

Board of Education of Beaufort County Schools

Financial Statements

Year Ended June 30, 2016

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Independent Auditors' Report

Board of Education
Beaufort County Schools
Washington, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Board of Education of Beaufort County Schools ("Board"), as of and for the year then ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Board as of June 30, 2016, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General, Restricted Revenues, State Public School, and Federal Grants funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4 through 9 and the Schedule of the Proportionate Share of the Net Pension Liability and the Schedule of Board Contributions on pages 41 and 42, respectively be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Board's basic financial statements. The individual fund schedules and 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 and the accompanying schedule of expenditures of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund schedules and the accompanying schedule of expenditures of federal and state awards are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2017 on our consideration of the Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

January 20, 2017
Winston-Salem, North Carolina

Board of Education of Beaufort County Schools Management's Discussion and Analysis

This section of the Board of Education of Beaufort County Schools (the "Board") financial report represents our discussion and analysis of the financial performance of the Board for the year ended June 30, 2016. This information should be read in conjunction with the audited financial statements included in this report.

Financial Highlights

- The Board experienced an increase in state funding in the amount of \$233 thousand and an increase of \$30 thousand in federal funding. Local funding saw a decrease of \$403 thousand as compared to the previous fiscal year.
- The Board saw the General Fund balance decrease from \$1.9 million to \$1.1 million. Also \$339 thousand has been designated to be utilized in the next fiscal year's expenditures.

Overview of the Financial Statements

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

- Independent Auditors' Report
- Management's Discussion and Analysis (required supplementary information)
- Basic Financial Statements
- Supplemental section that presents budgetary schedules for the governmental and proprietary funds.

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

Government-wide Statements

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

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

Board of Education of Beaufort County Schools Management's Discussion and Analysis

- Over time, increases or decreases in the Board's net position is an indicator of whether its financial position is improving or deteriorating.
- To assess the Board's overall health, you need to consider additional non-financial factors such as changes in 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 services and child care services are 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 and Restricted Revenues Fund.

Beaufort County Board of Education has two types of funds:

Governmental funds: Most of the Board's basic services are included in the governmental funds, which generally focus on two things – 1) how cash and other assets can readily be converted to cash flow in and out, and 2) 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 fund statements, in the form of reconciliations, explains the relationship (or differences) between the government-wide and the fund financial statements. The Board has several governmental funds: the General Fund, the State Public School Fund, the Individual Schools Fund, the Capital Outlay Fund, the Restricted Revenues Fund, and the Federal Grants Fund.

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

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

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

**Board of Education of Beaufort County Schools
Management's Discussion and Analysis**

Fiduciary funds: Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The Board has one fiduciary fund – the Scholarship Fund, which is under the control of the administrative unit. This is accounted for as a private purpose trust fund.

The fiduciary fund statements are shown as Exhibit 10 and 11 of this report.

Financial Analysis of the Board as a Whole

Net position is an indicator of the fiscal health of the Board. Assets exceeded liabilities by \$67.8 million as of June 30, 2016. The largest component of net position the Board's net investment in capital assets of \$75.2 million, which comprises approximately 111.0% of the total net position. The Board uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Restricted and unrestricted net position (deficit) amounted to \$1.9 million and (\$9.3) million, respectively. The primary reason for the unrestricted net deficit in the current year is the presentation of the board's proportionate share of the pension liability in accordance with Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*. The net pension liability and related components has an \$8.2 million negative effect to the Board's overall net position.

Following is a summary of the Statement of Net Position:

**Table 1
Condensed Statements of Net Position
as of June 30, 2016 and 2015**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	6/30/16	6/30/15	6/30/16	6/30/15	6/30/16	6/30/15
Current assets	\$ 6,034,640	\$ 7,096,746	\$ 1,059,851	\$ 1,022,297	\$ 7,094,491	\$ 8,119,043
Capital assets	<u>75,596,675</u>	<u>75,545,409</u>	<u>417,801</u>	<u>465,229</u>	<u>76,014,476</u>	<u>76,010,638</u>
Total assets	<u>81,631,315</u>	<u>82,642,155</u>	<u>1,477,652</u>	<u>1,487,526</u>	<u>83,108,967</u>	<u>84,129,681</u>
Deferred outflows of resources	<u>3,512,780</u>	<u>3,396,903</u>	<u>116,697</u>	<u>114,329</u>	<u>3,629,477</u>	<u>3,511,232</u>
Current liabilities	6,439,693	5,064,151	184,506	153,751	6,624,199	5,217,902
Long-term liabilities	<u>9,860,217</u>	<u>4,622,669</u>	<u>318,536</u>	<u>158,988</u>	<u>10,178,753</u>	<u>4,781,657</u>
Total liabilities	<u>16,299,910</u>	<u>9,686,820</u>	<u>503,042</u>	<u>312,739</u>	<u>16,802,952</u>	<u>9,999,559</u>
Deferred inflows of resources	<u>2,079,999</u>	<u>10,665,057</u>	<u>69,099</u>	<u>358,953</u>	<u>2,149,098</u>	<u>11,024,010</u>
Net investment in capital assets	74,826,776	75,545,409	417,801	465,229	75,244,577	76,010,638
Restricted net position	1,879,883	2,708,223	-	-	1,879,883	2,708,223
Unrestricted net position (deficit)	<u>(9,942,473)</u>	<u>(12,566,451)</u>	<u>604,407</u>	<u>464,934</u>	<u>(9,338,066)</u>	<u>(12,101,517)</u>
Total net position	<u>\$ 66,764,186</u>	<u>\$ 65,687,181</u>	<u>\$ 1,022,208</u>	<u>\$ 930,163</u>	<u>\$ 67,786,394</u>	<u>\$ 66,617,344</u>

The net position of the Board's governmental activities increased from \$65.7 million at June 30, 2015 to \$66.8 million at June 30, 2016, an increase of \$1.1 million. This increase is primarily a result of changes in the Board's presentation of the proportionate share of the net pension liability during the fiscal year.

**Board of Education of Beaufort County Schools
Management's Discussion and Analysis**

The net position of business-type activities increased slightly from \$930 thousand at June 30, 2015 to \$1.0 million at June 30, 2016. This increase is primarily associated with reductions in operating expenditures in both the School Food Service and Child Care Funds.

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

**Table 2
Condensed Statements of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended June 30, 2016 and 2015**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>6/30/16</u>	<u>6/30/15</u>	<u>6/30/16</u>	<u>6/30/15</u>	<u>6/30/16</u>	<u>6/30/15</u>
Revenues:						
Program revenues:						
Charges for services	\$ 1,008,648	\$ 1,107,567	\$ 783,238	\$ 864,609	\$ 1,791,886	\$ 1,972,176
Operating grants and contributions	44,527,894	44,167,307	3,025,348	2,948,174	47,553,242	47,115,481
Capital grants and contributions	339,255	144,955	-	-	339,255	144,955
General revenues:						
Other revenues	<u>18,107,590</u>	<u>17,658,910</u>	<u>68,220</u>	<u>2,354</u>	<u>18,175,810</u>	<u>17,661,264</u>
Total revenues	<u>63,983,387</u>	<u>63,078,739</u>	<u>3,876,809</u>	<u>3,815,137</u>	<u>67,860,193</u>	<u>66,893,876</u>
Expenses:						
Governmental activities:						
Instructional services	45,763,307	47,298,998	-	-	45,763,307	47,298,998
System-wide support services	13,907,050	13,400,334	-	-	13,907,050	13,400,334
Ancillary services	138,661	94,975	-	-	138,661	94,975
Non-programmed charges	602,580	485,158	-	-	602,580	485,158
Unallocated depreciation expense	2,494,784	2,301,432	-	-	2,494,784	2,301,432
Business-type activities:						
School food service	-	-	3,534,602	3,625,275	3,534,602	3,625,275
Child care	<u>-</u>	<u>-</u>	<u>250,159</u>	<u>288,794</u>	<u>250,159</u>	<u>288,794</u>
Total expenses	<u>62,906,382</u>	<u>63,580,897</u>	<u>3,784,761</u>	<u>3,914,069</u>	<u>66,691,143</u>	<u>67,494,966</u>
Increase (decrease) in net position	1,077,055	(502,158)	92,045	(98,932)	1,169,050	(601,090)
Net position, beginning	<u>65,687,181</u>	<u>66,189,339</u>	<u>930,163</u>	<u>1,029,095</u>	<u>66,617,344</u>	<u>67,218,434</u>
Ending net position	<u>\$ 66,764,186</u>	<u>\$ 65,687,181</u>	<u>\$ 1,022,208</u>	<u>\$ 930,163</u>	<u>\$ 67,786,394</u>	<u>\$ 66,617,344</u>

During the year ended June 30, 2016, governmental activities generated revenues of \$64.0 million and incurred expenses of \$62.9 million, resulting in the aforementioned increase in net position for these activities of \$1.1 million. Comparatively, revenues were \$63.1 million and expenses were \$63.6 million, resulting in a decrease of net position of \$502 thousand for the year ended June 30, 2015. The State Public School Fund allotments decreased \$126 thousand and County appropriations for operations and capital decreased by \$403 thousand. Various other revenues received through the Restricted Revenues Fund increased by \$420 thousand in comparison to the previous year. The major sources of revenue were funding from the State of North Carolina, Beaufort County, and the United States Government, which respectively comprised 64.7%, 23.5%, and 8.7% of revenues for the year ended June 30, 2016 and 65.4%, 23.2%, and 8.8% of revenues for the year ended June 30, 2015. As would be expected and consistent with the prior year, instructional services comprised 72.7% of total governmental-type expenses while system-wide support services made up 22.1% of expenses.

