

**CHAPEL HILL-CARRBORO CITY
BOARD OF EDUCATION
Chapel Hill, North Carolina**

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

**CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
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INDEPENDENT AUDITORS' REPORT

To the Chapel Hill-Carrboro City Board of Education
Chapel Hill, 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 Chapel Hill-Carrboro City 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 Chapel Hill-Carrboro City 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 Federal Grants 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 44 and 45, 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 Chapel Hill-Carrboro City 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 schedule of expenditures of federal and State awards are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2016 on our consideration of the Chapel Hill-Carrboro City 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 Chapel Hill-Carrboro City Board of Education's internal control over financial reporting and compliance.

Anderson Smith & Wike PLLC

October 17, 2016
Rockingham, North Carolina
(910) 997-1418

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Chapel Hill-Carrboro City 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

- Orange County Commissioners approved a \$126.50 per student increase for the district from the ad valorem tax and increased funding for 50 additional students attending charter schools. The net increase in General Fund revenues was \$1.2 million.
- The Board assigned \$868,000 in fund balance to cover one-time operating expenditures.
- The Board assigned \$904,000 in fund balance to fund a renovation project at Glenwood Elementary School.
- Work continued on the new teacher compensation model to be implemented in the district in 2017-18. Project ADVANCE will provide professional growth, leadership, compensation and career advancement for instructional staff. The financial impact on the budget has not yet been determined. Instructional excellence is the ultimate outcome expected from this new compensation plan.
- Financial reporting awards from the Association of School Business Officials International and the Government Finance Officers Association were received for the eleventh consecutive year.

Overview of the Financial Statements

The audited financial statements of the Chapel Hill-Carrboro City 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 for nonmajor governmental funds and budgetary statements for enterprise funds.*

The *Basic Financial Statements* include two types of statements that present different views of the Board's finances. The first is the *Government-wide Statements*. The government-wide statements are presented on the full accrual basis of accounting and include the statement of net position and the statement of activities. The statement of net position includes all of the Board's assets, deferred outflows of resources, liabilities and deferred inflows of resources. Assets and liabilities are classified in the order of relative liquidity for assets and due date for liabilities. This statement provides a summary of the Board's investment in assets, deferred outflows 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

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION MANAGEMENT'S DISCUSSION AND ANALYSIS

governmental fund financial statements to the government-wide statements is required. The government-wide statements provide information about the Board as an economic unit while the fund financial statements provide information on each of the financial resources of each of the Board's major funds.

Government-wide Statements

The government-wide statements report information about the unit as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the Board's assets 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 and City districts' property tax bases 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 and City district 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.

Chapel Hill-Carrboro City 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

**CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Revenue Fund and the Federal Grants Fund. The governmental fund statements are shown as Exhibits 3, 4, 5 and 6 of this report.

Proprietary funds: Services for which the Board charges a fee are generally reported in the proprietary funds. The proprietary fund statements are reported on the same full accrual basis of accounting as the government-wide statements. The Chapel Hill-Carrboro City 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. Chapel Hill-Carrboro City Board of Education has one fiduciary fund – an Agency Fund. The Agency Fund is used to account for moneys held for the Employee Flexible Spending Account which accounts for monies voluntarily withheld from employees' wages to pay for child care and medical expenses not covered under the employees' medical insurance. The fiduciary fund statement is shown as Exhibit 10.

Financial Analysis of the Board as a Whole

Net position is an indicator of the fiscal health of the Board. Assets exceeded liabilities by \$161.0 million as of June 30, 2016 an increase of \$3.3 million over the amount reported at June 30, 2015. The largest component of net position is net investment in capital assets of \$176.5 million.

Following is a summary of the Statement of Net Position as of 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	\$ 19,288,092	\$ 16,804,668	\$ 993,084	\$ 1,127,718	\$ 20,281,176	\$ 17,932,386
Capital assets	176,527,445	180,722,006	599,209	662,343	177,126,654	181,384,349
Total assets	195,815,537	197,526,674	1,592,293	1,790,061	197,407,830	199,316,735
Deferred outflows of resources	8,343,227	7,758,860	149,308	139,549	8,492,535	7,898,409
Current liabilities	9,677,352	9,434,668	539,719	791,377	10,217,071	10,226,045
Long-term liabilities	28,829,066	12,386,796	498,480	197,582	29,327,546	12,584,378
Total liabilities	38,506,418	21,821,464	1,038,199	988,959	39,544,617	22,810,423
Deferred inflows of resources	5,219,679	26,159,638	93,410	470,501	5,313,089	26,630,139
Net investment in capital assets	175,930,029	180,120,404	599,209	662,343	176,529,238	180,782,747
Restricted net position	4,313,375	3,060,507	-	-	4,313,375	3,060,507
Unrestricted net position (deficit)	(19,810,737)	(25,876,479)	10,783	(192,193)	(19,799,954)	(26,068,672)
Total net position	\$ 160,432,667	\$ 157,304,432	\$ 609,992	\$ 470,150	\$ 161,042,659	\$ 157,774,582

The net position of the Board's governmental activities increased \$3.1 million during the year from \$157.3 million at June 30, 2015 to \$160.4 million at June 30, 2016, indicating an improvement in the financial condition of the Board.

The net position of the Board's business-type activities increased \$140,000 during the year. This increase is the amount of net profit (including transfers) generated by the Board's School Food Service and Child Care programs during the year.

**CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Following is a summary of the Statement of Activities for the current and prior fiscal years:

