

**ORANGE COUNTY
BOARD OF EDUCATION
Hillsborough, North Carolina**

*Financial Statements
For the Fiscal Year Ended
June 30, 2016*

**ORANGE COUNTY BOARD OF EDUCATION
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ANDERSON SMITH & WIKE PLLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Orange County Board of Education
Hillsborough, 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 Orange County Board of Education, 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 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, 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, the business-type activities, each major fund, and the aggregate remaining fund information of the Orange County Board of Education 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, State Public School and Other Special Revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 9 and the Schedule of the Board's Proportionate Share of the Net Pension Liability and the Schedule of Board Contributions on pages 43 and 44, 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 opinions on the financial statements that collectively comprise the Orange County Board of Education's basic financial statements. The combining and individual nonmajor fund financial statements and schedules, budgetary schedules and other schedules, as well as the accompanying schedule of expenditures of federal and State awards as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and the State Single Audit Implementation Act are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2016 on our consideration of the Orange County Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Orange County Board of Education's internal control over financial reporting and compliance.

Anderson Smith & Wike PLLC

October 28, 2016
Rockingham, North Carolina
(910) 997-1418

ORANGE COUNTY BOARD OF EDUCATION MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Financial Highlights

- For the fiscal year ended June 30, 2016, the Board's total government-wide net position decreased by \$1.0 million, or 1.8%. Governmental activities net position decreased by \$1.1 million while business-type activities net position increased by \$88,000.
- The total funding increase over the prior year from the Orange County Board of County Commissioners was \$763,000.
- Financial reporting awards from the Association of School Business Officials International and the Government Finance Officers Association for the June 30, 2015 fiscal year.

Overview of the Financial Statements

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

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

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

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

ORANGE COUNTY BOARD OF EDUCATION MANAGEMENT'S DISCUSSION AND ANALYSIS

Government-wide Statements

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

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

- Over time, increases or decreases in the Board's net position are an indicator of whether its financial position is improving or deteriorating.
- To assess the Board's overall health, 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 service is included here.

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

Fund Financial Statements

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

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

Orange County Board of Education has three types of funds:

Governmental funds: Most of the Board's basic services are included in the governmental funds, which generally focus on two things – 1) how cash and other assets that 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 a reconciliation, explains the relationship (or differences) between the government-wide and the fund financial statements. The Board has several governmental funds: the General Fund, the State Public School Fund, the Individual Schools Fund, the Capital Outlay Fund, the Other Special Revenue Fund and the Federal Grants Fund. The governmental fund statements are shown as Exhibits 3, 4, 5 and 6 of this report.

**ORANGE COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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 Orange County Board of Education has two proprietary funds - both enterprise funds – the School Food Service Fund and the Child Care Fund. The proprietary fund statements are shown as Exhibits 7, 8, and 9 of this report.

Fiduciary Funds: Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Orange County Board of Education has one fiduciary fund – an administrative fund. The Administrative Fund is a scholarship fund under the control of the administrative unit. This is accounted for as a private purpose trust fund. The fiduciary fund statements are shown as Exhibits 10 and 11.

Financial Analysis of the Board as a Whole

Net position is an indicator of the fiscal health of the Board. Assets exceeded liabilities by \$55.9 million as of June 30, 2016 as compared to \$57.0 million as of June 30, 2015. The largest component of net position is net investment in capital assets of \$64.7 million. Following is a summary of the Statement of Net Position at June 30, 2016 and 2015:

**Table 1
Condensed Statement 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	\$ 11,298,047	\$ 12,422,484	\$ 964,520	\$ 902,834	\$ 12,262,567	\$ 13,325,318
Capital assets	65,317,007	66,161,693	97,222	103,748	65,414,229	66,265,441
Total assets	<u>76,615,054</u>	<u>78,584,177</u>	<u>1,061,742</u>	<u>1,006,582</u>	<u>77,676,796</u>	<u>79,590,759</u>
Deferred outflows of resources	4,432,986	4,159,464	115,799	93,580	4,548,785	4,253,044
Current liabilities	6,459,231	5,617,969	100,704	80,292	6,559,935	5,698,261
Long-term liabilities	16,565,383	7,016,568	344,727	139,137	16,910,110	7,155,705
Total liabilities	<u>23,024,614</u>	<u>12,634,537</u>	<u>445,431</u>	<u>219,429</u>	<u>23,470,045</u>	<u>12,853,966</u>
Deferred inflows of resources	2,757,717	13,726,348	72,037	308,816	2,829,754	14,035,164
Net investment in capital assets	64,605,966	66,079,471	97,222	103,748	64,703,188	66,183,219
Restricted net position	2,004,942	2,699,052	-	-	2,004,942	2,699,052
Unrestricted net position (deficit)	(11,345,199)	(12,395,767)	562,851	468,169	(10,782,348)	(11,927,598)
Total net position	<u>\$ 55,265,709</u>	<u>\$ 56,382,756</u>	<u>\$ 660,073</u>	<u>\$ 571,917</u>	<u>\$ 55,925,782</u>	<u>\$ 56,954,673</u>

The net position of the Board's governmental activities decreased \$1.1 million during the year, from \$56.4 million at June 30, 2015 to \$55.3 million at June 30, 2016, indicating a decline in the financial condition of the Board. Restricted net position decreased by \$694,000, primarily due to a decrease in fund balance in the Capital Outlay Fund. Unrestricted net position increased \$1.1 million compared to the prior year. Net investment in capital assets decreased \$1.5 million due to an excess of depreciation expense over capital additions for the year.

The net position of the Board's business-type activities increased \$88,000 during the year. This increase of \$88,000 is the combined net profit generated by our school food service and child care operations during the 2016 fiscal year. The following table shows the revenues and expenses of the Board for the current and prior fiscal years:

**ORANGE COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Table 2
Condensed Statement of Activities
For the Fiscal Years Ended 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
Revenues:						
Program revenues:						
Charges for services	\$ 1,864,935	\$ 1,895,521	\$ 1,545,658	\$ 1,408,236	\$ 3,410,593	\$ 3,303,757
Operating grants and contributions	46,779,330	47,955,715	1,939,838	1,777,258	48,719,168	49,732,973
Capital grants and contributions	206,503	284,316	-	-	206,503	284,316
General revenues:						
County appropriations	32,472,969	31,085,370	-	-	32,472,969	31,085,370
Other revenues	326,802	340,382	-	587	326,802	340,969
Total revenues	<u>81,650,539</u>	<u>81,561,304</u>	<u>3,485,496</u>	<u>3,186,081</u>	<u>85,136,035</u>	<u>84,747,385</u>
Expenses:						
Governmental activities:						
Instructional services	58,499,301	56,607,544	-	-	58,499,301	56,607,544
System-wide support services	19,739,586	17,854,851	-	-	19,739,586	17,854,851
Ancillary services	5,243	3,011	-	-	5,243	3,011
Non-programmed charges	1,902,189	1,821,498	-	-	1,902,189	1,821,498
Interest on long-term debt	8,547	16,985	-	-	8,547	16,985
Unallocated depreciation	2,555,586	2,708,505	-	-	2,555,586	2,708,505
Business-type activities:						
School food service	-	-	2,676,926	2,525,131	2,676,926	2,525,131
Child care	-	-	777,548	652,262	777,548	652,262
Total expenses	<u>82,710,452</u>	<u>79,012,394</u>	<u>3,454,474</u>	<u>3,177,393</u>	<u>86,164,926</u>	<u>82,189,787</u>
Excess (deficiency) of revenues						
over expenditures before transfers	(1,059,913)	2,548,910	31,022	8,688	(1,028,891)	2,557,598
Transfers in (out)	(57,134)	(59,157)	57,134	59,157	-	-
Increase (decrease) in net position	<u>(1,117,047)</u>	<u>2,489,753</u>	<u>88,156</u>	<u>67,845</u>	<u>(1,028,891)</u>	<u>2,557,598</u>
Beginning net position,						
as previously reported	56,382,756	69,808,156	571,917	862,132	56,954,673	70,670,288
Restatement	-	(15,915,153)	-	(358,060)	-	(16,273,213)
Beginning net position, as restated	<u>56,382,756</u>	<u>53,893,003</u>	<u>571,917</u>	<u>504,072</u>	<u>56,954,673</u>	<u>54,397,075</u>
Ending net position	<u>\$ 55,265,709</u>	<u>\$ 56,382,756</u>	<u>\$ 660,073</u>	<u>\$ 571,917</u>	<u>\$ 55,925,782</u>	<u>\$ 56,954,673</u>

Total governmental activities generated revenues of \$81.7 million while expenses in this category totaled \$82.7 million for the year ended June 30, 2016, resulting in a decrease in net position of \$1.1 million (including transfers to business-type activities of \$57,000). Comparatively, revenues were \$81.6 million, expenses totaled \$79.0 million and transfers out were \$59,000 for the year ended June 30, 2015, resulting in an increase in net position of \$2.5 million. In comparing the two years, revenues increased slightly by \$89,000, or 0.1%, while expenses increased \$3.7 million, or 4.7%. The increase in expenses was primarily attributable to the installment purchase of new laptops during the 2015-2016 year.

The Board's primary sources of revenues were funding from the State of North Carolina, Orange County, and the United States Government, which respectively comprised 52.3%, 37.3% and 3.9% of our total revenues. As would be expected, the major component of our expenditures was instructional services which accounted for 70.7% of our total expenditures during the most recent fiscal year. Of the remaining 29.3% of our total expenditures, 23.9% was attributable to system-wide support services.

**ORANGE COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

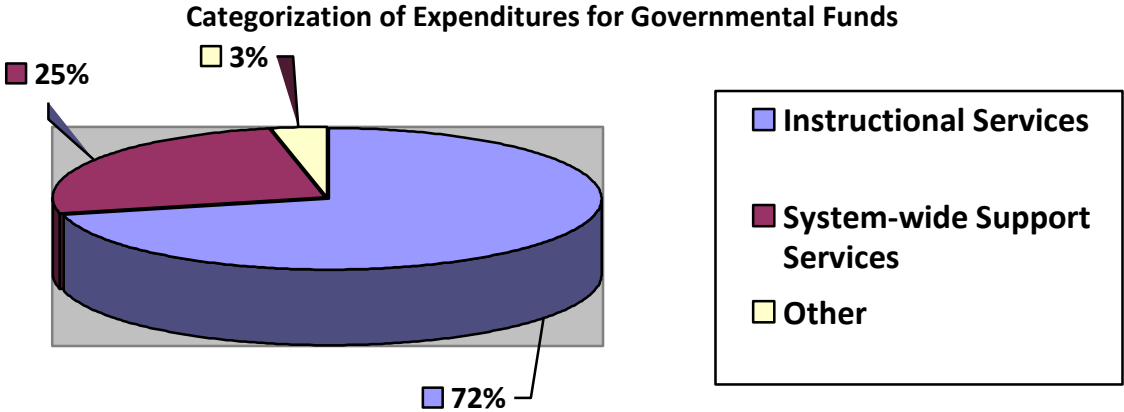
Our business-type activities generated revenues of \$3.5 million, expenses of \$3.5 million and reported transfers in from governmental activities of \$57,000 for the year ended June 30, 2016. For the year, net position increased by \$88,000. Comparatively, revenues were \$3.2 million, expenses were \$3.2 million and transfers in from governmental activities totaled \$59,000 for the year ended June 30, 2015, resulting in an increase in net position of \$68,000. In comparing the two periods, revenues from food sales and USDA reimbursements both increased during the year due to an increase in meals served. As would be expected, food costs also rose in the 2015-2016 year due to the increase in meals served.