Board of Education of Beaufort County Schools Management's Discussion and Analysis

Business-type activities generated revenues of \$3.9 million and incurred expenses of \$3.8 million resulting in an increase in net position of \$92 thousand for the year ended June 30, 2016. In fiscal year 2015, revenues and expenditures were \$3.8 million and \$3.9 million, respectively, with a decrease in net position of \$99 thousand. The majority of the current year change was driven by decreases in operating expenditures for both the School Food Service and Child Care Funds.

Financial Analysis of the Board's Funds

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

The Board's governmental funds reported a combined fund balance of \$3.6 million, a \$1.2 million decrease when compared to last year. Total funding increased by \$922 thousand. The State of North Carolina, U.S. Government, and Beaufort County funding increased \$666 thousand or 1.09%. Other revenues increased by \$256 thousand primarily due to technology reimbursements in the restricted revenues fund. Overall expenditures increased by \$2.3 million in response to the increase in state and federal funding.

Proprietary funds: The Board's business-type funds, the School Food Service Fund and the Child Care Fund, generated net income in the current year of \$63 thousand and \$29 thousand, respectively. The net losses in the prior year for the School Food Service Fund and the Child Care Fund were \$95 thousand and \$4 thousand, respectively. While total operating revenues for proprietary funds decreased \$81 thousand, operating expenses decreased by \$129 thousand.

General Fund Budgetary Highlights

Over the course of the year, the Board revised the General Fund budget several times to account for changes in revenue expectations and program allocations. Since several revenue sources are either unknown or uncertain at the beginning of the fiscal year when the original budget is adopted, budget revisions are necessary throughout the year to recognize these adjustments. While the budgeted revenues before fund balance appropriations did not change as a result of these revisions, system wide support service expenditures decreased \$250 thousand while instructional service expenditures and non-programmed charges increased by \$115 thousand and \$135 thousand respectively. The fund balance remaining is available to be used to offset future needs.

Capital Assets

Capital assets increased slightly by \$4 thousand compared to the previous year. This increase is primarily a result of capital outlay expenditures in excess of continued depreciation charges on existing assets. The following is a summary of the capital assets, net of depreciation at year-end. Additional information regarding capital assets can be found in Note 2 in the notes to the basic financial statements.

**Table 3
Summary of Capital Assets
as of June 30, 2016 and 2015**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	6/30/16	6/30/15	6/30/16	6/30/15	6/30/16	6/30/15
Land	\$ 1,093,722	\$ 1,093,722	\$ -	\$ -	\$ 1,093,722	\$ 1,093,722
Buildings and improvements	70,568,780	71,328,606	101,367	106,679	70,670,147	71,435,285
Equipment and furniture	1,600,979	1,651,072	316,434	358,550	1,917,413	2,009,622
Vehicles	2,333,194	1,472,009	-	-	2,333,194	1,472,009
Total	<u>\$ 75,596,675</u>	<u>\$ 75,545,409</u>	<u>\$ 417,801</u>	<u>\$ 465,229</u>	<u>\$ 76,014,476</u>	<u>\$ 76,010,638</u>

Board of Education of Beaufort County Schools Management's Discussion and Analysis

Debt Outstanding

For the year ended June 30, 2016, the Board's debt related to installment purchases had a net increase of \$770 thousand due to new debt related to school bus leases. The Board is limited by North Carolina General Statutes with regards to the types of debt it can issue and for what purpose that debt can be used. The County holds virtually all debt issued for school capital construction. For more detailed information, please see Long-Term Obligations in Note 2 in the accompanying notes to the financial statements.

Economic Factors

- The student population has continued to decline over the past couple of years. As of October 2016, the K-12 student average daily membership was 6,763, compared to 6,854 in the previous year.
- Beaufort County's unemployment rate dropped from 6.3% in September 2015 to 5.3% in September 2016. Whereas, the State's unemployment rate for September 2016 was slightly less at 4.8%.
- In spite of the current trends to reduce state expenditures, Beaufort County Schools' saw their initial state allotment in fiscal year 2016 increase from \$39.0 million to \$39.2 million in fiscal year 2017.

Requests for Information

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

Mack Carawan
Finance Officer
Board of Education of Beaufort County Schools
321 Smaw Road
Washington, NC 27889

Board of Education of Beaufort County Schools
Statement of Net Position
June 30, 2016

Exhibit 1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 4,006,830	\$ 881,780	\$ 4,888,610
Due from other governments	1,988,202	87,954	2,076,156
Receivables	36	16,689	16,725
Internal balances	39,572	(39,572)	-
Inventories	-	113,000	113,000
Capital assets:			
Land, improvements, and construction in progress	1,093,722	-	1,093,722
Other capital assets, net of depreciation	74,502,953	417,801	74,920,754
Total capital assets	75,596,675	417,801	76,014,476
Total assets	81,631,315	1,477,652	83,108,967
DEFERRED OUTFLOWS OF RESOURCES	3,512,780	116,697	3,629,477
LIABILITIES			
Accounts payable and accrued expenses	259,083	682	259,765
Accrued salaries and wages payable	2,182,278	16,504	2,198,782
Unearned revenue	-	19,448	19,448
Long-term liabilities:			
Net pension liability	9,367,606	311,197	9,678,803
Due within one year	3,998,332	147,872	4,146,204
Due in more than one year	492,611	7,339	499,950
Total liabilities	16,299,910	503,042	16,802,952
DEFERRED INFLOWS OF RESOURCES	2,079,999	69,099	2,149,098
NET POSITION			
Net investment in capital assets	74,826,776	417,801	75,244,577
Restricted for:			
Stabilization by State Statute	39,608	-	39,608
School Capital Outlay	1,188,321	-	1,188,321
Individual Schools	651,954	-	651,954
Unrestricted	(9,942,473)	604,407	(9,338,066)
Total net position	\$ 66,764,186	\$ 1,022,208	\$ 67,786,394

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

Board of Education of Beaufort County Schools
Statement of Activities
For the Fiscal Year Ended June 30, 2016

Exhibit 2

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
Instructional services:							
Regular instructional	\$ 26,904,055	\$ -	\$ 23,540,270	\$ -	\$ (3,363,785)	\$ -	\$ (3,363,785)
Special populations	5,705,456	-	5,806,458	-	101,002	-	101,002
Alternative programs	4,925,674	-	4,412,883	-	(512,791)	-	(512,791)
School leadership	3,101,171	-	1,907,656	-	(1,193,515)	-	(1,193,515)
Co-curricular	1,306,684	991,605	-	-	(315,079)	-	(315,079)
School-based support	3,820,267	17,043	3,140,592	-	(662,632)	-	(662,632)
System-wide support services:							
Support and development	704,890	-	369,904	-	(334,986)	-	(334,986)
Special population support and development	239,401	-	253,172	-	13,771	-	13,771
Alternative programs and services support and development	487,978	-	512,971	-	24,993	-	24,993
Technology support	797,865	-	301,303	-	(496,562)	-	(496,562)
Operational support	10,063,753	-	3,464,412	339,255	(6,260,086)	-	(6,260,086)
Financial and human resource	961,025	-	295,765	-	(665,260)	-	(665,260)
Accountability	22,964	-	-	-	(22,964)	-	(22,964)
System-wide pupil support	5,969	-	-	-	(5,969)	-	(5,969)
Policy, leadership, and public relations	623,205	-	281,289	-	(341,916)	-	(341,916)
Ancillary services	138,661	-	123,681	-	(14,980)	-	(14,980)
Non-programmed charges	602,580	-	117,538	-	(485,042)	-	(485,042)
Unallocated depreciation expense, excluding direct depreciation expense charged to programs	2,494,784	-	-	-	(2,494,784)	-	(2,494,784)
Total governmental activities	62,906,382	1,008,648	44,527,894	339,255	(17,030,585)	-	(17,030,585)
Business-type activities:							
School food service	3,534,602	503,645	3,025,348	-	-	(5,609)	(5,609)
Child care	250,159	279,593	-	-	-	29,434	29,434
Total business-type activities	3,784,761	783,238	3,025,348	-	-	23,825	23,825
Total primary government	\$ 66,691,143	\$ 1,791,886	\$ 47,553,242	\$ 339,255	(17,030,585)	23,825	(17,006,760)
General revenues:							
Unrestricted county appropriations - operating					13,233,163	-	13,233,163
Unrestricted county appropriations - capital					1,800,000	-	1,800,000
Unrestricted State and Federal appropriations - operating					2,212,003	-	2,212,003
Unrestricted Federal appropriation - capital					-	64,997	64,997
Investment earnings, unrestricted					27,652	3,223	30,875
Miscellaneous, unrestricted					834,772	-	834,772
Total general revenues					18,107,590	68,220	18,175,810
Change in net position					1,077,005	92,045	1,169,050
Net position, beginning					65,687,181	930,163	66,617,344
Net position, ending					\$ 66,764,186	\$ 1,022,208	\$ 67,786,394

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

Board of Education of Beaufort County Schools
Balance Sheet
Governmental Funds
June 30, 2016