**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	\$ 3,430,929	\$ 3,189,843	\$ 3,668,302	\$ 3,594,404	\$ 7,099,231	\$ 6,784,247
Operating grants and contributions	68,043,688	68,179,662	2,334,424	2,154,519	70,378,112	70,334,181
Capital grants and contributions	226,924	102,730	-	-	226,924	102,730
General revenues:						
Other revenues	77,355,479	77,709,880	-	-	77,355,479	77,709,880
Total revenues	<u>149,057,020</u>	<u>149,182,115</u>	<u>6,002,726</u>	<u>5,748,923</u>	<u>155,059,746</u>	<u>154,931,038</u>
Expenses:						
Governmental activities:						
Instructional services	110,941,537	108,968,591	-	-	110,941,537	108,968,591
System-wide support services	27,081,107	27,034,498	-	-	27,081,107	27,034,498
Ancillary services	61,697	61,433	-	-	61,697	61,433
Payments to other governments	691,229	819,752	-	-	691,229	819,752
Interest on long-term debt	16,704	24,695	-	-	16,704	24,695
Unallocated depreciation	7,101,720	6,996,814	-	-	7,101,720	6,996,814
Business-type activities:						
School food service	-	-	4,203,705	4,170,678	4,203,705	4,170,678
Child care	-	-	1,693,970	1,605,549	1,693,970	1,605,549
Total expenses	<u>145,893,994</u>	<u>143,905,783</u>	<u>5,897,675</u>	<u>5,776,227</u>	<u>151,791,669</u>	<u>149,682,010</u>
Excess (deficiency) before transfers	3,163,026	5,276,332	105,051	(27,304)	3,268,077	5,249,028
Transfers in (out)	<u>(34,791)</u>	<u>(193,286)</u>	<u>34,791</u>	<u>193,286</u>	<u>-</u>	<u>-</u>
Increase in net position	<u>3,128,235</u>	<u>5,083,046</u>	<u>139,842</u>	<u>165,982</u>	<u>3,268,077</u>	<u>5,249,028</u>
Beginning net position, as previously reported	157,304,432	182,476,706	470,150	848,333	157,774,582	183,325,039
Restatement	-	(30,255,320)	-	(544,165)	-	(30,799,485)
Beginning net position, restated	<u>157,304,432</u>	<u>152,221,386</u>	<u>470,150</u>	<u>304,168</u>	<u>157,774,582</u>	<u>152,525,554</u>
Ending net position	<u>\$ 160,432,667</u>	<u>\$ 157,304,432</u>	<u>\$ 609,992</u>	<u>\$ 470,150</u>	<u>\$ 161,042,659</u>	<u>\$ 157,774,582</u>

Total governmental activities generated revenues of \$149.1 million while expenses in this category totaled \$145.9 million for the year ended June 30, 2016, resulting in an increase in net position of \$3.1 million (including net transfers to business-type activities of \$35,000). Comparatively, revenues were \$149.2 million, expenses totaled \$143.9 million and net transfers out were \$193,000 for the year ended June 30, 2015, resulting in an increase in net position of \$5.1 million. Overall, revenues and expenses remained comparable to the prior year with no significant changes.

The Board's primary sources of revenues were funding from the State of North Carolina, Orange County, Chapel Hill and Carrboro townships and the United States Government, which respectively comprised 42.1%, 35.3%, 15.2% and 3.7% of our total revenues. As would be expected, the major component of our expenditures was instructional services which accounted for 76.0% of our total expenditures during the most recent fiscal year. Of the remaining 24.0% of our total expenditures, 18.6% was attributable to system-wide support services.

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION MANAGEMENT'S DISCUSSION AND ANALYSIS

Our business-type activities generated revenues of \$6.0 million, while expenses in this category totaled \$5.9 million and net transfers in from governmental activities totaled \$35,000 for the year ended June 30, 2016. For the year, net position increased by \$140,000. Comparatively, revenues were \$5.7 million, expenses were \$5.8 million and net transfers in from governmental activities totaled \$193,000 for the year ended June 30, 2015, resulting in an increase in net position of \$166,000. Overall, operating results were fairly consistent for the two years. An increase of \$150,000 in federal reimbursements in the School Food Service Fund was the primary factor contributing to the overall increase in business-type revenues. The change in net transfers was primarily due to a decrease in the amount of cafeteria equipment purchased for the School Food Service Fund by the Capital Outlay Fund during the 2015-2016 year.

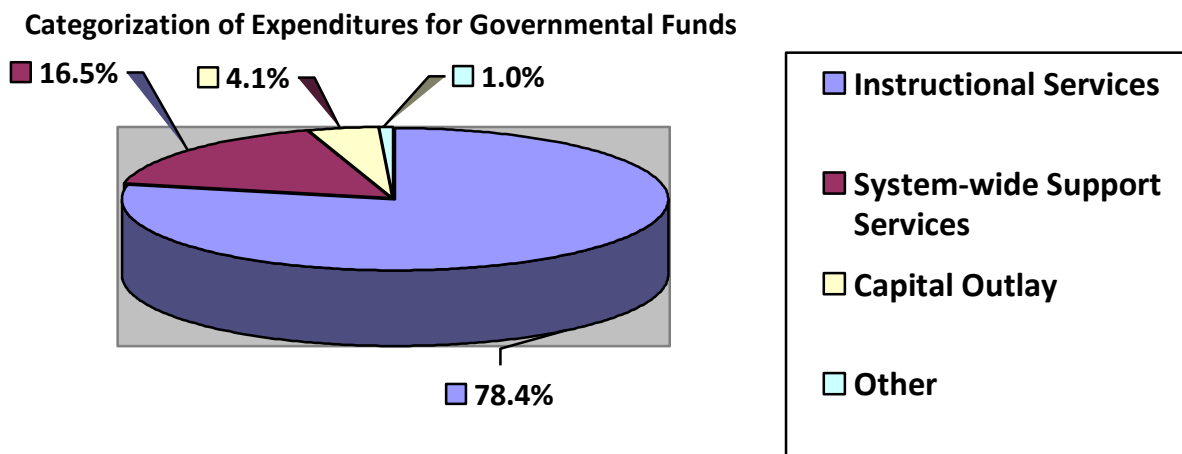
Financial Analysis of the Board's Funds

Governmental Funds: The focus of Chapel Hill-Carrboro City 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 \$14.1 million at June 30, 2016, an increase of \$2.2 million over the \$11.9 million reported at June 30, 2015.

The State Public School Fund and Federal Grants Fund do not carry fund balance. All revenues in these two funds are expended in the year received. Combined revenues (and expenditures) in these funds totaled \$66.2 million in both the year ended June 30, 2016 and 2015. Overall, activity in these funds was very comparable when comparing the two years.

The Capital Outlay Fund reported an increase in fund balance for the 2016 year of \$1.0 million compared to a \$308,000 decrease in the prior year. Virtually all of the Board's capital outlay funding is provided by the County. The district transferred \$904,000 from the General Fund to the Capital Outlay Fund during the year for capital improvement needs.



Expenditures presented on modified accrual basis of accounting.

Proprietary Funds: The Board's business-type funds, the School Food Service and Child Care funds, generated a combined increase in net position of \$140,000 for the year ended June 30, 2016 compared to a \$166,000 increase in the 2015 year. The School Food Service Fund reported an increase in net position of \$87,000 in the current year compared to an increase of \$46,000 in the prior fiscal year. The Child Care Fund reported an increase in net position for the 2016 year of \$53,000 compared to an increase of \$120,000 in the prior year. See the discussion above under "Financial Analysis of the Board

**CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

as a *Whole*" for further details regarding the year-over-year changes in operating results for the School Food Service and Child Care funds.