Financial Analysis of the Board's Funds

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

The Board's governmental funds reported a combined fund balance of \$7.6 million at June 30, 2016, a decrease of \$1.2 million from the \$8.8 million reported at June 30, 2015. The Board's General, Other Special Revenue, Capital Outlay and nonmajor special revenue funds each reported decreases in fund balance for the year. Total governmental funds revenues reported a slight increase of \$98,000, or 0.1%, over the prior year while expenditures increased by \$5.5 million, or 6.8%. The increase in expenditures was primarily attributable to the purchase of new computers and school buses with the proceeds of installment purchase obligations issued.

During the year ended June 30, 2016, the Capital Outlay Fund reported a decrease in fund balance of \$397,000 compared to an increase of \$685,000 in the previous year. An increase in expenditures for renovations at one of the high schools was the primary factor contributing to the overall decrease in fund balance.



Expenditures presented on modified accrual basis of accounting.

Proprietary Funds: The Board's business-type funds, the School Food Service and Child Care funds, reported a combined increase in net position of \$88,000 for the current year compared to an \$68,000 increase for the year ended June 30, 2015. As previously discussed under the section *Financial Analysis of the Board as a Whole*, overall operating results were comparable to the prior year with no significant revenue or expense changes in the School Food Service or Child Care funds.

**ORANGE COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

General Fund Budgetary Highlights

Over the course of a year, the Board will revise the budget, as necessary, to account for changes in revenue expectations and program allocations. However, during the year ended June 30, 2016, no significant budget revisions were made in the General Fund as revenue and expenditure expectations remained consistent throughout the year.

For the year, the Board's General Fund reported a decrease in fund balance of \$779,000 compared to an increase of \$229,000 in the prior year. Revenues increased \$3.0 million over the prior year due primarily to the receipt of \$2.2 million of installment purchase proceeds used to purchase computers.

Due to some State and federal revenue sources being uncertain at the start of the year, management budgeted \$3.2 million of fund balance in case it was needed to cover instructional or system-wide support service costs that could not be paid from State or federal funds. The district did not have to use all of this appropriated fund balance as State and federal sources were used to pay most of these budgeted expenditures. This resulted in the General Fund reporting a \$2.4 million positive budget variance for expenditures for the year.

Capital Assets

Total primary government capital assets were \$65.4 million at June 30, 2016 compared to \$66.3 million at June 30, 2015, a decrease of 1.3%. This decrease was due to an excess of depreciation expense over capital additions for the year. More detailed information about the Board's capital assets is contained in Note 2 to the financial statements.

The following is a summary of the Board's capital assets, net of depreciation, at June 30, 2016 and 2015:

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<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>
Land	\$ 2,844,650	\$ 2,844,650	\$ -	\$ -	\$ 2,844,650	\$ 2,844,650
Construction in progress	631,616	678,529	-	-	631,616	678,529
Buildings and improvements	60,201,483	61,411,989	525	3,755	60,202,008	61,415,744
Equipment and furniture	151,585	216,961	96,697	99,993	248,282	316,954
Vehicles	1,487,673	1,009,564	-	-	1,487,673	1,009,564
Total	<u>\$ 65,317,007</u>	<u>\$ 66,161,693</u>	<u>\$ 97,222</u>	<u>\$ 103,748</u>	<u>\$ 65,414,229</u>	<u>\$ 66,265,441</u>

Debt Outstanding

During the year, the Board's long-term debt increased from \$745,000 at June 30, 2015 to \$2.9 million at June 30, 2016. 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. More detailed information about the Board's outstanding debt is contained in the Note 2 to the financial statements.

**ORANGE COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Economic Factors

County funding is a major source of income for the Orange County Board of Education. Therefore, the County's economic outlook directly affects that of the school district. The following factors reflect a positive outlook on the growth and prosperity of Orange County:

- The County enjoys a consistently low unemployment rate. The unemployment rates estimated by the North Carolina Employment Security Commission for June 2016 and 2015 were 4.6% and 5.0%, respectively, among the lowest in the state. The State averages for June 2016 and 2015 were 5.1% and 6.5%, respectively.
- The County's economy is characterized by a high degree of institutional and public sector activity, plus office, commercial and service-oriented business. Manufacturing and agriculture make up a smaller portion of the County's economy.
- The economy of the area is stabilized by the presence of State and Local government employment markets. The University of North Carolina at Chapel Hill and University Hospitals in the Town of Chapel Hill and their associated service, teaching and research programs have a reputation of excellence in the educational and medical fields. The County is also the place of residence for many technical and professional workers and executives who work in the Research Triangle Park and neighboring cities of Durham, Raleigh and Burlington.

Requests for Information

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

Rhonda Rath, Interim Chief Finance Officer
Orange County Board of Education
200 East King Street
Hillsborough, NC 27278

ORANGE COUNTY BOARD OF EDUCATION
STATEMENT OF NET POSITION
June 30, 2016

Exhibit 1

	Primary Government		Total
	Governmental Activities	Business-type Activities	
Assets			
Cash and cash equivalents	\$ 9,347,937	\$ 860,292	\$ 10,208,229
Due from other governments	1,844,228	57,391	1,901,619
Receivables	105,882	1,975	107,857
Inventories	-	44,862	44,862
Capital assets:			
Land and construction in progress	3,476,266	-	3,476,266
Other capital assets, net of depreciation	61,840,741	97,222	61,937,963
Total capital assets	65,317,007	97,222	65,414,229
Total assets	76,615,054	1,061,742	77,676,796
Deferred Outflows of Resources	4,432,986	115,799	4,548,785
Liabilities			
Accounts payable and accrued expenses	1,515,883	1,058	1,516,941
Accrued salaries and wages payable	2,137,303	-	2,137,303
Due to other governments	6,283	-	6,283
Unearned revenue	55,462	59,934	115,396
Long-term liabilities:			
Net pension liability	11,946,380	312,063	12,258,443
Due within one year	2,744,300	39,712	2,784,012
Due in more than one year	4,619,003	32,664	4,651,667
Total liabilities	23,024,614	445,431	23,470,045
Deferred Inflows of Resources	2,757,717	72,037	2,829,754
Net position			
Net investment in capital assets	64,605,966	97,222	64,703,188
Restricted for:			
Stabilization by State statute	128,478	-	128,478
School capital outlay	984,228	-	984,228
Instructional services	285,725	-	285,725
Individual schools activities	606,511	-	606,511
Unrestricted (deficit)	(11,345,199)	562,851	(10,782,348)
Total net position	\$ 55,265,709	\$ 660,073	\$ 55,925,782

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

**ORANGE COUNTY BOARD OF EDUCATION
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		Total
					Governmental Activities	Business-type Activities	
Primary government:							
Governmental activities:							
Instructional services:							
Regular instructional	\$ 34,138,647	\$ -	\$ 25,530,811	\$ -	\$ (8,607,836)	\$ -	\$ (8,607,836)
Special populations	9,093,373	-	7,828,956	-	(1,264,417)	-	(1,264,417)
Alternative programs	3,889,545	-	3,535,898	-	(353,647)	-	(353,647)
School leadership	3,646,221	-	1,877,177	-	(1,769,044)	-	(1,769,044)
Co-curricular	2,704,616	1,662,488	-	-	(1,042,128)	-	(1,042,128)
School-based support	5,026,899	-	2,088,052	-	(2,938,847)	-	(2,938,847)
System-wide support services:							
Support and development	1,518,321	-	307,931	-	(1,210,390)	-	(1,210,390)
Special population support and development	186,715	-	25,461	-	(161,254)	-	(161,254)
Alternative programs and services support and development	166,825	-	98,007	-	(68,818)	-	(68,818)
Technology support	3,716,117	-	194,951	-	(3,521,166)	-	(3,521,166)
Operational support	10,740,085	24,053	4,247,131	206,503	(6,262,398)	-	(6,262,398)
Financial and human resource services	1,813,695	178,394	626,057	-	(1,009,244)	-	(1,009,244)
Accountability	174,727	-	-	-	(174,727)	-	(174,727)
System-wide pupil support	10,168	-	-	-	(10,168)	-	(10,168)
Policy, leadership and public relations	1,412,933	-	288,187	-	(1,124,746)	-	(1,124,746)
Ancillary services	5,243	-	2,454	-	(2,789)	-	(2,789)
Payments to other governments	1,902,189	-	128,257	-	(1,773,932)	-	(1,773,932)
Interest on long-term debt	8,547	-	-	-	(8,547)	-	(8,547)
Unallocated depreciation expense**	2,555,586	-	-	-	(2,555,586)	-	(2,555,586)
Total governmental activities	<u>82,710,452</u>	<u>1,864,935</u>	<u>46,779,330</u>	<u>206,503</u>	<u>(33,859,684)</u>	<u>-</u>	<u>(33,859,684)</u>
Business-type activities:							
School food service	2,676,926	768,391	1,939,838	-	-	31,303	31,303
Child care	<u>777,548</u>	<u>777,267</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(281)</u>	<u>(281)</u>
Total business-type activities	<u>3,454,474</u>	<u>1,545,658</u>	<u>1,939,838</u>	<u>-</u>	<u>-</u>	<u>31,022</u>	<u>31,022</u>
Total primary government	<u>\$ 86,164,926</u>	<u>\$ 3,410,593</u>	<u>\$ 48,719,168</u>	<u>\$ 206,503</u>	<u>(33,859,684)</u>	<u>31,022</u>	<u>(33,828,662)</u>
General revenues:							
Unrestricted county appropriations - operating					29,338,029	-	29,338,029
Unrestricted county appropriations - capital					3,134,940	-	3,134,940
Investment earnings, unrestricted					17,673	-	17,673
Miscellaneous, unrestricted					309,129	-	309,129
Transfers					(57,134)	57,134	-
Total general revenues and transfers					<u>32,742,637</u>	<u>57,134</u>	<u>32,799,771</u>
Change in net position					(1,117,047)	88,156	(1,028,891)
Net position - beginning					<u>56,382,756</u>	<u>571,917</u>	<u>56,954,673</u>
Net position - ending					<u>\$ 55,265,709</u>	<u>\$ 660,073</u>	<u>\$ 55,925,782</u>