Exhibit 3

	Major Funds						Total Governmental Funds
	General	State Public School	Federal Grants Fund	Capital Outlay	Individual Schools	Restricted Revenues	
ASSETS							
Cash and cash equivalents	\$ 1,278,211	\$ -	\$ -	\$ 1,378,536	\$ 656,580	\$ 693,503	\$ 4,006,830
Accounts receivable	36	-	-	-	-	-	36
Due from other governments	-	1,773,211	214,991	-	-	-	1,988,202
Due from other funds	39,572	-	-	-	-	-	39,572
 Total assets	 \$ 1,317,819	 \$ 1,773,211	 \$ 214,991	 \$ 1,378,536	 \$ 656,580	 \$ 693,503	 \$ 6,034,640
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable and accrued liabilities	\$ 36,573	\$ -	\$ -	\$ 190,215	\$ 4,626	\$ 27,669	\$ 259,083
Accrued salaries and wages payable	163,349	1,773,211	214,991	-	-	30,727	2,182,278
 Total liabilities	 199,922	 1,773,211	 214,991	 190,215	 4,626	 58,396	 2,441,361
 Fund balances:							
Restricted:							
Stabilization by State Statute	39,608	-	-	-	-	-	39,608
School Capital Outlay	-	-	-	1,188,321	-	-	1,188,321
Individual Schools	-	-	-	-	651,954	-	651,954
Assigned:							
Subsequent years expenditures	339,044	-	-	-	-	-	339,044
Other special programs	-	-	-	-	-	635,107	635,107
Unassigned	739,245	-	-	-	-	-	739,245
 Total fund balances	 1,117,897	 -	 -	 1,188,321	 651,954	 635,107	 3,593,279
 Total liabilities and fund balances	 \$ 1,317,819	 \$ 1,773,211	 \$ 214,991	 \$ 1,378,536	 \$ 656,580	 \$ 693,503	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	75,596,675
Deferred outflows of resources related to pensions	3,512,780

Some liabilities, including compensated absences and installment purchase obligations are not due and payable in the current period and therefore are not reported in the funds.	(4,490,943)
Net pension liability	(9,367,606)
Deferred inflows of resources related to pensions	(2,079,999)

Net position of governmental activities	<u>\$ 66,764,186</u>
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Board of Education of Beaufort County Schools
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2016

Exhibit 4

	Major Funds						Total Governmental Funds
	General	State Public School	Federal Grants Fund	Capital Outlay	Individual Schools	Restricted Revenues	
Revenues:							
Intergovernmental:							
State of North Carolina	\$ -	\$ 40,344,682	\$ -	\$ 339,255	\$ -	\$ 786,557	\$ 41,470,494
Beaufort County							
Local current expense	13,233,163	-	-	-	-	-	13,233,163
Other	-	-	-	1,800,000	-	-	1,800,000
U.S. Government	-	-	5,158,294	-	-	395,364	5,553,658
Other	275,158	-	-	24,700	991,605	752,147	2,043,610
Total revenues	13,508,321	40,344,682	5,158,294	2,163,955	991,605	1,934,068	64,100,925
Expenditures:							
Current:							
Instructional services:							
Regular instructional	4,346,363	23,168,507	409,651	-	-	507,586	28,432,107
Special populations	144,849	4,372,499	1,482,989	-	-	15,737	6,016,074
Alternative programs	231,174	1,961,091	2,452,691	-	-	529,703	5,174,659
School leadership	1,081,979	2,211,127	-	-	-	-	3,293,106
Co-curricular	293,437	-	-	-	1,030,385	6,382	1,330,204
School-based support	562,441	2,986,264	192,122	-	-	285,357	4,026,184
System-wide support services:							
Support and development	191,228	374,188	-	-	-	178,759	744,175
Special population support and development	492	252,627	545	-	-	725	254,389
Alternative programs and services support and development	-	305,971	207,000	-	-	-	512,971
Technology support	105,419	501,127	145,926	-	-	79,584	832,056
Operational support	5,869,108	3,324,577	84,835	-	-	6,800	9,285,320
Financial and human resource	455,438	546,731	-	-	-	2,163	1,004,332
Accountability	23,402	-	-	-	-	-	23,402
System-wide pupil support	237	-	-	-	5,801	-	6,038
Policy, leadership, and public relations	338,468	281,289	-	-	-	26,375	646,132
Ancillary Services	12,268	58,684	64,997	-	-	5,590	141,539
Non-programmed charges	602,580	-	117,538	-	-	-	720,118
Debt service:							
Principal retirement	-	-	-	339,255	-	-	339,255
Capital outlay:							
Real property and buildings	-	-	-	2,226,346	-	-	2,226,346
Furnishings and equipment	-	-	-	147,898	-	-	147,898
Vehicles and other	-	-	-	1,244,969	-	-	1,244,969
Total expenditures	14,258,883	40,344,682	5,158,294	3,958,468	1,036,186	1,644,761	66,401,274
Revenues over (under) expenditures	(750,562)	-	-	(1,794,513)	(44,581)	289,307	(2,300,349)
Other financing sources:							
Installment purchase obligations issued	-	-	-	1,109,154	-	-	1,109,154
Net changes in fund balance	(750,562)	-	-	(685,359)	(44,581)	289,307	(1,191,195)
Fund balances:							
Beginning of year	1,868,459	-	-	1,873,680	696,535	345,800	4,784,474
End of year	\$ 1,117,897	\$ -	\$ -	\$ 1,188,321	\$ 651,954	\$ 635,107	\$ 3,593,279

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

Board of Education of Beaufort County Schools
Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2016

Exhibit 5

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

Net changes in fund balances - total governmental funds	\$ (1,191,195)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	51,266
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	3,278,898
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(769,899)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Compensated absences	700,609
Pension expense	(992,674)
Total changes in net position of governmental activities	<u>\$ 1,077,005</u>

Board of Education of Beaufort County Schools
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
General Fund and Annually Budgeted Major Special Revenue Funds
For the Fiscal Year Ended June 30, 2016

Exhibit 6
Page 1 of 4

	General Fund			Variance with
	Original	Final	Actual	final budget
	Budget	Budget		positive
				(negative)
Revenues:				
Intergovernmental:				
State of North Carolina	\$ -	\$ -	\$ -	\$ -
Beaufort County	13,233,163	13,233,163	13,233,163	-
U.S. Government	-	-	-	-
Other	339,299	339,299	275,158	(64,141)
	<u>13,572,462</u>	<u>13,572,462</u>	<u>13,508,321</u>	<u>(64,141)</u>
Expenditures:				
Current:				
Instructional services	6,740,957	6,856,262	6,660,243	196,019
System-wide support services	7,440,318	7,190,013	6,983,792	206,221
Ancillary services	-	-	12,268	(12,268)
Nonprogrammed charges	477,000	612,000	602,580	9,420
	<u>14,658,275</u>	<u>14,658,275</u>	<u>14,258,883</u>	<u>399,392</u>
Revenues over (under) expenditures	(1,085,813)	(1,085,813)	(750,562)	335,251
Fund balance appropriated	<u>1,085,813</u>	<u>1,085,813</u>	<u>-</u>	<u>(1,085,813)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	(750,562)	<u>\$ (750,562)</u>
Fund balances:				
Beginning of year			<u>1,868,459</u>	
End of year			<u>\$ 1,117,897</u>	

Board of Education of Beaufort County Schools
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
General Fund and Annually Budgeted Major Special Revenue Funds
For the Fiscal Year Ended June 30, 2016

Exhibit 6
Page 2 of 4

	Restricted Revenues Fund			Variance with final budget positive (negative)
	Original Budget	Final Budget	Actual	
Revenues:				
Intergovernmental:				
State of North Carolina	\$ 714,873	\$ 773,933	\$ 786,557	\$ 12,624
Beaufort County	-	-	-	-
U.S. Government	434,714	501,074	395,364	(105,710)
Other	316,262	410,138	752,147	342,009
	<u>1,465,849</u>	<u>1,685,145</u>	<u>1,934,068</u>	<u>248,923</u>
Expenditures:				
Current:				
Instructional services	1,442,028	1,603,910	1,344,765	259,145
System-wide support services	296,112	300,989	294,406	6,583
Ancillary services	3,930	12,128	5,590	6,538
Nonprogrammed charges	-	-	-	-
	<u>1,742,070</u>	<u>1,917,027</u>	<u>1,644,761</u>	<u>272,266</u>
Revenues over (under) expenditures	(276,221)	(231,882)	289,307	521,189
Fund balance appropriated	<u>276,221</u>	<u>231,882</u>	<u>-</u>	<u>(231,882)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	289,307	<u>\$ 289,307</u>
Fund balances:				
Beginning of year			<u>345,800</u>	
End of year			<u>\$ 635,107</u>	

Board of Education of Beaufort County Schools
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
General Fund and Annually Budgeted Major Special Revenue Funds
For the Fiscal Year Ended June 30, 2016

Exhibit 6
Page 3 of 4

	State Public School Fund			Variance with final budget positive (negative)
	Original Budget	Final Budget	Actual	
Revenues:				
Intergovernmental:				
State of North Carolina	\$ 41,551,988	\$ 41,551,988	\$ 40,344,682	\$ (1,207,306)
Beaufort County	-	-	-	-
U.S. Government	-	-	-	-
Other	-	-	-	-
	<u>41,551,988</u>	<u>41,551,988</u>	<u>40,344,682</u>	<u>(1,207,306)</u>
Expenditures:				
Current:				
Instructional services	35,779,517	35,779,517	34,699,488	1,080,029
System-wide support services	5,715,570	5,715,570	5,586,510	129,060
Ancillary services	56,901	56,901	58,684	(1,783)
Nonprogrammed charges	-	-	-	-
Total expenditures	<u>41,551,988</u>	<u>41,551,988</u>	<u>40,344,682</u>	<u>1,207,306</u>
Revenues over (under) expenditures	-	-	-	-
Fund balance appropriated	-	-	-	-
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Fund balances:				
Beginning of year			-	
End of year			<u>\$ -</u>	

Board of Education of Beaufort County Schools
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
General Fund and Annually Budgeted Major Special Revenue Funds
For the Fiscal Year Ended June 30, 2016