General Fund Budgetary Highlights

Over the course of the year, the Board revised the budget several times to account for changes in revenue expectations and program allocations. Revisions were approved during the year to increase the original budget for total expenditures by \$379,000, or 0.5%. Overall, there were no significant budgetary variations as revenues and expenditures were in line with final budgeted amounts.

For the year, the Board's General Fund reported an increase in fund balance of \$1.0 million compared to an increase of \$3.0 million reported in the prior year. The year-over-year decrease of \$2.0 million is primarily attributable to a 4.4% increase in instructional services expenditures and a \$904,000 transfer to the Capital Outlay Fund.

Capital Assets

Total primary government capital assets were \$177.1 million at June 30, 2016, a decrease of 2.4% from the \$181.4 million reported at June 30, 2015. More detailed information about the Board's capital assets is contained in Note 3 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	\$ 6,485,407	\$ 6,485,407	\$ -	\$ -	\$ 6,485,407	\$ 6,485,407
Construction in progress	763,816	-	-	-	763,816	-
Buildings and improvements	163,696,377	168,013,669	-	-	163,696,377	168,013,669
Land improvements	1,158,239	1,295,390	-	-	1,158,239	1,295,390
Equipment and furniture	2,569,929	3,246,211	599,209	662,343	3,169,138	3,908,554
Vehicles	1,853,677	1,681,329	-	-	1,853,677	1,681,329
Total	<u>\$ 176,527,445</u>	<u>\$ 180,722,006</u>	<u>\$ 599,209</u>	<u>\$ 662,343</u>	<u>\$ 177,126,654</u>	<u>\$ 181,384,349</u>

Debt Outstanding

During the year, the Board's long-term debt decreased slightly from \$602,000 at June 30, 2015 to \$597,000 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 Note 3 to the financial statements.

**CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Economic Factors

- The North Carolina General Assembly provided a 6% average pay raise for entry level teachers. Teachers at the upper end of the teacher pay schedule received no pay raise in 2015-16. A one-time \$750 bonus was provided to non-instructional staff in public schools.
- The student enrollment of the district continued to decline in 2015-16 although State projections were higher. State and Local budget reductions will occur in future years if the enrollment does not increase.
- Planning funds for the construction of a new PreK Center and Central Office and the renovation of an older high school were received in the amount of \$750,000 from the County Commissioners. The full funding for the projects is anticipated from a 2016 Bond Referendum.

Requests for Information

This report is intended to provide a summary of the financial condition of Chapel Hill-Carrboro City Board of Education. Questions or requests for additional information should be addressed to:

Ruby Pittman, Executive Director of Budget and Finance
Chapel Hill-Carrboro City Board of Education
Lincoln Center, 750 S. Merritt Mill Road
Chapel Hill, NC 27516

CHAPEL HILL-CARRBORO CITY 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	\$ 15,231,144	\$ 882,848	\$ 16,113,992
Due from other governments	2,758,948	85,916	2,844,864
Receivables	163,709	24,320	188,029
Prepaid expenses	1,134,291	-	1,134,291
Capital assets:			
Land	7,249,223	-	7,249,223
Other capital assets, net of depreciation	<u>169,278,222</u>	<u>599,209</u>	<u>169,877,431</u>
Total capital assets	<u>176,527,445</u>	<u>599,209</u>	<u>177,126,654</u>
Total assets	<u>195,815,537</u>	<u>1,592,293</u>	<u>197,407,830</u>
Deferred Outflows of Resources	<u>8,343,227</u>	<u>149,308</u>	<u>8,492,535</u>
Liabilities			
Accounts payable and accrued expenses	1,363,303	198,987	1,562,290
Accrued salaries and wages payable	3,796,049	-	3,796,049
Unearned revenue	795,983	277,250	1,073,233
Long-term liabilities:			
Net pension liability	23,507,674	420,685	23,928,359
Due within one year	3,722,017	63,482	3,785,499
Due in more than one year	<u>5,321,392</u>	<u>77,795</u>	<u>5,399,187</u>
Total liabilities	<u>38,506,418</u>	<u>1,038,199</u>	<u>39,544,617</u>
Deferred Inflows of Resources	<u>5,219,679</u>	<u>93,410</u>	<u>5,313,089</u>
Net position			
Net investment in capital assets	175,930,029	599,209	176,529,238
Restricted for:			
Stabilization by State statute	840,378	-	840,378
School capital outlay	1,391,992	-	1,391,992
Instructional services	927,643	-	927,643
Individual schools activities	1,153,362	-	1,153,362
Unrestricted (deficit)	<u>(19,810,737)</u>	<u>10,783</u>	<u>(19,799,954)</u>
Total net position	<u>\$ 160,432,667</u>	<u>\$ 609,992</u>	<u>\$ 161,042,659</u>