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

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

**ORANGE COUNTY BOARD OF EDUCATION
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016**

Exhibit 3

	Major Funds				Non-major Funds	Total Governmental Funds
	General	State Public School	Other Special Revenue	Capital Outlay	Special Revenue	
Assets						
Cash and cash equivalents	\$ 6,115,437	\$ 6,283	\$ 1,424,768	\$ 1,194,938	\$ 606,511	\$ 9,347,937
Due from other governments	22,596	1,681,574	-	38,436	101,622	1,844,228
Accounts receivable	105,047	-	835	-	-	105,882
Total assets	\$ 6,243,080	\$ 1,687,857	\$ 1,425,603	\$ 1,233,374	\$ 708,133	\$ 11,298,047
Liabilities and fund balances						
Liabilities:						
Accounts payable and accrued liabilities	\$ 1,258,742	\$ -	\$ 7,995	\$ 249,146	\$ -	\$ 1,515,883
Accrued salaries and wages payable	322,004	1,681,574	32,103	-	101,622	2,137,303
Due to other governments	-	6,283	-	-	-	6,283
Unearned revenue	-	-	55,462	-	-	55,462
Total liabilities	1,580,746	1,687,857	95,560	249,146	101,622	3,714,931
Fund balances:						
Restricted:						
Stabilization by State statute	127,643	-	835	-	-	128,478
School capital outlay	-	-	-	984,228	-	984,228
Instructional services	-	-	285,725	-	-	285,725
Individual schools	-	-	-	-	606,511	606,511
Assigned:						
Subsequent year's expenditures	2,604,067	-	-	-	-	2,604,067
Special revenues	-	-	1,043,483	-	-	1,043,483
Unassigned	1,930,624	-	-	-	-	1,930,624
Total fund balances	4,662,334	-	1,330,043	984,228	606,511	7,583,116
Total liabilities and fund balances	\$ 6,243,080	\$ 1,687,857	\$ 1,425,603	\$ 1,233,374	\$ 708,133	

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.	65,317,007
Deferred outflows of resources related to pensions	4,432,986
Some liabilities, including those for compensated absences and installment purchases, are not due and payable in the current period and therefore are not reported in the funds.	(7,363,303)
Net pension liability	(11,946,380)
Deferred inflows of resources related to pensions	(2,757,717)
Net position of governmental activities	\$ 55,265,709

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

ORANGE COUNTY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2016

Exhibit 4

	Major Funds				Non-major Funds	Total Governmental Funds
	General	State Public School	Other Special Revenue	Capital Outlay	Special Revenue	
Revenues:						
State of North Carolina	\$ -	\$ 42,582,345	\$ 8,000	\$ 206,503	\$ -	\$ 42,796,848
Orange County:						
Local current expense	28,844,029	-	-	-	-	28,844,029
Other	494,000	-	-	1,167,900	-	1,661,900
U.S. Government	-	-	-	-	3,146,066	3,146,066
Other	278,114	-	1,420,536	1,968,815	1,662,488	5,329,953
Total revenues	<u>29,616,143</u>	<u>42,582,345</u>	<u>1,428,536</u>	<u>3,343,218</u>	<u>4,808,554</u>	<u>81,778,796</u>
Expenditures:						
Current:						
Instructional services:						
Regular instructional	10,149,337	25,312,907	235,592	134,600	148,413	35,980,849
Special populations	2,091,997	5,837,535	29,981	-	1,568,148	9,527,661
Alternative programs	693,739	1,936,190	353,764	-	1,041,553	4,025,246
School leadership	1,955,466	1,877,177	-	-	-	3,832,643
Co-curricular	918,716	-	763	142,422	1,672,301	2,734,202
School-based support	1,751,356	2,035,631	237,055	1,133,313	52,421	5,209,776
System-wide support services:						
Support and development	1,273,916	198,232	-	-	109,699	1,581,847
Special population support and development	157,175	-	13,500	-	25,461	196,136
Alternative programs and services support and development	15,900	27,771	58,813	-	70,236	172,720
Technology support	3,562,592	194,951	-	-	-	3,757,543
Operational support	5,398,141	4,197,857	520,211	2,402,299	1,878	12,520,386
Financial and human resource services	1,170,114	626,057	5,000	61,490	-	1,862,661
Accountability	185,068	-	-	-	-	185,068
System-wide pupil support	9,315	-	860	-	-	10,175
Policy, leadership and public relations	1,153,968	288,187	-	-	-	1,442,155
Ancillary services	9,557	2,454	10,201	4,500	-	26,712
Non-programmed charges	1,902,189	-	-	-	128,257	2,030,446
Debt service:						
Principal retirement	178,695	-	-	690,358	-	869,053
Interest and fees	2,305	-	-	6,242	-	8,547
Total expenditures	<u>32,579,546</u>	<u>42,534,949</u>	<u>1,465,740</u>	<u>4,575,224</u>	<u>4,818,367</u>	<u>85,973,826</u>
Revenues over (under) expenditures	<u>(2,963,403)</u>	<u>47,396</u>	<u>(37,204)</u>	<u>(1,232,006)</u>	<u>(9,813)</u>	<u>(4,195,030)</u>
Other financing uses:						
Transfers to other funds	(9,738)	(47,396)	-	-	-	(57,134)
Installment purchase obligations issued	2,194,084	-	-	835,322	-	3,029,406
Total other financing sources (uses)	<u>2,184,346</u>	<u>(47,396)</u>	<u>-</u>	<u>835,322</u>	<u>-</u>	<u>2,972,272</u>
Net change in fund balance	(779,057)	-	(37,204)	(396,684)	(9,813)	(1,222,758)
Fund balances:						
Beginning of year	<u>5,441,391</u>	<u>-</u>	<u>1,367,247</u>	<u>1,380,912</u>	<u>616,324</u>	<u>8,805,874</u>
End of year	<u>\$ 4,662,334</u>	<u>\$ -</u>	<u>\$ 1,330,043</u>	<u>\$ 984,228</u>	<u>\$ 606,511</u>	<u>\$ 7,583,116</u>

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

ORANGE COUNTY BOARD OF EDUCATION
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	\$ (1,222,758)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(844,686)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	4,219,125
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.	(2,160,353)
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	
Pension expense	(1,162,539)
Compensated absences	<u>54,164</u>
Total changes in net position of governmental activities	<u>\$ (1,117,047)</u>

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

ORANGE COUNTY BOARD OF EDUCATION
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

	General Fund			Variance with final budget positive (negative)
	Original Budget	Final Budget	Actual	
Revenues:				
State of North Carolina	\$ -	\$ -	\$ -	\$ -
Orange County	29,338,029	29,338,029	29,338,029	-
U.S. Government	-	-	-	-
Other	230,000	230,000	278,114	48,114
Total revenues	<u>29,568,029</u>	<u>29,568,029</u>	<u>29,616,143</u>	<u>48,114</u>
Expenditures:				
Current:				
Instructional services:				
Regular instructional	9,877,442	10,204,913	10,149,337	55,576
Special populations	2,537,996	2,537,996	2,091,997	445,999
Alternative programs	752,891	710,101	693,739	16,362
School leadership	2,009,219	2,009,219	1,955,466	53,753
Co-curricular	939,221	939,222	918,716	20,506
School-based support	1,874,308	1,874,308	1,751,356	122,952
Total instructional services	<u>17,991,077</u>	<u>18,275,759</u>	<u>17,560,611</u>	<u>715,148</u>
System-wide support services:				
Support and development	1,567,598	1,489,470	1,273,916	215,554
Special population support and development	160,455	160,455	157,175	3,280
Alternative programs and services support and development	10,034	23,896	15,900	7,996
Technology support	831,693	3,823,043	3,562,592	260,451
Operational support	5,884,933	5,851,381	5,398,141	453,240
Financial and human resource services	1,218,931	1,218,519	1,170,114	48,405
Accountability	224,040	224,040	185,068	38,972
System-wide pupil support	12,000	12,000	9,315	2,685
Policy, leadership and public relations	1,756,678	1,756,678	1,153,968	602,710
Total system-wide support services	<u>11,666,362</u>	<u>14,559,482</u>	<u>12,926,189</u>	<u>1,633,293</u>
Ancillary services:				
Community	5,547	5,657	5,656	1
Nutrition	2,465	3,905	3,901	4
Total ancillary services	<u>8,012</u>	<u>9,562</u>	<u>9,557</u>	<u>5</u>
Nonprogrammed charges	<u>1,871,016</u>	<u>1,903,016</u>	<u>1,902,189</u>	<u>827</u>
Debt service:				
Principal retirement	178,695	178,695	178,695	-
Interest and fees	2,305	2,305	2,305	-
Total debt service	<u>181,000</u>	<u>181,000</u>	<u>181,000</u>	<u>-</u>
Total expenditures	<u>31,717,467</u>	<u>34,928,819</u>	<u>32,579,546</u>	<u>2,349,273</u>
Revenues over (under) expenditures	<u>(2,149,438)</u>	<u>(5,360,790)</u>	<u>(2,963,403)</u>	<u>2,397,387</u>
Other financing sources (uses):				
Transfers to other funds	(9,738)	(9,738)	(9,738)	-
Installment purchase obligations issued	-	2,194,084	2,194,084	-
Total other financing sources (uses)	<u>(9,738)</u>	<u>2,184,346</u>	<u>2,184,346</u>	<u>-</u>
Fund balance appropriated	<u>2,159,176</u>	<u>3,176,444</u>	<u>-</u>	<u>(3,176,444)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>(779,057)</u>	<u>\$ (779,057)</u>
Fund balances:				
Beginning of year			5,441,391	
End of year			<u>\$ 4,662,334</u>	

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

ORANGE COUNTY BOARD OF EDUCATION
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 (continued)