Exhibit 6
Page 4 of 4

	Federal Grants Fund			Variance with final budget positive (negative)
	Original Budget	Final Budget	Actual	
Revenues:				
Intergovernmental:				
State of North Carolina	\$ -	\$ -	\$ -	\$ -
Beaufort County	-	-	-	-
U.S. Government	6,489,598	6,578,297	5,158,294	(1,420,003)
Other	-	-	-	-
	<u>6,489,598</u>	<u>6,578,297</u>	<u>5,158,294</u>	<u>(1,420,003)</u>
Expenditures:				
Current:				
Instructional services	5,537,403	5,649,471	4,537,453	1,112,018
System-wide support services	461,693	488,318	438,306	50,012
Ancillary services	66,075	66,075	64,997	1,078
Nonprogrammed charges	<u>424,427</u>	<u>374,433</u>	<u>117,538</u>	<u>256,895</u>
Total expenditures	<u>6,489,598</u>	<u>6,578,297</u>	<u>5,158,294</u>	<u>1,420,003</u>
Revenues over (under) expenditures	-	-	-	-
Fund balance appropriated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Fund balances:				
Beginning of year			-	
End of year			<u>\$ -</u>	

Board of Education of Beaufort County Schools
Statement of Net Position
Proprietary Funds
June 30, 2016

Exhibit 7

		Enterprise	
	Major Fund	Non-major Fund	
	School Food	Child	
	Service	Care	Totals
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 757,138	\$ 124,642	\$ 881,780
Accounts receivable	16,689	-	16,689
Due from other governments	87,954	-	87,954
Inventories	113,000	-	113,000
Total current assets	<u>974,781</u>	<u>124,642</u>	<u>1,099,423</u>
Noncurrent assets:			
Capital assets:			
Furniture, equipment and vehicles, net	<u>417,801</u>	<u>-</u>	<u>417,801</u>
Total assets	<u>1,392,582</u>	<u>124,642</u>	<u>1,517,224</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>105,248</u>	<u>11,449</u>	<u>116,697</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	17	665	682
Accrued salaries and wages payable	16,504	-	16,504
Due to other funds	39,572	-	39,572
Unearned revenue	19,448	-	19,448
Compensated absences	139,149	8,723	147,872
Total current liabilities	<u>214,690</u>	<u>9,388</u>	<u>224,078</u>
Noncurrent liabilities:			
Net pension liability	280,667	30,530	311,197
Compensated absences	7,339	-	7,339
Total noncurrent liabilities	<u>288,006</u>	<u>30,530</u>	<u>318,536</u>
Total liabilities	<u>502,696</u>	<u>39,918</u>	<u>542,614</u>
DEFERRED INFLOWS OF RESOURCES	<u>62,320</u>	<u>6,779</u>	<u>69,099</u>
NET POSITION			
Investment in capital assets	417,801	-	417,801
Unrestricted	<u>515,013</u>	<u>89,394</u>	<u>604,407</u>
Total net position	<u>\$ 932,814</u>	<u>\$ 89,394</u>	<u>\$ 1,022,208</u>

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

Board of Education of Beaufort County Schools
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2016

Exhibit 8

	Enterprise		
	Major Fund	Non-major Fund	
	School Food	Child	
	Service	Care	Totals
Operating revenues:			
Food sales	\$ 503,645	\$ -	\$ 503,645
Child care fees	-	279,593	279,593
Total operating revenues	503,645	279,593	783,238
Operating expenses:			
Food cost:			
Purchase of food	1,042,496	-	1,042,496
Donated commodities	253,287	-	253,287
Salaries and benefits	1,829,606	216,814	2,046,420
Materials and supplies	142,313	24,802	167,115
Repairs and maintenance	23,075	-	23,075
Contract services	69,859	-	69,859
Depreciation	118,875	-	118,875
Non-capitalized equipment	27,713	-	27,713
Other	27,378	8,543	35,921
Total operating expenses	3,534,602	250,159	3,784,761
Operating (loss) income	(3,030,957)	29,434	(3,001,523)
Nonoperating revenues:			
Federal reimbursements	2,743,129	-	2,743,129
Federal commodities	253,286	-	253,286
State reimbursements	4,808	-	4,808
Interest earned	3,223	-	3,223
Capital contributed	64,997	-	64,997
Other	24,125	-	24,125
Total nonoperating revenues	3,093,568	-	3,093,568
Change in net position	62,611	29,434	92,045
Total net position, beginning	870,203	59,960	930,163
Total net position, ending	\$ 932,814	\$ 89,394	\$ 1,022,208

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

Board of Education of Beaufort County Schools
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2016

Exhibit 9

	Major Fund	Enterprise	
	School Food	Non-major Fund	
	Service	Child	Totals
		Care	
Cash flows from operating activities:			
Cash received from customers	\$ 490,430	\$ 279,593	\$ 770,023
Cash paid for goods and services	(1,294,498)	(33,054)	(1,327,552)
Cash paid to employees for services	(1,920,209)	(231,248)	(2,151,457)
Net cash (used) provided by operating activities	(2,724,277)	15,291	(2,708,986)
Cash flows from noncapital financing activities:			
Federal and state reimbursements	2,758,400	-	2,758,400
Cash flows from capital and related financing activities:			
Purchase of capital assets	(6,450)	-	(6,450)
Cash flows from investing activities:			
Interest earned on investments	3,223	-	3,223
Other	24,125	-	24,125
Net cash provided by investing activities	27,348	-	27,348
Net increase in cash and cash equivalents	55,021	15,291	70,312
Cash and cash equivalents, beginning of year	702,117	109,351	811,468
Cash and cash equivalents, end of year	\$ 757,138	\$ 124,642	\$ 881,780
Reconciliation of operating loss to net cash used by operating activities:			
Operating income (loss)	\$ (3,030,957)	\$ 29,434	\$ (3,001,523)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	118,875	-	118,875
Donated commodities	253,286	-	253,286
Changes in assets, deferred outflows of resources, and liabilities:			
Increase in inventories	(33,892)	-	(33,892)
Increase in due to other funds	39,572	-	39,572
Increase in accounts receivable	(16,689)	-	(16,689)
Decrease in due from other funds	33,304	-	33,304
(Decrease) increase in accounts payable and accrued liabilities	(647)	291	(356)
Decrease in accrued salaries and wages payable	(1,802)	-	(1,802)
Increase in deferred outflows of resources	(1,909)	(459)	(2,368)
Increase in net pension liability	190,835	20,976	211,811
Decrease in deferred inflows of resources	(262,128)	(27,726)	(289,854)
Increase in unearned revenue	3,474	-	3,474
Decrease in compensated absences payable	(15,599)	(7,225)	(22,824)
Total adjustments	306,680	(14,143)	292,537
Net cash (used) provided by operating activities	\$ (2,724,277)	\$ 15,291	\$ (2,708,986)

NONCASH OPERATING AND NONCAPITAL FINANCING ACTIVITIES:

The School Food Service Fund received donated commodities and equipment with a value of \$318,283 during the fiscal year. The receipt of these commodities and equipment is reflected as a nonoperating revenue on Exhibit 8.

Board of Education of Beaufort County Schools
Statement of Fiduciary Net Position
Scholarship Fund
June 30, 2016

Exhibit 10

	Scholarship Fund
ASSETS	
Cash	<u><u>\$ 60,194</u></u>
NET POSITION	
Assets held in trust for scholarships	<u><u>\$ 60,194</u></u>

**Board of Education of Beaufort County Schools
Statement of Changes in Fiduciary Net Position
Scholarship Fund
For the Fiscal Year Ended June 30, 2016**

Exhibit 11

	Scholarship Fund
Additions:	
Interest	\$ 58
Deductions:	
Teacher of the Year Award	<u>1,476</u>
Change in net position	(1,418)
Net position, beginning	<u>61,612</u>
Net position, ending	<u>\$ 60,194</u>

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

B. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities display information about the Board. These statements include the financial activities of the overall government, except for fiduciary funds. Eliminations have been made to minimize the effect of internal activities upon revenues and expenses. Interfund services provided and used are not eliminated in the process of consolidation. These statements distinguish between the *governmental* and *business-type activities* of the Board. Governmental activities generally are financed through intergovernmental revenues and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

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

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

The Board reports the following major governmental funds:

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

State Public School Fund. The State Public School Fund includes appropriations from the Department of Public Instruction for the current operating expenditures of the public school system.

Board of Education of Beaufort County Schools

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

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

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

Restricted Revenues Fund. The Restricted Revenues Fund is used to account for activities designated for specific purposes and generally not intended for the general K-12 student population of the Board. Funding is primarily from local sources and the U.S. Government.

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.

The Board reports the following fiduciary fund:

Scholarship Fund. The Scholarship Fund is used to account for scholarship money under the control of the Board for the benefit of students in the district.

C. Measurement Focus and Basis of Accounting

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

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Board considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. These could include federal, state, and county grants, and some charges for services. Expenditures are recorded when the related fund liability is incurred, except for claims and judgments and compensated absences that 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.

Board of Education of Beaufort County Schools

Notes to Financial Statements

D. Budgetary Data

The Board's budgets are adopted as required by the North Carolina General Statutes. Annual budgets are adopted for all funds, except for the individual schools special revenue funds, as required by North Carolina General Statutes. No budget is required by State law for individual school funds. All appropriations lapse at the fiscal year-end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the purpose level for all annually budgeted funds. The superintendent is authorized by the governing board to transfer appropriations within a fund without limitation and without a report being made. The superintendent is not authorized to transfer contingency appropriations within a fund, nor may he transfer amounts between funds. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

(1) Deposits and Investments

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

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

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

The Board's investments are reported at amortized cost or at fair value as determined by either quoted market prices or a matrix pricing model. Bank deposits and the NCCMT are measured at amortized cost, which is the NCCMT's share price. The STIF securities are reported at cost and maintain a constant \$1 per share value. Under the authority of G.S. 147-69.3, no unrealized gains or losses of the STIF are distributed to external participants of the fund.

(2) Cash and Cash Equivalents

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

(3) Inventories

The inventories of the Board are valued at cost and the Board uses the first-in, first-out (FIFO) flow assumption in determining cost. Proprietary Fund inventories consist of food and supplies and are recorded as expenses when consumed.