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

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2016

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
Instructional services:							
Regular instructional	\$ 58,902,475	\$ -	\$ 41,167,624	\$ -	\$ (17,734,851)	\$ -	\$ (17,734,851)
Special populations	20,909,358	-	8,943,815	-	(11,965,543)	-	(11,965,543)
Alternative programs	7,701,552	-	5,608,007	-	(2,093,545)	-	(2,093,545)
School leadership	6,924,584	-	2,824,785	-	(4,099,799)	-	(4,099,799)
Co-curricular	4,701,179	2,578,856	-	-	(2,122,323)	-	(2,122,323)
School-based support	11,802,389	-	3,893,811	-	(7,908,578)	-	(7,908,578)
System-wide support services:							
Support and development	1,814,886	-	284,276	-	(1,530,610)	-	(1,530,610)
Special population support and development	876,908	-	559,862	-	(317,046)	-	(317,046)
Alternative programs and services support and development	169,447	-	75,541	-	(93,906)	-	(93,906)
Technology support	2,390,601	-	43,308	-	(2,347,293)	-	(2,347,293)
Operational support	16,505,750	852,073	4,111,632	226,924	(11,315,121)	-	(11,315,121)
Financial and human resource services	2,031,950	-	-	-	(2,031,950)	-	(2,031,950)
Accountability	422,313	-	-	-	(422,313)	-	(422,313)
Policy, leadership and public relations	2,869,252	-	406,110	-	(2,463,142)	-	(2,463,142)
Ancillary services	61,697	-	1,413	-	(60,284)	-	(60,284)
Payments to other governments	691,229	-	123,504	-	(567,725)	-	(567,725)
Interest on long-term debt	16,704	-	-	-	(16,704)	-	(16,704)
Unallocated depreciation expense**	7,101,720	-	-	-	(7,101,720)	-	(7,101,720)
Total governmental activities	<u>145,893,994</u>	<u>3,430,929</u>	<u>68,043,688</u>	<u>226,924</u>	<u>(74,192,453)</u>	<u>-</u>	<u>(74,192,453)</u>
Business-type activities:							
School food service	4,203,705	1,671,160	2,334,424	-	-	(198,121)	(198,121)
Child care	1,693,970	1,997,142	-	-	-	303,172	303,172
Total business-type activities	<u>5,897,675</u>	<u>3,668,302</u>	<u>2,334,424</u>	<u>-</u>	<u>-</u>	<u>105,051</u>	<u>105,051</u>
Total primary government	<u>\$ 151,791,669</u>	<u>\$ 7,099,231</u>	<u>\$ 70,378,112</u>	<u>\$ 226,924</u>	<u>(74,192,453)</u>	<u>105,051</u>	<u>(74,087,402)</u>
General revenues:							
Unrestricted county and city appropriations - operating					68,428,740	-	68,428,740
Unrestricted county appropriations - capital					6,880,353	-	6,880,353
Investment earnings, unrestricted					32,149	-	32,149
Miscellaneous, unrestricted					2,014,237	-	2,014,237
Transfers					(34,791)	34,791	-
Total general revenues and transfers					<u>77,320,688</u>	<u>34,791</u>	<u>77,355,479</u>
Change in net position					3,128,235	139,842	3,268,077
Net position - beginning					<u>157,304,432</u>	<u>470,150</u>	<u>157,774,582</u>
Net position - ending					<u>\$ 160,432,667</u>	<u>\$ 609,992</u>	<u>\$ 161,042,659</u>

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

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016

Exhibit 3

	Major Funds				Non-major Funds	Total Governmental Funds
	General	State Public School	Federal Grants	Capital Outlay	Special Revenue	
Assets						
Cash and cash equivalents	\$ 11,617,880	\$ -	\$ -	\$ 1,523,692	\$ 2,089,572	\$ 15,231,144
Due from other governments	289,762	2,160,289	124,037	184,860	-	2,758,948
Accounts receivable	157,032	-	-	3,621	3,056	163,709
Prepaid expenditures	1,134,291	-	-	-	-	1,134,291
Total assets	\$ 13,198,965	\$ 2,160,289	\$ 124,037	\$ 1,712,173	\$ 2,092,628	\$ 19,288,092
Liabilities and fund balances						
Liabilities:						
Accounts payable and accrued liabilities	\$ 1,038,084	\$ -	\$ -	\$ 320,181	\$ 5,038	\$ 1,363,303
Accrued salaries and wages payable	1,491,700	2,160,289	124,037	-	20,023	3,796,049
Unearned revenue	6,983	-	-	-	-	6,983
Total liabilities	2,536,767	2,160,289	124,037	320,181	25,061	5,166,335
Fund balances:						
Nonspendable:						
Prepaid expenditures	1,134,291	-	-	-	-	1,134,291
Restricted:						
Stabilization by State statute	824,953	-	-	-	15,425	840,378
School capital outlay	-	-	-	1,391,992	-	1,391,992
Instructional services	-	-	-	-	927,643	927,643
Individual schools	-	-	-	-	1,153,362	1,153,362
Assigned:						
Subsequent year's expenditures	2,148,000	-	-	-	-	2,148,000
Unassigned	6,554,954	-	-	-	(28,863)	6,526,091
Total fund balances	10,662,198	-	-	1,391,992	2,067,567	14,121,757
Total liabilities and fund balances	\$ 13,198,965	\$ 2,160,289	\$ 124,037	\$ 1,712,173	\$ 2,092,628	

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.	176,527,445
Deferred outflows of resources related to pensions	8,343,227
Difference in unearned lease revenue attributable to difference in income recognition periods for governmental funds and governmental activities.	(789,000)
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.	(9,043,409)
Net pension liability	(23,507,674)
Deferred inflows of resources related to pensions	(5,219,679)
Net position of governmental activities	\$ 160,432,667

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

CHAPEL HILL-CARRBORO CITY 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	Federal Grants	Capital Outlay	Special Revenue	
Revenues:						
State of North Carolina	\$ -	\$ 61,802,687	\$ -	\$ 226,924	\$ 709,210	\$ 62,738,821
Orange County:						
Local current expense	45,253,137	-	-	-	-	45,253,137
Other	494,000	-	-	6,880,353	-	7,374,353
U.S. Government	-	-	4,426,844	-	1,104,947	5,531,791
Other	25,208,088	-	-	144,140	2,912,168	28,264,396
Total revenues	70,955,225	61,802,687	4,426,844	7,251,417	4,726,325	149,162,498
Expenditures:						
Current:						
Instructional services:						
Regular instructional	20,077,884	40,831,500	336,124	132,079	212,279	61,589,866
Special populations	12,764,260	7,079,259	1,864,556	-	82,716	21,790,791
Alternative programs	2,534,097	2,420,417	1,373,433	-	1,627,487	7,955,434
School leadership	4,376,419	2,824,785	-	-	-	7,201,204
Co-curricular	2,224,871	-	-	-	2,539,999	4,764,870
School-based support	8,353,937	3,772,583	121,228	-	-	12,247,748
System-wide support services:						
Support and development	1,604,948	284,276	-	-	-	1,889,224
Special population support and development	349,276	103,073	456,789	-	-	909,138
Alternative programs and services support and development	50,847	-	75,541	-	47,737	174,125
Technology support	2,150,620	43,308	-	269,003	-	2,462,931
Operational support	8,850,838	3,992,984	70,000	525,009	7,936	13,446,767
Financial and human resource services	2,087,876	-	-	-	-	2,087,876
Accountability	432,864	-	-	-	-	432,864
Policy, leadership and public relations	2,523,974	400,441	5,669	10,787	-	2,940,871
Ancillary services	20,170	1,413	-	35,973	6,113	63,669
Non-programmed charges	691,229	-	123,504	-	25,807	840,540
Debt service:						
Principal retirement	-	-	-	503,084	-	503,084
Interest and fees	-	-	-	16,704	-	16,704
Capital outlay	-	-	-	6,117,029	-	6,117,029
Total expenditures	69,094,110	61,754,039	4,426,844	7,609,668	4,550,074	147,434,735
Revenues over (under) expenditures	1,861,115	48,648	-	(358,251)	176,251	1,727,763
Other financing sources (uses):						
Transfers from other funds	250,000	-	-	904,000	-	1,154,000
Transfers to other funds	(1,108,830)	(48,648)	-	-	-	(1,157,478)
Installment purchase obligations issued	-	-	-	498,898	-	498,898
Total other financing sources (uses)	(858,830)	(48,648)	-	1,402,898	-	495,420
Net change in fund balance	1,002,285	-	-	1,044,647	176,251	2,223,183
Fund balances:						
Beginning of year	9,659,913	-	-	347,345	1,891,316	11,898,574
End of year	\$ 10,662,198	\$ -	\$ -	\$ 1,391,992	\$ 2,067,567	\$ 14,121,757

