic financial statements, and have issued our report thereon dated November 10, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Lexington City Schools' 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 Lexington City Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of the Lexington City Schools' internal control.

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

Internal Control Over Financial Reporting (Continued)

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. 20 -1

Compliance and Other Matters

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

Lexington City School's Response to Findings

The Lexington City School's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses /schedule of findings and questioned costs. The Board's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Anderson Smith & Wike PLLC

Gastonia, North Carolina

November 10, 2020

Independent Auditors' Report On Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; In Accordance With OMB Uniform Guidance and The State Single Audit Implementation Act

To the Board of Education
Lexington City Schools, North Carolina

Report on Compliance for Each Major Federal Program

We have audited the Lexington City Schools, North Carolina, compliance with the types of compliance requirements described in the OMB Compliance Supplement and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Lexington City Schools' major federal programs for the year ended June 30, 2020. The Lexington City Schools' 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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Lexington City Schools' major federal programs based on our audit 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, the Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Lexington City Schools' compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

Auditor's Responsibility (Continued)

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

Opinion on Each Major Federal Program

In our opinion, Lexington City Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance 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, 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 significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Internal Control Over Compliance (Continued)

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

Anderson Smith & Wike PLLC

Gastonia, North Carolina

November 10, 2020

Independent Auditors' Report On Compliance For Each Major State Program;
Report on Internal Control Over Compliance; In Accordance With OMB
Uniform Guidance; And The State Single Audit Implementation Act

To the Board of Education
Lexington City Schools, North Carolina

Report on Compliance for Each Major State Program

We have audited the Lexington City Schools, North Carolina, compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have direct and material effect on each of the Lexington City Schools' major state programs for the year ended June 30, 2020. The Lexington City Schools' 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.

Auditor's Responsibility

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

Auditor's Responsibility (Continued)

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of the Lexington City Schools' compliance.

Opinion on Each Major State Program

In our opinion, Lexington City Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2020.

Report on Internal Control Over Compliance

Management of Lexington City Schools is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to. In planning and performing our audit of compliance, we considered the Lexington City Schools' internal control over compliance with the types of requirements that could have a direct and material effect on a major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with 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 Lexington City Schools' internal control over compliance.

A deficiency in internal control over compliance 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, noncompliance with a type of compliance requirement of a state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on 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 that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Internal Control Over Compliance (Continued)

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Anderson Smith & Wike PLLC

Gastonia, North Carolina

November 10, 2020

LEXINGTON CITY SCHOOLS, NORTH CAROLINA
Schedule of Findings and Questioned Costs
Year Ended June 30, 2020

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

Material weakness(es) identified	_____	Yes	_____	<u>X</u>	No
Significant deficiency(s) identified that are not considered to be material weaknesses?	_____	<u>X</u>	Yes	_____	None reported

Noncompliance material to financial statements noted?	_____	Yes	_____	<u>X</u>	No
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Federal Awards

Internal control over major federal programs:

Material weaknesses identified?	_____	Yes	_____	<u>X</u>	No
Significant deficiency(s) identified that are not considered to be material weakness(as)?	_____	Yes	_____	<u>X</u>	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 200.516(a)	_____	Yes	_____	<u>X</u>	No
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LEXINGTON CITY SCHOOLS, NORTH CAROLINA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2020

SECTION I - SUMMARY OF AUDITOR'S RESULTS (Continued)

Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Names of Federal Program or Cluster</u>
84.010	Title I

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

\$ 750,000

Auditee qualified as low-risk auditee? X Yes No

State Awards

Internal control over major State programs:

Material weaknesses identified? Yes X No

Significant deficiency(s) identified that are
not considered to be material weakness(es)? Yes X None reported

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

Unmodified

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

 Yes X No

Identification of major State programs:

Program Name

State Public School Fund

LEXINGTON CITY SCHOOLS, NORTH CAROLINA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2020

SECTION II - FINANCIAL STATEMENT FINDINGS

Significant Deficiency
Expenditures in Excess of Appropriations

20-1 Criteria: State law requires that expenditures not exceed amounts appropriated.

Condition: The Board reported expenditures in excess of amounts appropriated within the Capital Outlay Fund.

	Budgeted Amount	Expenditure	Over Budget
Capital Outlay	\$ 1,433,300	\$ 1,496,139	\$ (62,839)
Local Special Expense			
Operational support	\$ 495,934	\$ 530,410	\$ (34,476)

Effect: Funds were spent that had not been properly appropriated.

Cause: Oversight on the part of the Board personnel.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

None reported.

LEXINGTON CITY SCHOOLS, NORTH CAROLINA
Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2020

None reported.