(4) Capital Assets

Donated assets received prior to July 1, 2015 are recorded at their estimated fair value at the date of donation or forfeiture. Donated assets received after July 1, 2015 are recorded at the acquisition value. All other capital assets are recorded at original cost. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. Certain items acquired before July 1, 1990 are recorded at an estimated original historical

Board of Education of Beaufort County Schools

Notes to Financial Statements

cost. The total of these estimates is not considered large enough that any errors would be material when capital assets are considered as a whole.

For capital assets utilized in governmental activities and business type activities, it is the policy of the Board to capitalize those assets costing more than \$5,000 with an estimated useful life of three or more years. The cost of normal repairs that do not add to the value of the asset or materially extend asset lives is not capitalized.

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

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

	<u>Years</u>
Buildings and improvements	10-50
Equipment and furniture	3-10
Vehicles	6-10

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

(5) Deferred outflows and inflows of resources

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

(6) Long-term obligations

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

(7) Compensated Absences

The Board follows the State's policy for vacation and sick leave. Employees may accumulate up to thirty (30) days earned vacation leave 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, 2016 is recorded in the government-wide and proprietary fund financial statements on a FIFO basis. An estimate has been made, based on prior years' records, of the current portion of compensated absences.

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

Board of Education of Beaufort County Schools

Notes to Financial Statements

(8) Net Position

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

(9) Fund Balance

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

The governmental fund types classify fund balances as follows:

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

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

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

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

Assigned fund balance – portion of fund balance that the Board 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 manager to modify the appropriations by function within funds up to \$1,000,000.

Other special programs – portion of fund balance that will be used by Restricted Revenues Fund activities, as determined 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.

The Board has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: revenues restricted as to use, then general unrestricted revenues.

Board of Education of Beaufort County Schools
Notes to Financial Statements

F. Reconciliation of Government-wide and Fund Financial Statements

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

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net position - governmental activities* as reported in the government-wide statement of net position. The net adjustment of \$63,170,907 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)	\$ 125,952,824
Less accumulated depreciation	<u>(50,356,149)</u>
Net capital assets	75,596,675
Pension related deferred outflows of resources:	
Differences between contributions and proportional share of contributions and changes in proportion	233,882
Contributions made to the pension plan in current fiscal year	3,278,898
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not recorded in the fund statements:	
Installment financing	(769,899)
Compensated absences	(3,721,044)
Net pension liability	(9,367,606)
Deferred inflows of resources related to pensions	
Differences between expected and actual experience	(1,065,098)
Difference between projected and actual earnings on plan investments	<u>(1,014,901)</u>
Total adjustment	<u>\$ 63,170,907</u>

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

Board of Education of Beaufort County Schools
Notes to Financial Statements

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. There are several elements of that total adjustment of \$2,268,200 as follows:

<u>Description</u>	<u>Amount</u>
Capital outlay expenditures recorded in the fund statements but capitalized as assets in the statement of activities	\$ 2,868,508
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	(2,817,242)
New debt issued during the year is recorded as a source of funds on the fund statements; it has no effect on the statement of activities	(1,109,154)
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	339,255
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	3,278,898
Expenses reported in the statement of activities that do not require the use of current resources to pay are not recorded as expenditures in the fund statements:	
Pension expense	(992,674)
Compensated absences are accrued in the government-wide statements but not in the fund statements because they do not use current resources	<u>700,609</u>
Total adjustment	<u>\$ 2,268,200</u>

2. Detail Notes on All Funds

A. Assets

(1) Deposits

All of the Board's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the Board's agents in the unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity 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.

Board of Education of Beaufort County Schools
Notes to Financial Statements

At June 30, 2016, the Board had deposits with financial institutions with a carrying amount of \$754,285 and with the State Treasurer of \$0. The bank balances with the financial institutions and the State Treasurer were \$1,194,269 and \$1,283,736 respectively. Of these balances, \$260,930 was covered by federal depository insurance and \$2,217,075 was covered by collateral held by authorized escrow agents in the name of the State Treasurer.

(2) Investments

At June 30, 2016, the Board of Education had \$23,227 invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM by Standard and Poor's. There was \$4,171,292 invested with the State Treasurer in the Short Term Investment Fund (STIF). The STIF is unrated and had a weighted average maturity of 1.5 year at June 30, 2016. The Board has no policy for managing interest rate risk or credit risk.

(3) Receivables

Receivables at the government-wide level at June 30, 2016 were as follows:

	<u>Due from (to) other funds</u>	<u>Due from other governments</u>	<u>Other</u>	<u>Total</u>
Governmental activities:				
General Fund	\$ 39,572	\$ -	\$ 36	\$ 39,608
Other governmental activities	<u>-</u>	<u>1,988,202</u>	<u>-</u>	<u>1,988,202</u>
Total governmental activities	<u>\$ 39,572</u>	<u>\$ 1,988,202</u>	<u>\$ 36</u>	<u>\$ 2,027,810</u>
Business-type activities:				
School Food Service Fund	<u>\$ (39,572)</u>	<u>\$ 87,954</u>	<u>\$ 16,689</u>	<u>\$ 65,071</u>

Internal balances consist of administrative costs due to the General Fund from the School Food Service Fund.

Due from other governments consists of the following:

Governmental activities:		
State Public School Fund	1,773,211	Operating funds from DPI
Federal Grants Fund	<u>214,991</u>	Federal grant funds
Total governmental activities	<u>\$ 1,988,202</u>	
Business-type activities:		
School Food Service Fund	<u>\$ 87,954</u>	USDA reimbursements

Board of Education of Beaufort County Schools
Notes to Financial Statements

(4) Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows:

	<u>Beginning Balances</u>	<u>Transfers</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 1,093,722	\$ -	\$ -	\$ -	\$ 1,093,722
Total capital assets not being depreciated	<u>1,093,722</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,093,722</u>
Capital assets being depreciated:					
Buildings and improvements	110,836,044	(25,361)	1,432,861	-	112,243,544
Equipment and furniture	3,322,616	(26,790)	204,618	171,114	3,329,330
Vehicles	8,043,857	52,151	1,231,029	40,809	9,286,228
Total capital assets being depreciated	<u>122,202,517</u>	<u>-</u>	<u>2,868,508</u>	<u>211,923</u>	<u>124,859,102</u>
Less accumulated depreciation for:					
Buildings and improvements	39,507,438	(9,808)	2,177,134	-	41,674,764
Equipment and furniture	1,671,544	(27,564)	255,485	117,114	1,728,351
Vehicles	6,571,848	37,372	384,623	40,809	6,953,034
Total accumulated depreciation	<u>47,750,830</u>	<u>-</u>	<u>2,817,242</u>	<u>211,923</u>	<u>50,356,149</u>
Total capital assets being depreciated, net	<u>74,451,681</u>				<u>74,502,953</u>
Governmental activity capital assets, net	<u>\$ 75,545,409</u>				<u>\$ 75,596,675</u>
Business-type activities:					
School Food Service Fund:					
Capital assets being depreciated:					
Building	\$ 196,192	\$ -	\$ -	\$ -	\$ 196,192
Equipment, furniture and Vehicles	<u>1,944,767</u>	<u>-</u>	<u>71,477</u>	<u>636,305</u>	<u>1,379,909</u>
Total	<u>2,140,959</u>	<u>-</u>	<u>71,477</u>	<u>636,305</u>	<u>1,576,101</u>
Less accumulated depreciation for:					
Building	89,513	-	5,312	-	94,825
Equipment, furniture and vehicles	<u>1,586,217</u>	<u>-</u>	<u>113,563</u>	<u>636,305</u>	<u>1,063,475</u>
Total accumulated depreciation	<u>1,675,730</u>	<u>-</u>	<u>118,875</u>	<u>636,305</u>	<u>1,158,300</u>
School Food Service capital assets, net	<u>\$ 465,229</u>				<u>\$ 417,801</u>

Depreciation was charged to governmental functions as follows:

Unallocated depreciation	\$ 2,494,784
Operational support	<u>322,458</u>
Total	<u>\$ 2,817,242</u>

B. Liabilities

(1) Pension Plan and Other Postemployment Obligations

(a) Teachers' and State Employees' Retirement System

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

Benefits Provided. TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service (or 10 years of creditable service for members joining TSERS on or after August 1, 2011), at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (or 10 years of creditable service for members joining TSERS on or after August 1, 2011). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age or have completed five years of service and have reached age 60 (10 years for members joining on or after August 1, 2011). Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

TSERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer (or 10 years of creditable service for members joining TSERS on or after August 1, 2011), or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

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Contributions. Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Board employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the TSERS Board of Trustees. The Board's contractually required contribution rate for the year ended June 30, 2016, was 9.15% 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 \$3,387,825 for the year ended June 30, 2016.

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, 2016, the Board reported a liability of \$9,678,803 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 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. The Board's proportion was .2626% and .2603% at June 30, 2016 and June 30, 2015, respectively.

For the year ended June 30, 2016, the Board recognized pension expense of \$1,021,191. At June 30, 2016, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 1,100,481
Net difference between projected and actual earnings on pension plan investments	-	1,048,617
Changes in proportions and differences between Board contributions and proportionate share of contributions	241,652	-
Board contributions subsequent to the measurement date	<u>3,387,825</u>	<u>-</u>
Total	<u>\$ 3,629,477</u>	<u>\$ 2,149,098</u>

Board of Education of Beaufort County Schools
Notes to Financial Statements

The Board reported \$3,387,825 as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	\$ (1,189,605)
2018	(1,189,605)
2019	(1,153,253)
2020	1,625,017
2021	-
	<u>\$ (1,907,446)</u>

Actuarial Assumptions. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	4.25 to 9.10 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	2.2%
Global Equity	42.0%	5.8%
Real Estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation Protection	6.0%	3.4%
Totals	<u>100.0%</u>	

Board of Education of Beaufort County Schools

Notes to Financial Statements

The information above is based on 30 year expectations developed with the consulting actuary for the 2014 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 3.19%. All rates of return and inflation are annualized.