	State Public School Fund			Variance with final budget positive (negative)
	Original Budget	Final Budget	Actual	
Revenues:				
State of North Carolina	\$ 42,724,728	\$ 43,581,204	\$ 42,582,345	\$ (998,859)
Orange County	-	-	-	-
U.S. Government	-	-	-	-
Other	-	-	-	-
Total revenues	<u>42,724,728</u>	<u>43,581,204</u>	<u>42,582,345</u>	<u>(998,859)</u>
Expenditures:				
Current:				
Instructional services:				
Regular instructional	25,564,407	25,857,346	25,312,907	544,439
Special populations	5,472,863	5,838,852	5,837,535	1,317
Alternative programs	2,038,844	2,188,834	1,936,190	252,644
School leadership	1,848,749	1,929,028	1,877,177	51,851
Co-curricular	-	-	-	-
School-based support	2,075,955	2,073,283	2,035,631	37,652
Total instructional services	<u>37,000,818</u>	<u>37,887,343</u>	<u>36,999,440</u>	<u>887,903</u>
System-wide support services:				
Support and development	204,924	211,680	198,232	13,448
Special population support and development	-	-	-	-
Alternative programs and services support and development	19,707	27,811	27,771	40
Technology support	122,324	196,324	194,951	1,373
Operational support	4,533,642	4,283,166	4,197,857	85,309
Financial and human resource services	507,034	626,784	626,057	727
Accountability	-	-	-	-
System-wide pupil support	-	-	-	-
Policy, leadership and public relations	288,569	295,923	288,187	7,736
Total system-wide support services	<u>5,676,200</u>	<u>5,641,688</u>	<u>5,533,055</u>	<u>108,633</u>
Ancillary services:				
Community	-	-	-	-
Nutrition	47,710	4,777	2,454	2,323
Total ancillary services	<u>47,710</u>	<u>4,777</u>	<u>2,454</u>	<u>2,323</u>
Nonprogrammed charges	-	-	-	-
Debt service:				
Principal retirement	-	-	-	-
Interest and fees	-	-	-	-
Total debt service	-	-	-	-
Total expenditures	<u>42,724,728</u>	<u>43,533,808</u>	<u>42,534,949</u>	<u>998,859</u>
Revenues over (under) expenditures	-	47,396	47,396	-
Other financing sources (uses):				
Transfers to other funds	-	(47,396)	(47,396)	-
Installment purchase obligations issued	-	-	-	-
Total other financing sources (uses)	-	<u>(47,396)</u>	<u>(47,396)</u>	-
Fund balance appropriated	-	-	-	-
Net change in fund balance	\$ -	\$ -	-	\$ -
Fund balances:				
Beginning of year			-	
End of year			<u>\$ -</u>	

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

ORANGE COUNTY BOARD OF EDUCATION
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 (continued)

	Other Special Revenue Fund			Variance with final budget positive (negative)
	Original Budget	Final Budget	Actual	
Revenues:				
State of North Carolina	\$ 8,000	\$ 8,000	\$ 8,000	\$ -
Orange County	-	-	-	-
U.S. Government	-	-	-	-
Other	1,334,920	1,384,043	1,420,536	36,493
Total revenues	<u>1,342,920</u>	<u>1,392,043</u>	<u>1,428,536</u>	<u>36,493</u>
Expenditures:				
Current:				
Instructional services:				
Regular instructional	307,568	311,068	235,592	75,476
Special populations	20,000	52,123	29,981	22,142
Alternative programs	719,480	702,839	353,764	349,075
School leadership	-	-	-	-
Co-curricular	65,383	65,383	763	64,620
School-based support	270,205	270,205	237,055	33,150
Total instructional services	<u>1,382,636</u>	<u>1,401,618</u>	<u>857,155</u>	<u>544,463</u>
System-wide support services:				
Support and development	-	-	-	-
Special population support and development	-	13,500	13,500	-
Alternative programs and services support and development	42,375	58,815	58,813	2
Technology support	-	-	-	-
Operational support	524,451	524,451	520,211	4,240
Financial and human resource services	5,000	5,000	5,000	-
Accountability	-	-	-	-
System-wide pupil support	888	888	860	28
Policy, leadership and public relations	-	-	-	-
Total system-wide support services	<u>572,714</u>	<u>602,654</u>	<u>598,384</u>	<u>4,270</u>
Ancillary services:				
Community	-	-	-	-
Nutrition	10,000	10,201	10,201	-
Total ancillary services	<u>10,000</u>	<u>10,201</u>	<u>10,201</u>	<u>-</u>
Nonprogrammed charges	-	-	-	-
Debt service:				
Principal retirement	-	-	-	-
Interest and fees	-	-	-	-
Total debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>1,965,350</u>	<u>2,014,473</u>	<u>1,465,740</u>	<u>548,733</u>
Revenues over (under) expenditures	<u>(622,430)</u>	<u>(622,430)</u>	<u>(37,204)</u>	<u>585,226</u>
Other financing sources (uses):				
Transfers to other funds	-	-	-	-
Installment purchase obligations issued	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance appropriated	<u>622,430</u>	<u>622,430</u>	<u>-</u>	<u>(622,430)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>(37,204)</u>	<u>\$ (37,204)</u>
Fund balances:				
Beginning of year			1,367,247	
End of year			<u>\$ 1,330,043</u>	

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

**ORANGE COUNTY BOARD OF EDUCATION
STATEMENT OF NET POSITION
PROPRIETARY FUND TYPES
June 30, 2016**

Exhibit 7

	Enterprise		Totals
	Major Fund School Food Service	Non-major Fund Child Care	
Assets			
Current assets:			
Cash and cash equivalents	\$ 431,454	\$ 428,838	\$ 860,292
Due from other governments	57,391	-	57,391
Receivables	1,975	-	1,975
Inventories	44,862	-	44,862
Total current assets	<u>535,682</u>	<u>428,838</u>	<u>964,520</u>
Noncurrent assets:			
Capital assets:			
Furniture and equipment, net	<u>91,632</u>	<u>5,590</u>	<u>97,222</u>
Total assets	<u>627,314</u>	<u>434,428</u>	<u>1,061,742</u>
Deferred Outflows of Resources	<u>81,087</u>	<u>34,712</u>	<u>115,799</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	198	860	1,058
Compensated absences	32,942	6,770	39,712
Unearned revenue	42,944	16,990	59,934
Total current liabilities	<u>76,084</u>	<u>24,620</u>	<u>100,704</u>
Noncurrent liabilities:			
Net pension liability	218,519	93,544	312,063
Compensated absences	27,525	5,139	32,664
Total noncurrent liabilities	<u>246,044</u>	<u>98,683</u>	<u>344,727</u>
Total liabilities	<u>322,128</u>	<u>123,303</u>	<u>445,431</u>
Deferred Inflows of Resources	<u>50,444</u>	<u>21,593</u>	<u>72,037</u>
Net position			
Investment in capital assets	91,632	5,590	97,222
Unrestricted	<u>244,197</u>	<u>318,654</u>	<u>562,851</u>
Total net position	<u>\$ 335,829</u>	<u>\$ 324,244</u>	<u>\$ 660,073</u>

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

ORANGE COUNTY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND TYPES
For the Fiscal Year Ended June 30, 2016

Exhibit 8

	Enterprise		Totals
	Major Fund School Food Service	Non-major Fund Child Care	
Operating revenues:			
Food sales	\$ 768,391	\$ -	\$ 768,391
Child care fees	-	777,267	777,267
Total operating revenues	<u>768,391</u>	<u>777,267</u>	<u>1,545,658</u>
Operating expenses:			
Food cost:			
Purchase of food	929,582	25,137	954,719
Donated commodities	176,634	-	176,634
Salaries and benefits	1,433,095	691,724	2,124,819
Indirect costs	204,838	-	204,838
Materials and supplies	99,556	20,766	120,322
Depreciation	16,051	3,761	19,812
Non-capitalized equipment	-	411	411
Contracted services	7,356	886	8,242
Other	14,652	34,863	49,515
Total operating expenses	<u>2,881,764</u>	<u>777,548</u>	<u>3,659,312</u>
Operating income (loss)	<u>(2,113,373)</u>	<u>(281)</u>	<u>(2,113,654)</u>
Nonoperating revenues:			
Federal reimbursements and grants	1,758,695	-	1,758,695
Federal commodities	176,634	-	176,634
State reimbursements	4,509	-	4,509
Indirect costs not paid	204,838	-	204,838
Total nonoperating revenues	<u>2,144,676</u>	<u>-</u>	<u>2,144,676</u>
Income (loss) before transfers	31,303	(281)	31,022
Transfers from other funds	<u>57,134</u>	<u>-</u>	<u>57,134</u>
Change in net position	88,437	(281)	88,156
Net position, beginning of year	<u>247,392</u>	<u>324,525</u>	<u>571,917</u>
Net position, end of year	<u>\$ 335,829</u>	<u>\$ 324,244</u>	<u>\$ 660,073</u>

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

ORANGE COUNTY BOARD OF EDUCATION
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPES
For the Fiscal Year Ended June 30, 2016

Exhibit 9

	Enterprise		Totals
	Major Fund School Food Service	Non-major Fund Child Care	
Cash flows from operating activities:			
Cash received from customers	\$ 807,966	\$ 780,974	\$ 1,588,940
Cash paid for goods and services	(1,053,503)	(81,382)	(1,134,885)
Cash paid to employees for services	(1,450,602)	(655,571)	(2,106,173)
Net cash provided (used) by operating activities	<u>(1,696,139)</u>	<u>44,021</u>	<u>(1,652,118)</u>
Cash flows from noncapital financing activities:			
Federal and State reimbursements and grants	<u>1,778,028</u>	<u>-</u>	<u>1,778,028</u>
Cash flows from capital and related financing activities:			
Purchase of capital assets	<u>(13,286)</u>	<u>-</u>	<u>(13,286)</u>
Net increase in cash and cash equivalents	68,603	44,021	112,624
Cash and cash equivalents, beginning of year	<u>362,851</u>	<u>384,817</u>	<u>747,668</u>
Cash and cash equivalents, end of year	<u>\$ 431,454</u>	<u>\$ 428,838</u>	<u>\$ 860,292</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	<u>\$ (2,113,373)</u>	<u>\$ (281)</u>	<u>\$ (2,113,654)</u>
Adjustments to reconcile operating loss to net cash used by operating activities:			
Depreciation	16,051	3,761	19,812
Donated commodities	176,634	-	176,634
Salaries paid by other funds	57,134	-	57,134
Indirect costs not paid	204,838	-	204,838
Changes in assets and liabilities:			
Decrease in accounts receivable	35,913	2,703	38,616
Increase in inventories	(2,502)	-	(2,502)
Increase in accounts payable and accrued liabilities	145	681	826
Increase in unearned revenue	3,662	1,004	4,666
Increase in net pension liability	146,021	81,431	227,452
(Increase) decrease in deferred outflows	(904)	(21,315)	(22,219)
Decrease in deferred inflows	(214,161)	(22,618)	(236,779)
Decrease in compensated absences payable	(5,597)	(1,345)	(6,942)
Total adjustments	<u>417,234</u>	<u>44,302</u>	<u>461,536</u>
Net cash provided (used) by operating activities	<u>\$ (1,696,139)</u>	<u>\$ 44,021</u>	<u>\$ (1,652,118)</u>

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

NONCASH OPERATING AND NONCAPITAL FINANCING ACTIVITIES:

The School Food Service Fund received donated commodities with a value of \$176,634 during the fiscal year. The receipt of these commodities is reflected as a nonoperating revenue on Exhibit 8. The consumption of these commodities is recorded as an operating expense.