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

CHAPEL HILL-CARRBORO CITY 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	\$ 2,223,183
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.	(4,187,947)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	7,751,943
Difference in lease income recognized from unearned revenue due to difference between income recognition periods for governmental funds and governmental activities.	43,833
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 issuance costs, 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.	4,186
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Pension expense	(2,492,323)
Compensated absences	(208,026)
Loss on disposal of capital assets	<u>(6,614)</u>
Total changes in net position of governmental activities	<u>\$ 3,128,235</u>

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

CHAPEL HILL-CARRBORO CITY 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	45,747,437	45,747,437	45,747,137	(300)
U.S. Government	-	-	-	-
Other	24,168,127	24,476,695	25,208,088	731,393
Total revenues	69,915,564	70,224,132	70,955,225	731,093
Expenditures:				
Current:				
Instructional services				
Regular instructional	23,551,008	20,729,096	20,077,884	651,212
Special populations	11,962,297	12,828,436	12,764,260	64,176
Alternative programs	1,936,746	2,687,572	2,534,097	153,475
School leadership	4,050,315	4,486,485	4,376,419	110,066
Co-curricular	2,093,873	2,311,828	2,224,871	86,957
School-based support	7,295,193	8,725,950	8,353,937	372,013
Total instructional services	50,889,432	51,769,367	50,331,468	1,437,899
System-wide support services				
Support and development	1,794,917	1,625,960	1,604,948	21,012
Special population support and development	221,996	366,664	349,276	17,388
Alternative programs and services support and development	44,247	53,558	50,847	2,711
Technology support	2,110,659	2,170,179	2,150,620	19,559
Operational support	9,750,888	9,714,440	8,850,838	863,602
Financial and human resource services	2,142,614	2,125,251	2,087,876	37,375
Accountability	409,181	449,600	432,864	16,736
Policy, leadership and public relations	3,261,400	2,960,933	2,523,974	436,959
Total system-wide support services	19,735,902	19,466,585	18,051,243	1,415,342
Ancillary services				
Nutrition	-	20,170	20,170	-
Nonprogrammed charges	1,158,230	906,930	691,229	215,701
Total expenditures	71,783,564	72,163,052	69,094,110	3,068,942
Revenues over (under) expenditures	(1,868,000)	(1,938,920)	1,861,115	3,800,035
Other financing sources (uses):				
Transfers from other funds	-	250,000	250,000	-
Transfers to other funds	-	(1,108,830)	(1,108,830)	-
Total other financing sources (uses)	-	(858,830)	(858,830)	-
Fund balance appropriated	1,868,000	2,797,750	-	(2,797,750)
Net change in fund balance	\$ -	\$ -	1,002,285	\$ 1,002,285
Fund balances:				
Beginning of year			9,659,913	
End of year			\$ 10,662,198	

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

CHAPEL HILL-CARRBORO CITY 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	\$ 60,876,056	\$ 64,751,079	\$ 61,802,687	\$ (2,948,392)
Orange County	-	-	-	-
U.S. Government	-	-	-	-
Other	-	-	-	-
Total revenues	<u>60,876,056</u>	<u>64,751,079</u>	<u>61,802,687</u>	<u>(2,948,392)</u>
Expenditures:				
Current:				
Instructional services				
Regular instructional	41,685,151	42,992,313	40,831,500	2,160,813
Special populations	6,623,499	7,214,872	7,079,259	135,613
Alternative programs	2,170,739	2,899,021	2,420,417	478,604
School leadership	2,432,831	2,826,956	2,824,785	2,171
Co-curricular	-	-	-	-
School-based support	3,155,180	3,803,085	3,772,583	30,502
Total instructional services	<u>56,067,400</u>	<u>59,736,247</u>	<u>56,928,544</u>	<u>2,807,703</u>
System-wide support services				
Support and development	274,247	358,325	284,276	74,049
Special population support and development	120,631	103,076	103,073	3
Alternative programs and services support and development	-	-	-	-
Technology support	-	43,308	43,308	-
Operational support	3,959,883	4,058,363	3,992,984	65,379
Financial and human resource services	-	-	-	-
Accountability	-	-	-	-
Policy, leadership and public relations	407,362	401,699	400,441	1,258
Total system-wide support services	<u>4,762,123</u>	<u>4,964,771</u>	<u>4,824,082</u>	<u>140,689</u>
Ancillary services				
Nutrition	-	1,413	1,413	-
Nonprogrammed charges	-	-	-	-
Total expenditures	<u>60,829,523</u>	<u>64,702,431</u>	<u>61,754,039</u>	<u>2,948,392</u>
Revenues over (under) expenditures	<u>46,533</u>	<u>48,648</u>	<u>48,648</u>	<u>-</u>
Other financing sources (uses):				
Transfers from other funds	-	-	-	-
Transfers to other funds	(46,533)	(48,648)	(48,648)	-
Total other financing sources (uses)	<u>(46,533)</u>	<u>(48,648)</u>	<u>(48,648)</u>	<u>-</u>
Fund balance appropriated	-	-	-	-
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balances:				
Beginning of year			-	
End of year			<u>\$ -</u>	

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

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION

Exhibit 6 (continued)