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

Sensitivity of the Board's proportionate share of the net pension asset to changes in the discount rate. The following presents the Board's proportionate share of the net pension liability calculated using the discount rate of 7.25 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 (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Board's proportionate share of the net pension liability (asset)	\$ 29,130,529	\$ 9,678,803	\$ (6,828,228)

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

(b) Other Postemployment Healthcare Benefits

Plan Description. The post-employment healthcare benefits are provided through a cost sharing multiple-employer defined benefit plan administered by the Executive Administrator and the Board of Trustees of the Comprehensive Major Medical Plan (the Plan). The Executive Administrator and the Board of Trustees of the Plan establishes premium rates except as may be established by the General Assembly in an appropriate act. The Plan's benefit and contribution provisions are established by Chapter 135-7, Article 1, Chapter 135, Article 3 of the General Statutes and may be amended only by the North Carolina General Assembly. By General Statutes, the Plan accumulates contributions from employers and any earnings on those contributions in the Retiree Health Benefit Fund. These assets shall be used to provide health benefits to retired and disabled employees and their applicable beneficiaries. These contributions are irrevocable. Also by law, these assets are not subject to the claims of creditors of the employers making contributions to the Plan.

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

Funding Policy. The Comprehensive Major Medical Plan is administered by the Executive Administrator and Board of Trustees of the Plan, which establish premium rates except as may be established by General Assembly in an appropriation act. The healthcare benefits for retired and disabled employees are the same as for active employees, except that the coverage becomes secondary when former employees become eligible for Medicare. For employees first hired on and after October 1, 2006, future coverage as retired employees is subject to the

Board of Education of Beaufort County Schools

Notes to Financial Statements

requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on and after October 1, 2006 with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan's total noncontributory premium. For employees hired before October 1, 2006, healthcare benefits are provided to retirees (at no charge to the retirees) who have at least five years of contributing retirement membership prior to disability or retirement. In addition, persons who became surviving spouses of retirees prior to October 1, 1986, receive the same coverage as retirees at the State's expense.

Contributions are determined as a percentage of covered monthly payroll. Annually, the monthly contribution rates to the Plan, which are intended to finance benefits and administrative expenses on pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill. For the fiscal years ended June 30, 2016, 2015, and 2014, the Board paid all annual required contributions to the Plan for postretirement healthcare benefits of \$2,057,262, \$2,062,174, and \$1,918,436, respectively. The contributions represented 5.60%, 5.49%, and 5.40% of covered payroll, respectively.

(c) Long-term Disability Benefits

Plan Description. Short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan. The DIPNC is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System. Long-term disability benefits are payable as an other post-employment benefit 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. 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 accumulates contributions from employers and any earnings on those contributions in the Disability Income Plan Trust Fund. The Plan does not provide for automatic post-retirement benefit increases.

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

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

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

Board of Education of Beaufort County Schools
Notes to Financial Statements

August 1, 2007, the monthly long-term disability benefit is reduced by the primary Social Security retirement benefit to which you might be entitled should you become age 62 during the first 36 months. After 36 months of long-term disability, there will be no further payments from the DIPNC unless the member is approved for and are in receipt of primary Social Security disability benefits. It is payable so long as the member remains disabled and is in receipt of a primary Social Security disability benefit until eligible for an unreduced service retirement benefit. When an employee qualifies for an unreduced service retirement allowance from the Retirement System, the benefits payable from DIPNC will cease, and the employee will commence retirement under TSERS.

The Board's contributions are established in the Appropriations Bill by General Assembly. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The contributions cannot be separated between the amounts that relate to other post-employment 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 post-employment benefit. For the fiscal years ended June 30, 2016, 2015, and 2014, the Board paid all annual required contributions to the DIPNC for disability benefits of \$150,621, \$154,006, and \$156,317, respectively. These contributions represented .41%, .41%, and .44% of covered payroll for each year, respectively.

(2) Payables

Payables as of June 30, 2016 are as follows:

	<u>Vendors</u>	<u>Salaries and benefits</u>	<u>Total</u>
Governmental activities:			
General	\$ 36,573	\$ 163,349	\$ 199,922
Other governmental	<u>222,510</u>	<u>2,018,929</u>	<u>2,241,439</u>
Total governmental activities	<u>\$ 259,083</u>	<u>\$ 2,182,278</u>	<u>\$ 2,441,361</u>
Business-type activities			
School Food Service	\$ 17	\$ 16,504	\$ 16,521
Child Care	<u>665</u>	<u>-</u>	<u>665</u>
Total business-type activities	<u>\$ 682</u>	<u>\$ 16,504</u>	<u>\$ 17,186</u>

(3) Unearned Revenues

The balance in unearned revenues as of June 30, 2016 is composed of the following elements:

Prepayments of meals (School Food Service Fund)	<u>\$ 19,448</u>
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(4) Risk Management

The Board is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board participates in the North Carolina School Boards Trust (the Trust), a member funded risk management program administered by the North Carolina School Boards Association. Through the Trust, the Board maintains general liability and errors and omissions coverage of \$1 million per claim, and workers' compensation coverage up to the statutory limits for employees to the extent they are paid from Federal and local funds. The State of North Carolina provides workers' compensation for employees to the extent they are paid from State funds. The Trust has an annual aggregate limit for general liability of \$2,550,000 and \$2,550,000 for errors and omissions. The Trust is reinsured through commercial companies for losses in excess of \$150,000 per claim for errors and omissions and general liability coverage, and for losses in excess of \$275,000 per claim for workers' compensation coverage. The Board also participates in the Public School Insurance Fund (the Fund), a voluntary, self-insured risk control and risk financing fund administered by the North Carolina Department of Public Instruction, insuring the tangible property assets of

Board of Education of Beaufort County Schools

Notes to Financial Statements

the Board. Coverage is provided on an "all risk" perils contract. Buildings and content are insured on a replacement cost basis. The Fund purchases excess reinsurance to protect the assets of the Fund in the event of a catastrophic event. The Fund maintains a self-insured retention of \$10 million. Excess reinsurance is purchased through commercial insurers. A limit of \$5 million per occurrence is provided on Flood, Earthquake, Business Interruption and Extra Expense. \$10 million per occurrence is provided on Increased Cost of Construction.

The Board also participates in the Teachers' and State Employees' Comprehensive Major Medical Plan, a self-funded risk financing pool of the State administered by Blue Cross and Blue Shield of North Carolina. Through the Plan, permanent full-time employees of the Board are eligible to receive unlimited lifetime health care benefits up to a \$5 million lifetime limit. The Board pays the full cost of coverage for employees enrolled in the Comprehensive Major Medical Plan.

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

(5) Contingent Liabilities

At June 30, 2016, the Board was a defendant to various lawsuits. In the opinion of the Board's management and the Board's attorney, the ultimate effect of these legal matters will not have a material adverse effect on the Board's financial position.

(6) Long-Term Obligations

(a) Installment Purchases

The Board is authorized by State law [G.S. 115C-528] to enter into installment purchase contracts to finance the purchase or improvement of personal property and to secure its obligations under such contracts by security interest in all or a portion of the property purchased or improved.

The Board is authorized to finance the purchase of school buses under G.S. 115C-528(a). Session law 2003-284, section 7.25 authorized the State Board of Education to allot monies for the payments on financing contracts entered into pursuant to G.S. 115C-528. In July 2015, the Board entered into an installment purchase contract to finance the purchase of the school buses. The financing contract requires only principal payments at the beginning of each contract year.

The future minimum payments of the installment purchase as of June 30, 2016 is are follows:

<u>Year Ending</u> <u>June 30</u>	
2017	\$ 277,289
2018	277,289
2019	<u>215,321</u>
	<u>\$ 769,899</u>

Board of Education of Beaufort County Schools
Notes to Financial Statements

(b) Long-Term Obligation Activity

The following is a summary of changes in the Board's long-term obligations for the fiscal year ended June 30, 2016:

	<u>July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2016</u>	<u>Current portion</u>
Governmental activities:					
Installment purchases	\$ -	\$ 1,109,154	\$ 339,255	\$ 769,899	\$ 277,288
Net pension liability	2,952,895	6,414,711	-	9,367,606	-
Compensated absences	<u>4,421,653</u>	<u>3,783,168</u>	<u>4,483,777</u>	<u>3,721,044</u>	<u>3,721,044</u>
Total	<u>\$ 7,374,548</u>	<u>\$ 11,307,033</u>	<u>\$ 4,823,032</u>	<u>\$ 13,858,549</u>	<u>\$ 3,998,332</u>
Business-type activities:					
Net pension liability	\$ 99,386	\$ 211,811	\$ -	\$ 311,197	\$ -
Compensated absences	<u>178,035</u>	<u>148,616</u>	<u>171,440</u>	<u>155,211</u>	<u>147,872</u>
Total	<u>\$ 277,421</u>	<u>\$ 360,427</u>	<u>\$ 171,440</u>	<u>\$ 466,408</u>	<u>\$ 147,872</u>

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

(7) Interfund Balances and Activity

Balances due to/from other funds at June 30, 2016 consists of the following:

From the School Food Service Fund to the General Fund for expenditure reimbursements	<u>\$ 39,572</u>
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C. Fund Balance

The Board of Education has a revenue spending policy that provides policy for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: revenues restricted as to use and secondly general unrestricted revenues.