LEXINGTON CITY SCHOOLS. NORTH CAROLINA

Corrective Action Plan

June 30, 2020



Anitra D. Wells, Ed.D
Superintendent

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Fax: (336) 249-3206
Email: awells@lexcs.org

Lisa G. Jones
Director of Finance

Phone: (336) 242-1527
Fax: (336) 249-3206
Email: ljones@lexcs.org

1010 Fair Street
Lexington, NC 27292

Section II. Financial Statement Findings

Finding: 20-1

Name of contact person: Lisa Jones, Finance Officer

Corrective Action: The Board will review appropriate reports as has been the policy
in the past and make appropriate budget amendments to avoid over
budget amounts.

Proposed Completion Date: Immediately

Section III. Federal Award Findings and Questioned Costs

Finding: None

Section IV. State Award Findings and Questioned Costs

Finding: None

LEXINGTON CITY SCHOOLS, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2020

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Expenditures
Federal Grants:			
<u>U. S. Department of Agriculture</u>			
School Nutrition Program (Note 3)			
Child Nutrition Cluster:			
Non-Cash Assistance (Commodities)			
Passed-through the N.C. Department of Agriculture:			
National School Lunch Program	10.555	35	\$ 167,984
Non-Cash Assistance			167,984
Cash Assistance			
School Breakfast Program	10.553	35	437,690
National School Lunch Program - Cash Assistance	10.555	35	1,084,590
Summer Food Service Program for Children	10.559	50	454,508
Total Cash Assistance			1,976,788
Total Child Nutrition Cluster:			2,144,772
USDA Fresh Fruit & Vegetable Grant			
Total School Nutrition Program (Note 3)	10.582	35	70,900
			2,215,672
Total U. S. Department of Agriculture			
			2,215,672
<u>U.S. Department of State Treasurer</u>			
Passed-through the Office of State Budget and Management:			
NC Pandemic Recovery Office			
Passed-through the N.C. Department of Public Instruction:			
Coronavirus Relief Fund			
School Nutrition	21.019	125	161,300
<u>U.S. Department of Education</u>			
<u>Office of Elementary and Secondary Education</u>			
Passed-through the N.C. Department of Public Instruction:			
Title I, Grants to Local Educational Agencies			
Title I Cluster			
- Title I Grants to Local Education - Basic	84.010	50	1,161,122
Title III, Language Acquisition			
Education for the Homeless Children and Youth	84.365	104 & 111	28,227
Supporting Effective Instruction State Grants	84.196	26	23,543
Student Support and Academic Enrichment	84.367	103	116,666
	84.424	108	87,173
<u>Office of Special Education and Rehabilitative Services</u>			
Passed-through the N.C. Department of Public Instruction:			
Special Education Cluster:			
Individuals with Disabilities Education Act			
Education of the Handicapped	84.027	60	890,902
Preschool Handicapped	84.173	49	53,417
Special Needs Targeted	84.027	115 & 118	48,147
Targeted Assistance	84.027	119	2,263
Total Special Education Cluster:			994,729
Passed-through the N.C. Department of Public Instruction:			
Carl D. Perkins Vocational and Applied Technology			
Education Act Amendments of 1990			
Basic Grants to States			
- Program Development	84.048	17	63,572
Total U. S. Department of Education			
			2,475,032

LEXINGTON CITY SCHOOLS, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (Continued)
For the Year Ended June 30, 2020

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Expenditures</u>
Other Federal Assistance:			
<u>U.S. Department of Defense</u>			
Direct Program:			
ROTC	NONE		66,803
Total federal assistance			<u>4,918,807</u>
State Grants:			
<u>N.C. Department of Public Instruction:</u>			
State Public School Fund			19,562,142
Driver Training - SPSF		12	58,329
School Technology Fund - SPSF		15	37,090
Vocational Education			
- State Months of Employment		13	1,093,960
- Program Support Funds		14	167,670
State COVID-19 Supplemental Funds		154	116,031
N.C. Pre-Kindergarten Program			294,206
Total N.C. Department of Public Instruction			<u>21,329,428</u>
Total State assistance			<u>21,329,428</u>
Total federal and State assistance			<u>\$ 26,248,235</u>

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal and State awards (SEFSA) includes the federal and State grant activity of the Lexington City Schools under programs of the federal government and the State of North Carolina for the year end June 30, 2020. 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 Lexington City Schools, it is not intended Federal Awards (Uniform Compliance) and the State Single Audit to and does not present the financial position, changes in net assets or cash flows of Lexington City Schools.

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 allowed or are limited. Lexington City Schools has elected not to use the 10-percent de minimis indirect cost rate under the Uniform Guidance.

Note 3: Cluster of Programs

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