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

	Federal Grants Fund			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
State of North Carolina	\$ -	\$ -	\$ -	\$ -
Orange County	-	-	-	-
U.S. Government	4,901,709	4,946,652	4,426,844	(519,808)
Other	-	-	-	-
Total revenues	<u>4,901,709</u>	<u>4,946,652</u>	<u>4,426,844</u>	<u>(519,808)</u>
Expenditures:				
Current:				
Instructional services				
Regular instructional	446,356	399,696	336,124	63,572
Special populations	1,973,828	1,968,836	1,864,556	104,280
Alternative programs	1,492,759	1,561,512	1,373,433	188,079
School leadership	-	-	-	-
Co-curricular	-	-	-	-
School-based support	145,417	146,145	121,228	24,917
Total instructional services	<u>4,058,360</u>	<u>4,076,189</u>	<u>3,695,341</u>	<u>380,848</u>
System-wide support services				
Support and development	-	-	-	-
Special population support and development	413,937	471,339	456,789	14,550
Alternative programs and services support and development	48,372	76,453	75,541	912
Technology support	-	-	-	-
Operational support	11,928	74,651	70,000	4,651
Financial and human resource services	-	-	-	-
Accountability	-	-	-	-
Policy, leadership and public relations	28,537	7,737	5,669	2,068
Total system-wide support services	<u>502,774</u>	<u>630,180</u>	<u>607,999</u>	<u>22,181</u>
Ancillary services				
Nutrition	-	-	-	-
Nonprogrammed charges	<u>340,575</u>	<u>240,283</u>	<u>123,504</u>	<u>116,779</u>
Total expenditures	<u>4,901,709</u>	<u>4,946,652</u>	<u>4,426,844</u>	<u>519,808</u>
Revenues over (under) expenditures	-	-	-	-
Other financing sources (uses):				
Transfers from other funds	-	-	-	-
Transfers to other funds	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Fund balance appropriated	-	-	-	-
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Fund balances:				
Beginning of year			-	
End of year			<u>\$ -</u>	

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

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
STATEMENT OF NET POSITION
PROPRIETARY FUND TYPES
June 30, 2016

Exhibit 7

	Enterprise		
	Major Funds		
	School Food Service	Child Care	Totals
Assets			
Current assets:			
Cash and cash equivalents	\$ 107,166	\$ 775,682	\$ 882,848
Due from other governments	85,916	-	85,916
Receivables	-	24,320	24,320
Total current assets	<u>193,082</u>	<u>800,002</u>	<u>993,084</u>
Noncurrent assets:			
Capital assets:			
Furniture and equipment, net	599,209	-	599,209
Total assets	<u>792,291</u>	<u>800,002</u>	<u>1,592,293</u>
Deferred Outflows of Resources	<u>67,839</u>	<u>81,469</u>	<u>149,308</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	193,211	5,776	198,987
Compensated absences	33,103	30,379	63,482
Unearned revenue	111,911	165,339	277,250
Total current liabilities	<u>338,225</u>	<u>201,494</u>	<u>539,719</u>
Noncurrent liabilities:			
Net pension liability	191,140	229,545	420,685
Compensated absences	52,794	25,001	77,795
Total noncurrent liabilities	<u>243,934</u>	<u>254,546</u>	<u>498,480</u>
Total liabilities	<u>582,159</u>	<u>456,040</u>	<u>1,038,199</u>
Deferred Inflows of Resources	<u>42,442</u>	<u>50,968</u>	<u>93,410</u>
Net position			
Investment in capital assets	599,209	-	599,209
Unrestricted (deficit)	<u>(363,680)</u>	<u>374,463</u>	<u>10,783</u>
Total net position	<u>\$ 235,529</u>	<u>\$ 374,463</u>	<u>\$ 609,992</u>

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

CHAPEL HILL-CARRBORO CITY 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		
	Major Funds		Totals
	School Food Service	Child Care	
Operating revenues:			
Food sales	\$ 1,671,160	\$ -	\$ 1,671,160
Child care fees	-	1,516,946	1,516,946
Rental of school property	-	480,196	480,196
Total operating revenues	<u>1,671,160</u>	<u>1,997,142</u>	<u>3,668,302</u>
Operating expenses:			
Purchase of food	-	120,750	120,750
Salaries and benefits	1,052,796	1,478,611	2,531,407
Indirect costs	151,268	-	151,268
Materials and supplies	32,510	43,746	76,256
Repairs and maintenance	44,991	-	44,991
Depreciation	94,447	-	94,447
Non-capitalized equipment	11,804	755	12,559
Chartwells management fees	2,954,241	-	2,954,241
Contracted services	-	33,323	33,323
Other	12,916	16,785	29,701
Total operating expenses	<u>4,354,973</u>	<u>1,693,970</u>	<u>6,048,943</u>
Operating income (loss)	<u>(2,683,813)</u>	<u>303,172</u>	<u>(2,380,641)</u>
Nonoperating revenues:			
Federal reimbursements	2,077,777	-	2,077,777
Federal commodities	251,491	-	251,491
State reimbursements	5,156	-	5,156
Indirect costs not paid	151,268	-	151,268
Total nonoperating revenues	<u>2,485,692</u>	<u>-</u>	<u>2,485,692</u>
Income (loss) before transfers and contributions	(198,121)	303,172	105,051
Transfers to other funds	-	(250,000)	(250,000)
Transfers from other funds	253,478	-	253,478
Capital contributions	31,313	-	31,313
Change in net position	86,670	53,172	139,842
Net position, beginning of year	<u>148,859</u>	<u>321,291</u>	<u>470,150</u>
Net position, end of year	<u>\$ 235,529</u>	<u>\$ 374,463</u>	<u>\$ 609,992</u>

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

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPES
For the Fiscal Year Ended June 30, 2016