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

Total fund balance – General Fund	\$ 1,117,897
Less:	
Stabilization by State Statute	39,608
Appropriated Fund Balance in 2016-2017 Budget	<u>339,044</u>
Remaining Fund Balance	<u>\$ 739,245</u>

3. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

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

Board of Education of Beaufort County Schools
Schedules of Required Supplementary Information
Schedule of the Board's Proportionate Share of the Net Pension Liability
Teachers' and State Employees' Retirement System
Last Three Fiscal Years*

Schedule 1

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Board's proportion of the net pension liability	0.2626%	0.2603%	0.2600%
Board's proportionate share of the net pension liability	\$ 9,678,803	\$ 3,052,281	\$ 15,784,649
Board's covered-employee payroll	\$ 38,162,160	\$ 36,206,751	\$ 36,615,666
Board's proportionate share of the net pension liability as a percentage of its covered-employee payroll	25.36%	8.43%	43.11%
Plan fiduciary net position as a percentage of the total pension liability	94.64%	98.24%	90.60%

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

**Board of Education of Beaufort County Schools
Schedules of Required Supplementary Information
Schedule of Board Contributions
Teachers' and State Employees' Retirement System
Last Three Fiscal Years**

Schedule 2

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 3,387,825	\$ 3,449,536	\$ 3,092,864
Contributions in relation to the contractually required contribution	<u>3,387,825</u>	<u>3,449,536</u>	<u>3,092,864</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Board's covered-employee payroll	\$ 37,226,657	\$ 38,162,160	\$ 36,206,751
Contributions as a percentage of covered-employee payroll	9.10%	9.04%	8.54%

Board of Education of Beaufort County Schools
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual
Capital Outlay Fund
For the Fiscal Year Ended June 30, 2016

Schedule 3

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
State appropriations - buses	\$ 339,255	\$ 339,255	\$ -
Beaufort County:			
General county revenues	1,800,000	1,800,000	-
Other:			
Interest earned on investments	-	13,197	13,197
Miscellaneous	2,712	11,503	8,791
Total other	2,712	24,700	21,988
Total revenues	2,141,967	2,163,955	21,988
Expenditures:			
Capital outlay:			
Real property and buildings		2,226,346	
Furniture and equipment		147,898	
Buses and motor vehicles		1,244,969	
Total capital outlay	4,751,569	3,619,213	1,132,356
Debt service:			
Principal retirement	339,255	339,255	-
Total capital outlay and debt service	5,090,824	3,958,468	1,132,356
Revenues under expenditures	(2,948,857)	(1,794,513)	1,154,344
Other financing sources:			
Installment purchase obligations issued	1,109,154	1,109,154	-
Fund balance appropriated	1,839,703	-	(1,839,703)
Net change in fund balance	\$ -	(685,359)	\$ (685,359)
Fund balance:			
Beginning of year		1,873,680	
End of year		\$ 1,188,321	

Board of Education of Beaufort County Schools
Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)
School Food Service Fund
For the Fiscal Year Ended June 30, 2016

Schedule 4

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Operating revenues:			
Food sales	<u>\$ 687,510</u>	<u>\$ 503,645</u>	<u>\$ (183,865)</u>
Operating expenditures:			
Business support services:			
Purchase of food		1,076,388	
Donated commodities		253,287	
Salaries and benefits		1,918,407	
Materials and supplies		142,313	
Repairs and maintenance		23,075	
Contracted services		69,859	
Other		27,378	
Non-capitalized equipment		27,713	
Capital outlay		6,450	
Total operating expenditures	<u>3,645,510</u>	<u>3,544,870</u>	<u>100,640</u>
Operating loss	<u>(2,958,000)</u>	<u>(3,041,225)</u>	<u>(83,225)</u>
Nonoperating revenues:			
Federal reimbursements	2,699,500	2,743,129	43,629
Federal commodities	250,000	253,286	3,286
State reimbursements	6,000	4,808	(1,192)
Interest earned	2,500	3,223	723
Other	-	24,125	24,125
Total nonoperating revenues	<u>2,958,000</u>	<u>3,028,571</u>	<u>70,571</u>
Revenues under expenditures	<u>\$ -</u>	<u>(12,654)</u>	<u>\$ (12,654)</u>
Reconciliation of modified accrual to full accrual basis:			
Reconciling items:			
Depreciation		(118,875)	
Equipment purchases		6,450	
Capital contributed		64,997	
Increase in net pension liability		(190,835)	
Decrease in deferred inflows - pension		262,128	
Increase in deferred outflows - pension		1,909	
Decrease in compensated absences payable		15,599	
Increase in inventories		33,892	
Change in net position		<u>\$ 62,611</u>	

Board of Education of Beaufort County Schools
Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)
Child Care Fund
For the Fiscal Year Ended June 30, 2016

Schedule 5

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Operating revenues:			
Child care fees	<u>\$ 284,705</u>	<u>\$ 279,593</u>	<u>\$ (5,112)</u>
Operating expenditures:			
Regular community service:			
Salaries and benefits		231,248	
Materials and supplies		24,802	
Other		8,543	
	<u>398,470</u>	<u>264,593</u>	<u>133,877</u>
Revenues over (under) expenditures	(113,765)	15,000	128,765
Fund balance appropriated	<u>113,765</u>	<u>-</u>	<u>(113,765)</u>
Revenues and fund balance appropriated over expenditures	<u>\$ -</u>	15,000	<u>\$ 15,000</u>
Reconciliation of modified accrual to full accrual basis:			
Reconciling items:			
Increase in net pension liability		(20,976)	
Decrease in deferred inflows - pension		27,726	
Increase in deferred outflows - pension		459	
Decrease in compensated absences payable		7,225	
		<u>29,434</u>	
Change in net position		<u>\$ 29,434</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*

Board of Education
Beaufort County Schools
Washington, 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 Board of Education of Beaufort County Schools, North Carolina ("Board"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated January 20, 2017.

Internal Control over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-005 to be material weaknesses.

A significant deficiency is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2016-002, 2016-003, and 2016-004 to be significant deficiencies.

Compliance and Other Matters

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

Response to Findings

The Board's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs and the corrective action plan. 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 solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Board'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 Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dixon Hughes Goodman LLP

**Winston-Salem, North Carolina
January 20, 2017**

Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance and the State Single Audit Implementation Act

Board of Education
Beaufort County Schools
Washington, North Carolina

Report on Compliance for Each Major Federal Program

We have audited the Board of Education of Beaufort County Schools, North Carolina ("Board") 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 Board's major federal programs for the year ended June 30, 2016. The Board's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Board 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, 2016.

Report on Internal Control over Compliance

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

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

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

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

Dixon Hughes Goodman LLP

**Winston-Salem North Carolina
January 20, 2017**

Independent Auditors' Report on Compliance For Each Major State Program and on Internal Control Over Compliance Required by the Uniform Guidance and the State Single Audit Implementation Act

Board of Education
Beaufort County Schools
Washington, North Carolina

Report on Compliance for Each Major State Program

We have audited the Board of Education of Beaufort County Schools, North Carolina ("Board") compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission that could have a direct and material effect on each of its major state programs for the year ended June 30, 2016. The Board's major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Board's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 state program occurred. An audit includes examining, on a test basis, evidence about the Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major State Program

In our opinion, the Board 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, 2016.

Report on Internal Control over Compliance

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

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

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

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

Dixon Hughes Goodman LLP

**Winston-Salem, North Carolina
January 20, 2017**

1. Summary of Auditor's Results

Financial Statements

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

Internal control over financial reporting:

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

Noncompliance material to financial statements noted yes x no

Federal Awards

Internal control over major federal programs:

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

Noncompliance material to federal awards yes x no

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 x no

Identification of major federal programs:

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

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

Auditee qualified as low-risk auditee? x yes no

State Awards

Internal control over major state programs:

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

Noncompliance material to state awards _____ yes x no

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:

<u>Program Name</u>
North Carolina Department of Public Instruction State Public School Fund

2. Financial Statement Findings

Finding 2016-001

Manual journal entries

MATERIAL WEAKNESS

Criteria: There should be a system of control in place to ensure that those responsible for reviewing and approving journal entries do not have access to prepare journal entries.

Condition: Our review of journal entries revealed that many entries lacked proper approval by a responsible employee and in some cases, adequate documentation to explain why the journal entry was prepared.

Effect: Without a system of control, there remains a risk that the financial statements could be intentionally or inadvertently misstated and that fraud could be perpetrated without being detected.

Cause: The Board has a policy in place, whereby all journal entries should be approved by the finance officer or other designated members of management, however, the finance office was adjusting to the different processes as a result of implementing new financial software.

Recommendation: We recommend that the Board monitors its policy for approval of journal entries and that all journal entries be accompanied by fully explanations and by reference to adequate supporting data.

Views of responsible officials and planned corrective actions: Management agrees with this finding. Please refer to Schedule 8 for the Corrective Action Plan.

Finding 2016-002

Reconciliation of Liability Accounts

SIGNIFICANT DEFICIENCY

Criteria: Balance sheet accounts should be reconciled to underlying accounting records and subledgers on a periodic basis.

Condition: Account reconciliations were not being performed accurately or timely resulting in erroneous balances in liability accounts at June 30, 2016.

Effect: Several audit adjustments were required to adjust liability accounts to actual at June 30, 2016.

Cause: The Board implemented new financial software in the current year. As a result of this conversion, certain routine closing procedures, such as reconciling liability accounts, were disrupted.

Recommendation: Balance sheet accounts should also be examined on a periodic basis to ensure that accounts agree to their respective underlying records. The underlying records should also be investigated to ensure they are accurate.

Views of responsible officials and planned corrective actions: Management agrees with this finding. Please refer to Schedule 8 for the Corrective Action Plan.

Finding 2016-003

Reconciliation of Cash Accounts

SIGNIFICANT DEFICIENCY

Criteria: Balance sheet accounts should be reconciled to underlying accounting records and subledgers on a periodic basis.