The State Public School Fund and the General Fund paid salaries and benefits of \$47,396 and \$9,738, respectively, to personnel of the School Food Service Fund during the fiscal year. These payments are reflected as an operating transfer in and an operating expense on Exhibit 8.

Indirect costs of \$204,838 that would be due to the Other Special Revenue Fund were not paid. These unpaid costs are reflected as a nonoperating revenue and an operating expense on Exhibit 8.

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

**ORANGE COUNTY BOARD OF EDUCATION
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2016**

Exhibit 10

	<u>Administrative Fund</u>
Assets	
Cash and cash equivalents	\$ <u>115,881</u>
Liabilities	
Accounts payable and accrued liabilities	\$ <u>-</u>
Net Position	
Assets held in trust for private purpose	\$ <u>115,881</u>

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

**ORANGE COUNTY BOARD OF EDUCATION
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
For the Fiscal Year Ended June 30, 2016**

Exhibit 11

	<u>Administrative Fund</u>
Additions:	
Contributions and other revenue	\$ 158
Deductions:	
Instructional costs and other expenditures	<u>-</u>
Change in net position	158
Beginning net position	<u>115,723</u>
Ending net position	<u>\$ 115,881</u>

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

ORANGE COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Orange County Board of Education (Board) is a Local Education Agency empowered by State law [Chapter 115C of the North Carolina General Statutes] with the responsibility to oversee and control all activities related to public school education in Orange County, North Carolina, except in the Chapel Hill and Carrboro townships. The Board receives State, local, and federal government funding and must adhere to the legal requirements of each funding entity. The Board has no component units.

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 activities. 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. Interfund services provided and used are not eliminated in the process of consolidation.

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

The Board reports the following major governmental funds:

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

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

**ORANGE COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

Other Special Revenue Fund. The Other Special Revenue Fund is used to account for revenues from reimbursements, including indirect costs, fees for actual costs, tuition, sales tax refunds, gifts and grants restricted as to use, federal and State grants restricted as to use, federal and State appropriations made directly to local school administrative units, funds received for prekindergarten programs and special programs.

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

The Board reports the following nonmajor governmental funds:

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

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

The 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 nonmajor enterprise fund:

Child Care Fund. The Child Care Fund is used to account for the after school care program at the elementary schools within the school system. The costs associated with these programs are recovered by user charges.

The Board reports the following fiduciary fund:

Administrative Fund. The Administrative 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

ORANGE COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

absences which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Acquisitions under capital leases are reported as other financing sources.

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

D. Budgetary Data

The Board's budgets are adopted as required by the North Carolina General Statutes. Annual budgets are adopted for all funds, except for the fiduciary funds and the individual schools special revenue funds, as required by the North Carolina General Statutes. No budget is required by State law for individual school funds. All appropriations lapse at the fiscal year-end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds. The Board has authorized the Superintendent to transfer appropriations between sub-functions, objects of expenditures within a function and amounts not to exceed \$1,000 between functions, without limitation, with a report to the Board being required at its next regular meeting. The Superintendent is not authorized to transfer any amounts between funds nor from any contingency appropriation within a fund. Amendments are required for any revisions that alter total expenditures of any fund. All amendments must be approved by the Board of Education. 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 determined by either quoted market prices or a matrix pricing model. Bank deposits and the NCCMT are measured at amortized cost, which is the NCCMT's share price. Ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian. Under the authority of G.S. 147-69.3, no unrealized gains or losses of the STIF are distributed to external participants of the fund.

**ORANGE COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

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 June 15, 2015 are recorded at their estimated fair value at the date of donation or forfeiture. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other capital assets are recorded at original cost. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. Certain items acquired before July 1, 1990 are recorded at an estimated original historical cost. The total of these estimates is not considered large enough that any errors would be material when capital assets are considered as a whole.

For capital assets utilized in both governmental 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 two 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.

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

	<u>Years</u>
Buildings and improvements	15 - 50
Equipment and furniture	3 - 10
Vehicles	6 - 12

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

5. Deferred outflows and inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Board has one item that meets this criterion - 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.

**ORANGE COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

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.

8. Net Position/Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

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

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

Restricted for instructional services – grant and other revenues restricted for expenditure for various instructional services, as allowable by the funding source.

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

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

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

**ORANGE COUNTY BOARD OF EDUCATION
 NOTES TO THE FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2016**

Special revenues – portion of fund balance that represents the residual amount of revenues from certain grants, reimbursements, indirect costs and other financial resources in excess of related expenditures that will be used for instructional services, system-wide support services, ancillary services or non-programmed charges, as determined by the Board of Education.

Unassigned fund balance – the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds. A negative unassigned fund balance may be reported in other governmental funds if expenditures incurred for specific purposes exceeded the amounts restricted, committed or assigned to those purposes.

The Board of Education has a management policy for revenue spending that provides guidance for programs with multiple revenue sources. The Finance Officer will pay expenditures from restricted revenue sources first and then from general unrestricted revenues. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the Board of Education.

9. Reconciliation of Government-wide and Fund Financial Statements

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

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. The net adjustment of \$47,682,593 consists of several elements as follows:

<u>Description</u>	<u>Amount</u>
Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column)	\$132,695,476
Less accumulated depreciation	<u>(67,378,469)</u>
Net capital assets	65,317,007
Pension related deferred outflows of resources:	
Contributions made to the pension plan in the current fiscal year	4,219,125
Changes in proportion and differences between Board contributions and proportionate share of contributions	213,861
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 purchases	(2,905,125)
Compensated absences	(4,458,178)
Net pension liability	(11,946,380)
Deferred inflows of resources related to pensions:	
Differences between expected and actual experience	(1,358,303)
Difference between projected and actual earnings on plan investments	(1,294,289)
Differences between contributions and proportional share of contributions and changes in proportion	<u>(105,125)</u>
Total adjustment	<u>\$ 47,682,593</u>

ORANGE COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. There are several elements of that total adjustment of \$105,711 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	\$ 2,068,114
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	(2,912,800)
New debt issued during the year is recorded as a source of funds on the fund statements; it has no effect on the statement of activities – it only affects the government-wide statement of net position	(3,029,406)
Principal payments on debt owed are recorded as a use of funds on the fund statements but again affect only the statement of net position in the government-wide statements	869,053
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	4,219,125
Expenses reported in the statement of activities that do not require the use of current resources to pay are not recorded as expenditures in the fund statements:	
Pension expense	(1,162,539)
Compensated absences are accrued in the government-wide statements but not in the fund statements because they do not use current resources	<u>54,164</u>
Total adjustment	<u>\$ 105,711</u>

10. Defined Benefit Pension Plans

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

NOTE 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

**ORANGE COUNTY BOARD OF EDUCATION
 NOTES TO THE FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2016**

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

At June 30, 2016, the Board had deposits with banks and savings and loans with a carrying amount of \$7,829,962 and with the State Treasurer of \$6,283. The bank balances with the financial institutions and the State Treasurer were \$8,906,757 and \$804,524, respectively. Of these balances, \$1,112,057 was covered by federal depository insurance and \$8,599,224 was covered by collateral held by authorized escrow agents in the name of the State Treasurer. The Board had cash on hand at year end of \$117.

2. Investments

At June 30, 2016, the Board had \$2,487,748 invested with the State Treasurer in the Short Term Investment Fund (STIF). The STIF is unrated and had a weighted average maturity of 1.5 years at June 30, 2016. The Board has no investment balances in the NCCMT as of June 30, 2016. The Board has no policy for managing interest rate, credit, concentration or foreign currency risks. All investments are measured using the market approach. The STIF is classified in Level 2 of the fair value hierarchy and valued using prices that are either directly or indirectly observable for an asset or liability.

3. Accounts Receivable

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

	Due from other governments	Other	Total
Governmental activities:			
General Fund	\$ 22,596	\$ 105,047	\$ 127,643
Other governmental activities	<u>1,821,632</u>	<u>835</u>	<u>1,822,467</u>
Total governmental activities	<u>\$ 1,844,228</u>	<u>\$ 105,882</u>	<u>\$ 1,950,110</u>
Business-type activities:			
School Food Service Fund	<u>\$ 57,391</u>	<u>\$ 1,975</u>	<u>\$ 59,366</u>

Due from other governments consists of the following:

Governmental activities:		
General Fund	\$ 22,596	Amounts due from the County
State Public School Fund	1,681,574	Operating funds from DPI
Capital Outlay Fund	38,436	Amounts due from County
Non-major funds	<u>101,622</u>	Federal grant funds
Total	<u>\$ 1,844,228</u>	
Business-type activities:		
School Food Service Fund	<u>\$ 57,391</u>	Federal funds

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4. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,844,650	\$ -	\$ -	\$ 2,844,650
Construction in progress	678,529	1,094,759	1,141,672	631,616
Total capital assets not being depreciated	<u>3,523,179</u>	<u>1,094,759</u>	<u>1,141,672</u>	<u>3,476,266</u>
Capital assets being depreciated:				
Buildings and improvements	113,635,480	1,175,647	-	114,811,127
Equipment and furniture	5,213,506	104,057	78,298	5,239,265
Vehicles	8,343,995	835,323	10,500	9,168,818
Total capital assets being depreciated	<u>127,192,981</u>	<u>2,115,027</u>	<u>88,798</u>	<u>129,219,210</u>
Less accumulated depreciation for:				
Buildings and improvements	52,223,491	2,386,153	-	54,609,644
Equipment and furniture	4,996,545	169,433	78,298	5,087,680
Vehicles	7,334,431	357,214	10,500	7,681,145
Total accumulated depreciation	<u>64,554,467</u>	<u>2,912,800</u>	<u>88,798</u>	<u>67,378,469</u>
Total capital assets being depreciated, net	<u>62,638,514</u>			<u>61,840,741</u>
Governmental activity capital assets, net	<u>\$ 66,161,693</u>			<u>\$ 65,317,007</u>
Business-type activities:				
School Food Service Fund:				
Capital assets being depreciated:				
Equipment and furniture	\$ 1,244,211	\$ 13,286	\$ 12,970	\$ 1,244,527
Less accumulated depreciation for:				
Equipment and furniture	1,149,814	16,051	12,970	1,152,895
School Food Service capital assets, net	<u>94,397</u>			<u>91,632</u>
Child Care Fund:				
Capital assets being depreciated:				
Building improvements	48,448	-	-	48,448
Equipment and furniture	95,979	-	-	95,979
Total capital assets being depreciated	<u>144,427</u>	<u>-</u>	<u>-</u>	<u>144,427</u>
Less accumulated depreciation for:				
Building improvements	44,693	3,230	-	47,923
Equipment and furniture	90,383	531	-	90,914
Total accumulated depreciation	<u>135,076</u>	<u>3,761</u>	<u>-</u>	<u>138,837</u>
Child Care Fund capital assets, net	<u>9,351</u>			<u>5,590</u>
Business-type activities capital assets, net	<u>\$ 103,748</u>			<u>\$ 97,222</u>

Depreciation was charged to governmental functions as follows:

Operational support services	\$ 357,214
Unallocated depreciation	<u>2,555,586</u>
Total	<u>\$ 2,912,800</u>

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5. Construction and Other Significant Commitments

As of June 30, 2016, the Board had a project in progress at Cedar Ridge High School for construction of an auxiliary gymnasium addition. At year-end, the Board's commitments with contractors for the remaining portion of the contracts related to this project totaled approximately \$2.1 million.