Exhibit 9

	Enterprise		
	Major Funds		
	School Food Service	Child Care	Totals
Cash flows from operating activities:			
Cash received from customers	\$ 1,680,821	\$ 1,986,161	\$ 3,666,982
Cash paid for goods and services	(3,052,615)	(213,446)	(3,266,061)
Cash paid to employees for services	(1,052,199)	(1,529,598)	(2,581,797)
Net cash provided (used) by operating activities	<u>(2,423,993)</u>	<u>243,117</u>	<u>(2,180,876)</u>
Cash flows from noncapital financing activities:			
Transfers from (to) other funds	204,830	(250,000)	(45,170)
Federal and State reimbursements	<u>2,103,250</u>	<u>-</u>	<u>2,103,250</u>
Net cash provided (used) by noncapital financing activities	<u>2,308,080</u>	<u>(250,000)</u>	<u>2,058,080</u>
Net increase (decrease) in cash and cash equivalents	(115,913)	(6,883)	(122,796)
Cash and cash equivalents, beginning of year	<u>223,079</u>	<u>782,565</u>	<u>1,005,644</u>
Cash and cash equivalents, end of year	<u>\$ 107,166</u>	<u>\$ 775,682</u>	<u>\$ 882,848</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	<u>\$ (2,683,813)</u>	<u>\$ 303,172</u>	<u>\$ (2,380,641)</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	94,447	-	94,447
Donated commodities	251,491	-	251,491
Salaries paid by special revenue fund	48,648	-	48,648
Indirect costs not paid	151,268	-	151,268
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	290	(8,769)	(8,479)
Increase (decrease) in accounts payable and accrued liabilities	(247,644)	1,913	(245,731)
Increase (decrease) in unearned revenue	9,371	(2,212)	7,159
Increase in net pension liability	130,635	159,779	290,414
Increase in deferred outflows	(3,025)	(6,734)	(9,759)
Decrease in deferred inflows	(176,085)	(201,006)	(377,091)
Increase (decrease) in compensated absences payable	424	(3,026)	(2,602)
Total adjustments	<u>259,820</u>	<u>(60,055)</u>	<u>199,765</u>
Net cash provided (used) by operating activities	<u>\$ (2,423,993)</u>	<u>\$ 243,117</u>	<u>\$ (2,180,876)</u>

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

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
STATEMENT OF CASH FLOWS (continued)
PROPRIETARY FUND TYPES
For the Fiscal Year Ended June 30, 2016

Exhibit 9 (continued)

NONCASH OPERATING AND NONCAPITAL FINANCING ACTIVITIES:

The School Food Service Fund received donated commodities with a value of \$251,491 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 paid salaries and benefits of \$48,648 to administrative personnel of the School Food Service Fund during the fiscal year. The payment is reflected as a transfer in and an operating expense on Exhibit 8.

School Food Service capital assets with a value of \$31,313 were purchased by the Capital Outlay Fund during the year. The value of these assets is reflected as a capital contribution on Exhibit 8.

Indirect costs of \$151,268 that would be due to the General Fund were not paid. These unpaid costs are reflected as a non-operating revenue and an operating expense on Exhibit 8.

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

**CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
June 30, 2016**

Exhibit 10

	<u>Employee Flexible Spending Account</u>
Assets	
Cash	<u>\$ 192,627</u>
Liabilities	
Accounts payable and accrued liabilities	<u>\$ 192,627</u>

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

CHAPEL HILL-CARRBORO CITY 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 Chapel Hill-Carrboro City 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 Chapel Hill-Carrboro City 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 the cities of Chapel Hill and Carrboro, North Carolina. 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. These statements distinguish between the *governmental* and *business-type activities* of the Board. Governmental activities generally are financed through intergovernmental revenues and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

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

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

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

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

Capital Outlay Fund. The Capital Outlay Fund accounts for financial resources to be used for the acquisition and construction of major capital facilities (other than those financed by proprietary funds and trust funds). 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:

Other Special Revenue Fund. The Other Special Revenue Fund is used to account for gifts and grants restricted as to use, certain federal and state grants restricted as to use, federal and state appropriations made directly to local school administrative units, funds received for refunds, reimbursements and various special programs.

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 funds:

School Food Service Fund. The School Food Service Fund is used to account for the food service program within the school system.

Child Care Fund. The Child Care Fund is used to account for the after school care program within the school system, as well as revenues from the rental of school property.

The Board reports the following fiduciary fund:

Agency Fund. Agency funds are custodial in nature and do not involve the measurement of operating results. Agency funds are used to account for assets the Board holds on behalf of others. The Board maintains one agency fund, the Employee Flexible Spending Account, which accounts for monies voluntarily withheld from employees' wages to pay for child care and medical expenses not covered under the employees' medical insurance.

C. Measurement Focus and Basis of Accounting

Government-wide, Proprietary and Fiduciary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Board gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. The Board's fiduciary fund is an agency fund. Agency funds have no measurement focus.

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

CHAPEL HILL-CARRBORO CITY 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. Amounts may be transferred between functions of the same purpose of the same fund with a monthly report of such transfers provided to the Board of Education and entered in the Board's minutes. Amendments are required for any revisions that alter total expenditures of any fund or that change appropriations at the purpose level. All amendments must be approved by the governing board. 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. The STIF consists of an internal portion and an external portion in which the Board participates. Investments are restricted to those enumerated in G.S. 147-69.1.

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

CHAPEL HILL-CARRBORO CITY 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. Prepaid Expenditures

Prepaid expenditures represent amounts paid to vendors for goods or services in one period that benefit a future period. The Board utilizes the consumption method of accounting and recognizes prepaid items as expenditures in the period 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.

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

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	50
Land improvements	15
Equipment and furniture	3 - 10
Vehicles	6

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 -

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

contributions made to the pension plan in the current fiscal year. The statement of financial position also reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Board has one item that meet this criterion – pension related deferrals.

6. Long-term Obligations

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

7. Compensated Absences

The Board follows the State's policy for vacation and sick leave. Employees may accumulate up to thirty (30) days earned vacation leave with such leave being fully vested when earned. For the Board, the current portion of the accumulated vacation pay is not considered to be material. The Board's liability for accumulated earned vacation and the salary-related payments as of June 30, 2016 is recorded in the government-wide and proprietary fund financial statements on a FIFO basis. An estimate has been made based on prior years' records of the current portion of compensated absences.

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

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 four classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

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

Prepaid expenditures- portion of fund balance that is not an available resource because it represents the year end balance of prepaid expenditures, which are not spendable resources.

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

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]

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

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.

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.

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 \$146,310,910 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)	\$281,726,472
Less accumulated depreciation	<u>(105,199,027)</u>
Net capital assets	176,527,445
Pension related deferred outflows of resources:	
Contributions made to the pension plan in the current fiscal year	7,751,943
Changes in proportion and differences between Board contributions and proportionate share of contributions	591,284
Difference in unearned lease revenue attributable to difference in income recognition periods for governmental funds and governmental activities	(789,000)
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	(597,416)

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

Compensated absences	(8,445,993)
Net pension liability	(23,507,674)
Deferred inflows of resources related to pensions:	
Differences between expected and actual experience	(2,672,822)
Difference between projected and actual earnings on plan investments	<u>(2,546,857)</u>
Total adjustment	<u>\$146,310,910</u>

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 \$905,052 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	\$ 3,241,203
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	(7,429,150)
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	(498,898)
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	503,084
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	7,751,943
Difference in lease income recognized from unavailable revenue due to difference between income recognition periods for governmental funds and governmental activities.	43,833
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	(2,492,323)
Loss on disposal of capital assets	(6,614)
Compensated absences are accrued in the government-wide statements but not in the fund statements because they do not use current resources	<u>(208,026)</u>
Total adjustment	<u>\$ 905,052</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

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

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 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Excess of Expenditures Over Appropriations

During the fiscal year ended June 30, 2016, the Board reported expenditures that violated State law [G.S. 115C-441] because they exceeded the amount appropriated in the budget ordinance within the Other Special Revenue Fund by \$19,517 for regular instructional services and \$198 for operational support services. Management will monitor budgets monthly and make necessary amendments to avoid expenditures in excess of appropriations.