Condition: Bank reconciliations were not being performed accurately or timely resulting in erroneous reconciling items used to balance the bank accounts.

Effect: Several audit adjustments were required to adjust cash accounts to actual at June 30, 2016.

Cause: The Board implemented new financial software in the current year. As a result of this conversion, certain routine closing procedures, such as reconciling cash accounts, were disrupted.

Recommendation: Bank reconciliations should be reviewed in a timely manner as a detective control to ensure that errors are identified and rectified.

Views of responsible officials and planned corrective actions: Management agrees with this finding. Please refer to Schedule 8 for the Corrective Action Plan.

Finding 2016-004

Unrecorded Liabilities

SIGNIFICANT DEFICIENCY

Criteria: Invoices received after year-end in which services were performed or goods were received in the previous year should be accrued in accounts payable, regardless of when the invoice is received.

Condition: Proper procedures for accounts payable were not being performed accurately or timely resulting in the initial understatement of accounts payable.

Effect: Several audit adjustments were required to adjust accounts payable to actual at June 30, 2016.

Cause: The Board implemented new financial software in the current year. As a result of this conversion, certain routine closing procedures, such as holding accounts payable open for invoices received after year-end, were disrupted.

Recommendation: Management should review invoices received after year-end are reviewed to determine whether they related to the prior fiscal year.

Views of responsible officials and planned corrective actions: Management agrees with this finding. Please refer to Schedule 8 for the Corrective Action Plan.

Finding 2016-005

System Conversion

MATERIAL WEAKNESS

Criteria: The Board of Education underwent a system conversion of its accounting software during the fiscal year. System conversions can be extremely complex and require significant oversight to ensure all records and balances are migrated and mapped properly.

Condition: Proper controls were not implemented to ensure that the conversion was performed accurately.

Effect: Several issues were noted during the audit processes which were attributable to this conversion: (1) The Board approved budget did not agree with the accounting system. For purposes of the financial statements, the Board approved budget was used and there were no indications of material expenditures over appropriations. (2) The beginning trial balance for certain funds did not balance. This was determined to be a mapping issue and was corrected. (3) Depreciation schedules did not agree to the previous year ending balances. The differences were identified and corrected.

Cause: While implementing and adapting to the new financial software, certain procedures and processes were not properly vetted or reconciled to ensure a smooth transition.

Recommendation: The Board should identify personnel to oversee nonrecurring projects to ensure that they are completed accurately and timely.

Views of responsible officials and planned corrective actions: Management agrees with this finding. Please refer to Schedule 8 for the Corrective Action Plan.

3. Federal Award Findings And Questioned Costs

No findings and questioned costs related to the audit of federal awards aggregating \$25,000 or more were noted.

4. State Award Findings And Questioned Costs

No findings and questioned costs related to the audit of state awards aggregating \$25,000 or more were noted.

There were no findings or questioned costs related to our audit of federal and state awards for the fiscal year ended June 30, 2015.

1. Financial Statement Findings

Finding 2016-001

MATERIAL WEAKNESS

Name of contact person: Mack Carawan, Finance Officer

Corrective action: The Board has hired a new finance officer who will evaluate the process for reviewing and approving journal entries and will implement proper procedures and segregation of duties.

Proposed completion date: June 30, 2017

Finding 2016-002

SIGNIFICANT DEFICIENCY

Name of contact person: Mack Carawan, Finance Officer

Corrective action: The Board has hired a new finance officer who will evaluate the process for month-end and year-end closing, including the reconciliation of liability accounts.

Proposed completion date: June 30, 2017

Finding 2016-003

SIGNIFICANT DEFICIENCY

Name of contact person: Mack Carawan, Finance Officer

Corrective action: The Board has hired a new finance officer who will evaluate the process for month-end and year-end closing, including the reconciliation of cash accounts.

Proposed completion date: June 30, 2017

Finding 2016-004

SIGNIFICANT DEFICIENCY

Name of contact person: Mack Carawan, Finance Officer

Corrective action: The Board has hired a new finance officer who will evaluate the process for processing accounts payable and ensuring that invoices received subsequent to year-end are captured in the correct fiscal year.

Proposed completion date: June 30, 2017

Finding 2016-005

MATERIAL WEAKNESS

Name of contact person: Mack Carawan, Finance Officer

Corrective action: The Board retained a consulting firm in order to help alleviate ongoing issues with the system conversion. This firm will be utilized on an as needed basis should other conversion related issues come to light. In addition, the Board has hired a new finance officer who will oversee nonrecurring projects going forward.

Proposed completion date: June 30, 2017

Board of Education of Beaufort County Schools
Schedule of Expenditures of Federal and State Awards
For the Fiscal Year Ended June 30, 2016

Schedule 9
(Page 1 of 3)

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Expenditures</u>
Federal Grants:			
<u>U. S. Department of Agriculture</u>			
School Nutrition Program (Note 3)			
<u>Child Nutrition Cluster:</u>			
Non-Cash Assistance (Commodities)			
Passed-through the N.C. Department of Public Instruction			
National School Lunch Program	10.555	PRC 035	\$ 253,286
Total Non-Cash Assistance			253,286
Cash Assistance			
Passed-through the N.C. Department of Public Instruction			
School Breakfast Program	10.553	PRC 035	583,341
National School Lunch Program	10.555	PRC 035	2,060,288
Total Cash Assistance			2,643,629
Total Child Nutrition Cluster			2,896,915
Fruit and Vegetable Program	10.582	PRC 035	99,500
Total School Nutrition Program (Note 3)			2,996,415
Total U. S. Department of Agriculture			2,996,415
<u>U.S. Department of Education</u>			
Cash Assistance			
Passed-through the N.C. Department of Public Instruction			
Title I Grants to Local Educational Agencies (Title I, Part A of ESEA)	84.010	PRC 050	2,052,102
Title I Grants to Local Educational Agencies (Title I, Part A of ESEA) - Reward School Mini-Grant	84.010	PRC 100	211,352
Total Title I			2,263,454
Title III, Improving School Programs			
Child Nutrition Equipment Grant	84.151	PRC 053	64,997
<u>Special Education Cluster:</u>			
Special Education - Grants to States (IDEA, Part B) -			
Education of the Handicapped	84.027	PRC 060	1,434,687
Coordinated Early Intervening Services	84.027	PRC 070	156,770
Special Needs Target Assistance	84.027	PRC 118	12,526
Special Education - Preschool Grants (IDEA Preschool) -			
Risk Pool Program	84.027	PRC 114	34,285
Targeted Assistance	84.027	PRC 119	3,541
Preschool Handicapped	84.173	PRC 049	82,523
Total Special Education Cluster			1,724,332
Career and Technical Education - Basic Grants to States	84.048	PRC 017	102,602
State Personnel Development	84.323	PRC 082	1,679
Rural Education	84.358	PRC 109	95,317
English Language Acquisition Grant	84.365	PRC 104	78,978
Language Acquisition Grant	84.365	PRC 111	1,726
Improving Teacher Quality State Grants	84.367	PRC 103	320,724
Twenty-First Century Community Learning Centers	84.287	PRC 110	358,559
Investing in Innovation	84.411	PRC 359	156,633
ARRA Race to the Top Programs			
ARRA - Race to the Top Wireless Infrastructure	84.395	PRC 160	145,926
Total U. S. Department of Education			5,314,927
<u>U.S. Department of Defense</u>			
Direct Program:			
ROTC	NONE	PRC 031	110,059

Board of Education of Beaufort County Schools
Schedule of Expenditures of Federal and State Awards
For the Fiscal Year Ended June 30, 2016

Schedule 9
(Page 2 of 3)

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Health and Human Services</u>			
Passed-through the N.C. Department of Health and Human Services			
School Nurse Funding Initiative	93.994		163,040
Total Federal Assistance			8,584,441
State Grants:			
Cash Assistance			
<u>N.C. Department of Public Instruction</u>			
State Public School Fund (SPSF)			\$ 37,803,510
Driver Training - SPSF		PRC 012	103,991
School Technology Fund - SPSF		PRC 015	73,270
Vocational Education			
- State Months of Employment		PRC 013	2,173,077
- Program Support Funds		PRC 014	121,195
Total N.C. Department of Public Instruction			40,275,043
<u>N.C. Department of Agriculture</u>			
State Kindergarten Breakfast Funds			4,808
<u>N.C. Department of Juvenile Justice & Delinquency Prevention</u>			
Juvenile Crime Prevention Program			73,483
<u>N.C. Department of Health and Human Services</u>			
Division of Child Development:			
State School Nurse Initiative			122,280
Disability Evaluations			1,370
<u>Other State Assistance</u>			
Vocational Rehabilitation			1,140
Education and Workforce Innovation			175,490
Non-Cash Assistance			
<u>N.C. Department of Public Instruction</u>			
School Buses Appropriation		PRC 120	339,255
Textbooks		PRC 130	69,639
Total State Assistance			41,062,508
Total Federal and State Assistance			\$ 49,646,949

**Board of Education of Beaufort County Schools
Schedule of Expenditures of Federal and State Awards
For the Fiscal Year Ended June 30, 2016**

**Schedule 9
(Page 3 of 3)**

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

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal and State awards (SEFSA) includes the federal and State grant activity of the Board of Education of Beaufort County Schools (Board) under the programs of the federal government and the State of North Carolina for the year ended June 30, 2016. The information in this SEFSA is presented in accordance with the requirements of Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of the Board, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Board.

Note 2: Summary of Significant Account Policies

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

Note 3: 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

Note 4: Non-cash Assistance

Included in the amounts reported on the SEFSA, the Board received non-cash assistance in the form of food commodities, school buses, and textbooks. Non-cash items with a fair value of \$662,180 were received during the year ended June 30, 2016. These non-cash items received were included in the determination of federal and State awards expended for the year ended June 30, 2016.