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, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

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

Contributions. Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Board employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the TSERS Board

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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 \$4,329,337 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 \$12,258,443 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 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. At both June 30, 2015 and at June 30, 2014, the Board's proportion was 0.33%.

For the year ended June 30, 2016, the Board recognized pension expense of \$1,241,206. At June 30, 2016, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 1,393,786
Net difference between projected and actual earnings on pension plan investments	-	1,328,099
Changes in proportion and differences between Board contributions and proportionate share of contributions	219,448	107,869
Board contributions subsequent to the measurement date	4,329,337	-
Total	\$ 4,548,785	\$ 2,829,754

\$4,329,337 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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<u>Year ended June 30:</u>	
2017	\$ (1,574,002)
2018	(1,574,002)
2019	(1,515,513)
2020	2,053,211
2021	-
Thereafter	-
Total	<u>\$ (2,610,306)</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, 2015 are summarized in the following table:

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<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	36.0%	2.5%
Global Equity	40.5%	6.1%
Real Estate	8.0%	5.7%
Alternatives	6.5%	10.5%
Credit	4.5%	6.8%
Inflation Protection	4.5%	3.7%
Total	<u>100%</u>	

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 County's proportionate share of the net pension asset to changes in the discount rate. The following presents the Board's proportionate share of the net pension liability calculated using the discount rate of 7.25 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:

	<u>1% Decrease (6.25%)</u>	<u>Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
Board's proportionate share of the net pension liability (asset)	\$ 36,894,529	\$ 12,258,443	\$ (8,648,118)

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 Benefits

Healthcare Benefits

Plan Description. The postemployment healthcare benefits are provided through a cost-sharing multiple-employer defined benefit plan administered by the Executive Administrator and the Board of Trustees of the Comprehensive Major Medical Plan (the Plan). The Executive Administrator and the Board of Trustees of the Plan establishes premium rates except as may be established by the General Assembly in an appropriation act. The Plan's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3 of the General Statutes and may be amended only by the North Carolina General Assembly. By General Statute, the Plan accumulates contributions from employers and any earnings on those contributions in the Retiree Health Benefit Fund. These assets shall be used to provide health benefits to retired and disabled employees and their applicable beneficiaries. These

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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 the General Assembly in an appropriation act. The healthcare benefits for retired and disabled employees are the same as for active employees, except that the coverage becomes secondary when former employees become eligible for Medicare. For employees first hired on and after October 1, 2006, future coverage as retired employees is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on and after October 1, 2006 with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan's total noncontributory premium. For employees 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 a 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 School Board paid all annual required contributions to the Plan for postemployment healthcare benefits of \$2,638,501, \$2,535,204 and \$2,389,510, respectively. These contributions represented 5.60%, 5.49% and 5.40% of covered payroll, respectively.

Long-term Disability Benefits

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

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

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

The Board's contributions are established in the Appropriations Bill by the General Assembly. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The contributions cannot be separated between the amounts that relate to other postemployment benefits and employment benefits for active employees. Those individuals who are receiving extended short-term disability benefit payments cannot be separated from the number of members currently eligible to receive disability benefits as an other postemployment 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 \$193,176, \$189,332 and \$194,701, respectively. These contributions represented 0.41%, 0.41% and 0.44% of covered payroll, respectively.

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2. Accounts Payable

Accounts payable as of June 30, 2016 are as follows:

	<u>Vendors and Other</u>	<u>Salaries and benefits</u>	<u>Due to Other Governments</u>	<u>Total</u>
Governmental activities:				
General Fund	\$ 1,258,742	\$ 322,004	\$ -	\$ 1,580,746
Other governmental activities	<u>257,141</u>	<u>1,815,299</u>	<u>6,283</u>	<u>2,078,723</u>
Total governmental activities	<u>\$ 1,515,883</u>	<u>\$ 2,137,303</u>	<u>\$ 6,283</u>	<u>\$ 3,659,469</u>
Business-type activities:				
School Food Service Fund	\$ 198	\$ -	\$ -	\$ 198
Child Care Fund	<u>860</u>	<u>-</u>	<u>-</u>	<u>860</u>
Total business-type activities	<u>\$ 1,058</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,058</u>

3. Unearned Revenues

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

Governmental activities:	
Prepayments of tuition (Other Special Revenue Fund)	<u>\$ 55,462</u>
Business-type activities:	
Prepayments of meals (School Food Service Fund)	\$ 42,944
Prepayments of tuition (Child Care Fund)	<u>16,990</u>
Total business-type activities	<u>\$ 59,934</u>

4. Deferred Outflows and Inflows of Resources

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 1,393,786
Net difference between projected and actual earnings on pension plan investments	-	1,328,099
Changes in proportion and differences between Board contributions and proportionate share of contributions	219,448	107,869
Board contributions subsequent to the measurement date	<u>4,329,337</u>	<u>-</u>
Total	<u>\$ 4,548,785</u>	<u>\$ 2,829,754</u>

5. Risk Management

The Board is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board participates in the North Carolina School Boards Trust (the Trust), a member funded risk management program

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administered by the North Carolina School Boards Association. Through the Trust, the Board maintains general liability and errors and omissions coverage of \$1 million per claim. The Trust has an annual aggregate limit for both general liability and errors and omissions of \$3,150,000 each. The Trust is reinsured through commercial companies for losses in excess of \$150,000 per claim for errors and omissions and general liability coverage. Statutory workers' compensation coverage is purchased through a private insurer for employees to the extent they are paid from Federal and local funds. Workers' compensation coverage is provided by the State of North Carolina through a self-insured fund, to the extent employees are paid from State funds. The Board also participates in the Public School Insurance Fund (the Fund), a voluntary, self-insured risk control and risk financing fund administered by the North Carolina Department of Public Instruction. The Fund insures the tangible property assets of the Board. Coverage is provided on an "all risk" perils contract. Buildings and contents are insured on a replacement cost basis. The Fund purchases excess reinsurance to protect the assets of the Fund in the event of a catastrophic event. The Fund maintains a self-insured retention of \$10 million. Excess reinsurance is purchased through commercial insurers. A limit of \$5 million per occurrence is provided on flood, earthquake, business interruption and extra expense. \$10 million per occurrence is provided on increased cost of construction.

The Board also participates in the Teachers' and State Employees' Comprehensive Major Medical Plan, a self-funded risk financing pool of the State administered by Blue Cross and Blue Shield of North Carolina. Through the Plan, permanent full-time employees of the Board are eligible to receive health care benefits 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 are performance bonded through a commercial surety bond. The finance officer is bonded for \$50,000. The remaining employees that have access to funds are bonded under a blanket bond for \$10,000.

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

6. Long-Term Obligations

a. Installment Purchases

The Board is authorized to finance the purchase of school buses under G.S. 115C-528(a). Session law 2003-284, section 7.25 authorized the State Board of Education to allot moneys for the payments on financing contracts entered into pursuant to G.S. 115C-528. The State has accepted the bid to purchase Thomas Built Buses through special third party financing arrangements. During the current and prior fiscal years, the Board entered into three such contracts for the purchase of school buses. The contracts each require four equal principal-only payments with the first payment due within ten days of receipt of the buses and the following three payments due on each of the three subsequent November 15th dates.

The Board entered into an installment purchase contract for the purchase of computers during the fiscal year ended June 30, 2016. The contract requires four equal payments of principal and interest at 1.56% due annually through 2020. The Board entered into an installment purchase contract for the purchase of computers during the fiscal year ended June 30, 2013 which was paid in full during the current year.

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

<u>Year Ending June 30,</u>	<u>Governmental Activities</u> <u>Principal</u>
2017	\$ 946,155
2018	778,910
2019	696,213
2020	<u>570,079</u>
	2,991,357
Less portion representing interest	<u>(86,232)</u>
Total principal obligation	<u>\$ 2,905,125</u>

b. Long-Term Obligation Activity

The following is a summary of changes in the Board's long-term obligations for the fiscal year ended June 30, 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	\$ 744,772	\$ 3,029,406	\$ 869,053	\$ 2,905,125	\$ 911,927
Net pension liability	3,760,813	8,185,567	-	11,946,380	-
Compensated absences	<u>4,512,342</u>	<u>3,056,899</u>	<u>3,111,063</u>	<u>4,458,178</u>	<u>1,832,373</u>
Total	<u>\$ 9,017,927</u>	<u>\$ 14,271,872</u>	<u>\$ 3,980,116</u>	<u>\$ 19,309,683</u>	<u>\$ 2,744,300</u>
Business-type activities:					
Net pension liability	\$ 84,611	\$ 227,452	\$ -	\$ 312,063	\$ -
Compensated absences	<u>79,318</u>	<u>81,112</u>	<u>88,054</u>	<u>72,376</u>	<u>39,712</u>
Total	<u>\$ 163,929</u>	<u>\$ 308,564</u>	<u>\$ 88,054</u>	<u>\$ 384,439</u>	<u>\$ 39,712</u>

Compensated absences and net pension liability related to governmental activities are typically liquidated by the General and other governmental funds.

C. Interfund Balances and Activity

1. Transfers to/from other Funds

Transfers to/from other funds for the year ended June 30, 2016 consist of the following:

From the State Public School Fund to the School Food Service Fund for salaries and benefits	<u>\$ 47,396</u>
From the General Fund to the School Food Service Fund for salaries and benefits	<u>\$ 9,738</u>

**ORANGE COUNTY BOARD OF EDUCATION
 NOTES TO THE FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2016**

D. Net Position/Fund Balance

1. Net Investment in Capital Assets – Governmental Activities

Net investment in capital assets presented in Exhibit 1 is calculated as follows:

Total governmental activites capital assets	\$ 65,317,007
Less:	
Installment purchase obligations for school buses	(711,041)
Net investment in capital assets, governmental activities	<u>\$ 64,605,966</u>

The district also has \$2,194,084 of installment purchase obligations outstanding at June 30, 2016 for computers. This amount has been excluded from the calculation of net investment in capital assets due to these computers being noncapitalized items.

2. Fund Balance

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

Total fund balance - General Fund	\$ 4,662,334
Less:	
Stabilization by State statute	(127,643)
Appropriated fund balance in the 2016-2017 budget	<u>(2,604,067)</u>
Remaining fund balance	<u>\$ 1,930,624</u>

NOTE 3 - SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

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

**ORANGE COUNTY BOARD OF EDUCATION
SCHEDULE 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***

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Board's proportion of the net pension liability (asset)	0.333%	0.328%	0.332%
Board's proportionate share of the net pension liability (asset)	\$ 12,258,443	\$ 3,845,424	\$ 20,125,428
Board's covered-employee payroll	\$ 46,481,354	\$ 44,329,287	\$ 45,150,148
Board's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	26.37%	8.67%	44.57%
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.

Note: This is a ten year schedule. However, GASB 68 was not adopted until the fiscal year ended June 30, 2015. Therefore, there are only three years of data presented.

**ORANGE COUNTY BOARD OF EDUCATION
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF BOARD CONTRIBUTIONS
TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM
LAST THREE FISCAL YEARS**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 4,329,337	\$ 4,253,044	\$ 3,852,215
Contributions in relation to the contractually required contribution	<u>4,329,337</u>	<u>4,253,044</u>	<u>3,852,215</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Board's covered-employee payroll	\$ 47,315,158	\$ 46,481,354	\$ 44,329,287
Contributions as a percentage of covered-employee payroll	9.15%	9.15%	8.69%

Note: This is a ten year schedule. However, GASB 68 was not adopted until the fiscal year ended June 30, 2015. Therefore, there are only three years of data presented.

ORANGE COUNTY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
GENERAL FUND
For the Fiscal Year Ended June 30, 2016

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Orange County:			
Local current expense	\$ 28,844,029	\$ 28,844,029	\$ -
Other	494,000	494,000	-
Total Orange County	<u>29,338,029</u>	<u>29,338,029</u>	<u>-</u>
Other:			
Fines and forfeitures	210,000	248,264	38,264
Interest earned on investment	20,000	17,673	(2,327)
Miscellaneous	-	12,177	12,177
Total other	<u>230,000</u>	<u>278,114</u>	<u>48,114</u>
Total revenues	<u>29,568,029</u>	<u>29,616,143</u>	<u>48,114</u>
Expenditures:			
Current:			
Instructional services:			
Regular instructional	10,204,913	10,149,337	55,576
Special populations	2,537,996	2,091,997	445,999
Alternative programs	710,101	693,739	16,362
School leadership	2,009,219	1,955,466	53,753
Co-curricular	939,222	918,716	20,506
School-based support	1,874,308	1,751,356	122,952
Total instructional services	<u>18,275,759</u>	<u>17,560,611</u>	<u>715,148</u>
System-wide support services:			
Support and development	1,489,470	1,273,916	215,554
Special population support and development	160,455	157,175	3,280
Alternative programs and services support and development	23,896	15,900	7,996
Technology support	3,823,043	3,562,592	260,451
Operational support	5,851,381	5,398,141	453,240
Financial and human resource services	1,218,519	1,170,114	48,405
Accountability	224,040	185,068	38,972
System-wide pupil support	12,000	9,315	2,685
Policy, leadership and public relations	1,756,678	1,153,968	602,710
Total system-wide support services	<u>14,559,482</u>	<u>12,926,189</u>	<u>1,633,293</u>
Ancillary services:			
Community	5,657	5,656	1
Nutrition	3,905	3,901	4
Total ancillary services	<u>9,562</u>	<u>9,557</u>	<u>5</u>

ORANGE COUNTY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (Continued)
GENERAL FUND
For the Fiscal Year Ended June 30, 2016

	Final Budget	Actual	Variance Positive (Negative)
Expenditures (Continued):			
Non-programmed charges:			
Payments to other governments	1,903,016	1,902,189	827
Debt service:			
Principal retirement	178,695	178,695	-
Interest and fees	2,305	2,305	-
Total debt service	181,000	181,000	-
Total expenditures	34,928,819	32,579,546	2,349,273
Revenues under expenditures	(5,360,790)	(2,963,403)	2,397,387
Other financing sources (uses):			
Transfers to other funds	(9,738)	(9,738)	-
Installment purchase obligations issued	2,194,084	2,194,084	-
Total other financing sources (uses)	2,184,346	2,184,346	-
Fund balance appropriated	3,176,444	-	(3,176,444)
Net change in fund balance	\$ -	(779,057)	\$ (779,057)
Fund balance:			
Beginning of year		5,441,391	
End of year		\$ 4,662,334	

**ORANGE COUNTY BOARD OF EDUCATION
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 June 30, 2016**

	Special Revenue Funds		
	Federal Grants	Individual Schools	Totals
Assets			
Cash and cash equivalents	\$ -	\$ 606,511	\$ 606,511
Due from other governments	101,622	-	101,622
Total assets	\$ 101,622	\$ 606,511	\$ 708,133
Liabilities			
Accrued salaries and wages payable	\$ 101,622	\$ -	\$ 101,622
Fund balances			
Restricted:			
Individual schools	-	606,511	606,511
Total liabilities and fund balances	\$ 101,622	\$ 606,511	\$ 708,133

**ORANGE COUNTY BOARD OF EDUCATION
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 For the Fiscal Year Ended June 30, 2016**

	Special Revenue Funds		Totals
	Federal Grants	Individual Schools	
Revenues:			
U.S. Government	\$ 3,146,066	\$ -	\$ 3,146,066
Other	-	1,662,488	1,662,488
Total revenues	<u>3,146,066</u>	<u>1,662,488</u>	<u>4,808,554</u>
Expenditures:			
Current:			
Instructional services:			
Regular instructional	148,413	-	148,413
Special populations	1,568,148	-	1,568,148
Alternative programs	1,041,553	-	1,041,553
Co-curricular	-	1,672,301	1,672,301
School-based support	52,421	-	52,421
Total instructional services	<u>2,810,535</u>	<u>1,672,301</u>	<u>4,482,836</u>
System-wide support services:			
Support and development	109,699	-	109,699
Special population support and development	25,461	-	25,461
Alternative programs and services support and development	70,236	-	70,236
Operational support	1,878	-	1,878
Total system-wide support services	<u>207,274</u>	<u>-</u>	<u>207,274</u>
Non-programmed charges	<u>128,257</u>	<u>-</u>	<u>128,257</u>
Total expenditures	<u>3,146,066</u>	<u>1,672,301</u>	<u>4,818,367</u>
Net change in fund balance	-	(9,813)	(9,813)
Fund balances:			
Beginning of year	-	616,324	616,324
End of year	<u>\$ -</u>	<u>\$ 606,511</u>	<u>\$ 606,511</u>

**ORANGE COUNTY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
FEDERAL GRANTS FUND
For the Fiscal Year Ended June 30, 2016**

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
U.S. Government	\$ 3,642,925	\$ 3,146,066	\$ (496,859)
Expenditures:			
Current:			
Instructional services:			
Regular instructional	153,113	148,413	4,700
Special populations	1,757,272	1,568,148	189,124
Alternative programs	1,243,293	1,041,553	201,740
School-based support	<u>115,038</u>	<u>52,421</u>	<u>62,617</u>
Total instructional services	<u>3,268,716</u>	<u>2,810,535</u>	<u>458,181</u>
System-wide support services:			
Support and development	114,530	109,699	4,831
Special population support and development	28,028	25,461	2,567
Alternative programs and services support and development	76,622	70,236	6,386
Operational support	<u>3,348</u>	<u>1,878</u>	<u>1,470</u>
Total system-wide support services	<u>222,528</u>	<u>207,274</u>	<u>15,254</u>
Ancillary services:			
Nutrition	<u>100</u>	<u>-</u>	<u>100</u>
Non-programmed charges:			
Payments to other governments	138,428	128,257	10,171
Unbudgeted Federal grant funds	<u>13,153</u>	<u>-</u>	<u>13,153</u>
Total non-programmed charges	<u>151,581</u>	<u>128,257</u>	<u>23,324</u>
Total expenditures	<u>3,642,925</u>	<u>3,146,066</u>	<u>496,859</u>
Net change in fund balance	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balance:			
Beginning of year		<u>-</u>	
End of year		<u>\$ -</u>	

ORANGE COUNTY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
INDIVIDUAL SCHOOLS FUND
For the Fiscal Year Ended June 30, 2016

	Revenues	Expenditures	Net change in fund balance	Fund balances 6/30/2015	Fund balances 6/30/2016
Orange High	\$ 476,494	\$ 485,673	\$ (9,179)	\$ 181,093	\$ 171,914
Cedar Ridge High	386,447	410,115	(23,668)	216,879	193,211
C.W. Stanford Middle	145,895	150,701	(4,806)	49,761	44,955
Gravelly Hill Middle	96,651	96,542	109	17,962	18,071
A.L. Stanback Middle	93,823	90,735	3,088	29,711	32,799
Efland-Cheeks Elementary	33,592	30,681	2,911	6,875	9,786
Grady A. Brown Elementary	62,644	58,726	3,918	23,542	27,460
Central Elementary	44,833	37,568	7,265	7,306	14,571
Cameron Park Elementary	138,115	129,272	8,843	16,591	25,434
New Hope Elementary	65,833	56,522	9,311	33,443	42,754
Hillsborough Elementary	72,012	66,668	5,344	6,091	11,435
Pathways Elementary	42,163	55,945	(13,782)	26,317	12,535
Partnership Academy Alternative	3,986	3,153	833	753	1,586
Totals	<u>\$ 1,662,488</u>	<u>\$ 1,672,301</u>	<u>\$ (9,813)</u>	<u>\$ 616,324</u>	<u>\$ 606,511</u>

ORANGE COUNTY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
CAPITAL OUTLAY FUND
For the Fiscal Year Ended June 30, 2016

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
State of North Carolina:			
Public School Capital Fund - Lottery	\$ 1,875,519	\$ -	\$ (1,875,519)
State appropriations - buses	-	206,503	206,503
Total State of North Carolina	<u>1,875,519</u>	<u>206,503</u>	<u>(1,669,016)</u>
Orange County:			
General county appropriations	<u>1,167,900</u>	<u>1,167,900</u>	<u>-</u>
Other:			
Local sales tax	8,528,294	1,967,040	(6,561,254)
Miscellaneous	-	1,775	1,775
Total other	<u>8,528,294</u>	<u>1,968,815</u>	<u>(6,559,479)</u>
Total revenues	<u>11,571,713</u>	<u>3,343,218</u>	<u>(8,228,495)</u>
Expenditures:			
Current:			
Instructional services:			
Regular instructional	134,413	134,600	(187)
Co-curricular	142,423	142,422	1
School-based support	<u>1,624,350</u>	<u>1,133,313</u>	<u>491,037</u>
Total instructional services	<u>1,901,186</u>	<u>1,410,335</u>	<u>490,851</u>
System-wide support services:			
Operational support	9,236,975	2,402,299	6,834,676
Financial and human resource	<u>61,600</u>	<u>61,490</u>	<u>110</u>
Total system-wide support services	<u>9,298,575</u>	<u>2,463,789</u>	<u>6,834,786</u>
Ancillary services:			
Nutrition	<u>4,500</u>	<u>4,500</u>	<u>-</u>
Debt service:			
Principal retirement	690,358	690,358	-
Interest and fees	<u>6,242</u>	<u>6,242</u>	<u>-</u>
Total debt service	<u>696,600</u>	<u>696,600</u>	<u>-</u>
Total expenditures	<u>11,900,861</u>	<u>4,575,224</u>	<u>7,325,637</u>
Revenues over (under) expenditures	(329,148)	(1,232,006)	(902,858)
Other financing sources:			
Installment purchase obligations issued	-	835,322	835,322
Fund balance appropriated	<u>329,148</u>	<u>-</u>	<u>(329,148)</u>
Net change in fund balance	<u>\$ -</u>	<u>(396,684)</u>	<u>\$ (396,684)</u>
Fund balance:			
Beginning of year		<u>1,380,912</u>	
End of year		<u>\$ 984,228</u>	

**ORANGE COUNTY BOARD OF EDUCATION
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
SCHOOL FOOD SERVICE FUND
For the Fiscal Year Ended June 30, 2016**

	Final Budget	Actual	Variance Positive (Negative)
Operating revenues - food sales	\$ 905,800	\$ 768,391	\$ (137,409)
Operating expenditures:			
Business support services:			
Purchase of food	-	932,084	-
Donated commodities	-	176,634	-
Salaries and benefits	-	1,507,736	-
Materials and supplies	-	99,556	-
Contracted services	-	7,356	-
Other	-	14,652	-
Capital outlay	-	13,286	-
Total operating expenditures	<u>2,766,650</u>	<u>2,751,304</u>	<u>15,346</u>
Operating loss	<u>(1,860,850)</u>	<u>(1,982,913)</u>	<u>(122,063)</u>
Nonoperating revenues:			
Federal reimbursements and grants	1,639,660	1,758,695	119,035
Federal commodities	170,890	176,634	5,744
State reimbursements	4,300	4,509	209
Interest earned	<u>1,000</u>	<u>-</u>	<u>(1,000)</u>
Total nonoperating revenues	<u>1,815,850</u>	<u>1,939,838</u>	<u>123,988</u>
Excess (deficiency) of revenues over expenditures before other financing sources	(45,000)	(43,075)	1,925
Other financing sources:			
Transfers from other funds	<u>45,000</u>	<u>57,134</u>	<u>12,134</u>
Net change in fund balance	<u>\$ -</u>	<u>14,059</u>	<u>\$ 14,059</u>
Reconciliation of modified accrual to full accrual basis:			
Reconciling items:			
Depreciation		(16,051)	
Net pension liability		(146,021)	
Deferred outflows - pension		904	
Deferred inflows - pension		214,161	
Equipment purchases		13,286	
Indirect costs		(204,838)	
Indirect costs not paid		204,838	
Decrease in compensated absences payable		5,597	
Increase in inventories		<u>2,502</u>	
Change in net position (full accrual)		<u>\$ 88,437</u>	

ORANGE COUNTY BOARD OF EDUCATION
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
CHILD CARE FUND
For the Fiscal Year Ended June 30, 2016

	Final Budget	Actual	Variance Positive (Negative)
Operating revenues:			
Child care fees	\$ 835,060	\$ 777,267	\$ (57,793)
Operating expenditures:			
Regular community services:			
Purchase of food	-	25,137	-
Salaries and benefits	-	655,571	-
Materials and supplies	-	20,766	-
Non-capitalized equipment	-	411	-
Contracted services	-	886	-
Other	-	34,863	-
Total operating expenditures	891,154	737,634	153,520
Revenues over (under) expenditures	(56,094)	39,633	95,727
Fund balance appropriated	56,094	-	(56,094)
Net change in fund balance	\$ -	39,633	\$ 39,633
Reconciliation of modified accrual to full accrual basis:			
Reconciling items:			
Depreciation		(3,761)	
Net pension liability		(81,431)	
Deferred outflows - pension		21,315	
Deferred inflows - pension		22,618	
Decrease in compensated absences payable		1,345	
Change in net position (full accrual)		\$ (281)	



ANDERSON SMITH & WIKE PLLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

To the Orange County Board of Education
Hillsborough, 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 Orange County Board of Education, North Carolina, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprises the Orange County Board of Education, North Carolina's basic financial statements and have issued our report thereon dated October 28, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Anderson Smith & Wike PLLC

*October 28, 2016
Rockingham, North Carolina*



ANDERSON SMITH & WIKE PLLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Report On Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance; In Accordance with OMB Uniform Guidance and the State Single Audit Implementation Act

To the Orange County Board of Education
Hillsborough, North Carolina

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Orange County Board of Education complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

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

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

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

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

Anderson Smith & Wike PLLC

*October 28, 2016
Rockingham, North Carolina*



ANDERSON SMITH & WIKE PLLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Report On Compliance with Requirements Applicable to Each Major State Program and Internal Control Over Compliance; In Accordance with OMB Uniform Guidance and the State Single Audit Implementation Act

To the Orange County Board of Education
Hillsborough, North Carolina

Report on Compliance for Each Major State Program

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

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major State Program

In our opinion, the Orange County Board of Education complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major State programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the Orange County Board of Education is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Orange County Board of Education's internal control over compliance with the types of requirements that could have a direct and material effect on a major State program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program and to test and report on internal control over compliance 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 Orange County Board of Education'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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Anderson Smith & Wike PLLC

*October 28, 2016
Rockingham, North Carolina*

**ORANGE COUNTY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2016**

Section I - Summary of Auditors' Results

Financial Statements

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

Internal control over financial reporting:

- Material weakness(es) identified? *No*
- Significant deficiency(ies) identified? *None Identified for Reporting*

Noncompliance material to financial statements noted? *No*

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? *No*
- Significant deficiency(ies) identified? *None Identified for Reporting*

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)? *No*

Identification of major federal programs:

CFDA Numbers	Names of Federal Program or Cluster
84.010	Title I, Grants to Local Educational Agencies

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

Auditee qualified as low-risk auditee? *Yes*

**ORANGE COUNTY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2016**

Section I - Summary of Auditors' Results (Continued)

State Awards

Internal control over major State programs:

- Material weakness(es) identified? *No*
- Significant deficiency(ies) identified? *None Identified for Reporting*

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?

No

Identification of major State programs:

Program Name

State Public School Fund

Section II - Financial Statement Findings

None reported.

Section III - Federal Award Findings and Questioned Costs

None reported.

Section IV - State Award Findings and Questioned Costs

None reported.

**ORANGE COUNTY BOARD OF EDUCATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Fiscal Year Ended June 30, 2016**

There were no findings reported for the fiscal year ended June 30, 2015.

**ORANGE COUNTY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Fiscal Year Ended June 30, 2016**

<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>			
Passed-through the N.C. Department of Public Instruction:			
Child Nutrition Cluster:			
Noncash Assistance (Commodities):			
National School Lunch Program	10.555	PRC 035	\$ 176,634
Cash Assistance:			
School Breakfast Program	10.553	PRC 035	369,299
National School Lunch Program	10.555	PRC 035	1,377,001
Seamless Summer Program	10.555	PRC 035	12,395
Cash Assistance Subtotal			<u>1,758,695</u>
Total Child Nutrition Cluster			<u>1,935,329</u>
Total U.S. Department of Agriculture			<u>1,935,329</u>
<u>U.S. Department of Education</u>			
Office of Elementary and Secondary Education:			
Passed-through the N.C. Department of Public Instruction:			
Title I, Grants to Local Educational Agencies	84.010	PRC 050	1,189,930
Supporting Effective Instruction State Grant	84.367	PRC 103	223,429
Language Acquisition Grant	84.365	PRC 104	55,690
Special Education Cluster:			
Grants to States - IDEA, part B (611)	84.027	PRC 060	1,496,438
Special Needs Targeted Assistance	84.027	PRC 118	20,003
Risk Pool	84.027	PRC 114	28,612
Preschool Grants - IDEA, Part B (619)	84.173	PRC 049	52,372
Preschool Targeted Assistance	84.173	PRC 119	2,161
Total Special Education Cluster			<u>1,599,586</u>
Career and Technical Education - Basic Grants to States Program Development	84.048	PRC 017	77,431
Total U.S. Department of Education			<u>3,146,066</u>
Total Federal Assistance			<u>5,081,395</u>

**ORANGE COUNTY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Fiscal Year Ended June 30, 2016**

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Expenditures</u>
State Grants:			
<u>N.C. Department of Public Instruction</u>			
Cash Assistance:			
State Public School Fund			39,712,480
Vocational Education:			
State Months of Employment		PRC 013	2,319,179
Program Support Funds		PRC 014	304,748
Driver Training		PRC 012	124,511
School Technology Fund		PRC 015	121,427
Teacher on Loan Program			<u>8,000</u>
Cash assistance subtotal			<u>42,590,345</u>
Non-Cash Assistance:			
State Buses Appropriation			<u>206,503</u>
Total NC Department of Public Instruction			<u>42,796,848</u>
<u>N.C. Department of Agriculture</u>			
State Reduced Breakfast Program			<u>4,509</u>
Total State Assistance			<u>42,801,357</u>
Total Federal and State Assistance			<u>\$ 47,882,752</u>

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

Note 1. Basis of Presentation

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

Note 2. Summary of Significant Accounting Policies

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

Orange County Board of Education has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.