NOTE 3 - DETAIL NOTES ON ALL FUNDS

A. Assets

1. Deposits

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

At June 30, 2016, the Board had deposits with banks and savings and loans with a carrying amount of \$11,781,095 and with the State Treasurer of \$0. The bank balances with the financial institutions and the State Treasurer were \$11,943,498 and \$426,928, respectively. Of these balances, \$1,372,789 was covered by federal depository insurance and \$10,997,637 was covered by collateral held by authorized escrow agents in the name of the State Treasurer.

2. Investments

At June 30 2016, the Board had \$4,525,524 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 risk or credit risk. 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.

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

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	\$ 289,762	\$ 157,032	\$ 446,794
Other governmental activities	<u>2,469,186</u>	<u>6,677</u>	<u>2,475,863</u>
Total governmental activities	<u>\$ 2,758,948</u>	<u>\$ 163,709</u>	<u>\$ 2,922,657</u>
Business-type activities:			
School Food Service Fund	\$ 85,916	-	\$ 85,916
Child Care Fund	<u>-</u>	<u>24,320</u>	<u>24,320</u>
Total business-type activities	<u>\$ 85,916</u>	<u>\$ 24,320</u>	<u>\$ 110,236</u>

Due from other governments consists of the following:

Governmental activities:		
General Fund	\$ 289,762	Amounts due from County
State Public School Fund	2,160,289	Operating funds from DPI
Capital Outlay Fund	184,860	Amounts due from County
Federal Grants Fund	<u>124,037</u>	Federal grant funds
Total	<u>\$ 2,758,948</u>	
Business-type activities:		
School Food Service Fund	<u>\$ 85,916</u>	Federal grant funds

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4. Capital Assets

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 6,485,407	\$ -	\$ -	\$ 6,485,407
Construction in progress	-	2,591,726	1,827,910	763,816
Total capital assets not being depreciated	<u>6,485,407</u>	<u>2,591,726</u>	<u>1,827,910</u>	<u>7,249,223</u>
Capital assets being depreciated:				
Buildings and improvements	253,359,903	1,702,898	-	255,062,801
Land improvements	5,234,685	-	-	5,234,685
Equipment and furniture	8,316,388	271,958	23,717	8,564,629
Vehicles	5,133,103	502,531	20,500	5,615,134
Total capital assets being depreciated	<u>272,044,079</u>	<u>2,477,387</u>	<u>44,217</u>	<u>274,477,249</u>
Less accumulated depreciation for:				
Buildings and improvements	85,346,234	6,020,190	-	91,366,424
Land improvements	3,939,295	137,151	-	4,076,446
Equipment and furniture	5,070,177	944,379	19,856	5,994,700
Vehicles	3,451,774	327,430	17,747	3,761,457
Total accumulated depreciation	<u>97,807,480</u>	<u>7,429,150</u>	<u>37,603</u>	<u>105,199,027</u>
Total capital assets being depreciated, net	<u>174,236,599</u>			<u>169,278,222</u>
Governmental activity capital assets, net	<u>\$ 180,722,006</u>			<u>\$ 176,527,445</u>
Business-type activities:				
School Food Service Fund:				
Capital assets being depreciated:				
Equipment and furniture	\$ 1,470,739	\$ 31,313	\$ 15,818	\$ 1,486,234
Less accumulated depreciation for:				
Equipment and furniture	808,396	94,447	15,818	887,025
School Food Service capital assets, net	<u>662,343</u>			<u>599,209</u>
Child Care Fund:				
Capital assets being depreciated:				
Equipment and furniture	37,339	-	-	37,339
Less accumulated depreciation for:				
Equipment and furniture	37,339	-	-	37,339
Child Care Fund capital assets, net	<u>-</u>			<u>-</u>
Business-type activities capital assets, net	<u>\$ 662,343</u>			<u>\$ 599,209</u>

Depreciation was charged to governmental functions as follows:

System-wide support services	\$ 327,430
Unallocated depreciation	<u>7,101,720</u>
Total	<u>\$ 7,429,150</u>

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5. Construction and Other Significant Commitments

As of June 30, 2016, the Board had several construction and renovation projects in progress throughout the district. At year-end, the Board's commitments with contractors for the remaining portion of the contracts to complete these projects totaled approximately \$1.9 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 (or 10 years of creditable service for members joining TSERS on or after August 1, 2011), at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (or 10 years of creditable service for members joining TSERS on or after August 1, 2011). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age or have completed five years of service and have reached age 60 (10 years for members joining on or after August 1, 2011). Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

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

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Contributions. Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Board employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the TSERS Board of Trustees. The Board's contractually required contribution rate for the year ended June 30, 2016, was 9.15% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Board were \$7,890,669 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 \$23,928,359 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 June 30, 2015 and at June 30, 2014, the Board's proportion was .65% and .63%, respectively.

For the year ended June 30, 2016, the Board recognized pension expense of \$2,528,643. At June 30, 2016, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 2,720,654
Net difference between projected and actual earnings on pension plan investments	-	2,592,435
Changes in proportion and differences between Board contributions and proportionate share of contributions	601,866	-
Board contributions subsequent to the measurement date	<u>7,890,669</u>	<u>-</u>
Total	<u>\$ 8,492,535</u>	<u>\$ 5,313,089</u>

\$7,890,669 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	\$ (2,946,639)
2018	(2,946,639)
2019	(2,850,412)
2020	4,032,467
2021	-
Thereafter	-
Total	<u>\$ (4,711,223)</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, 2014 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)	\$ 72,017,758	\$ 23,928,359	\$ (16,881,041)

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 \$4,833,393, \$4,693,298 and \$4,408,641, 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 \$353,873, \$350,501 and \$359,223, 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>Total</u>
Governmental activities:			
General Fund	\$ 1,038,084	\$ 1,491,700	\$ 2,529,784
Other governmental activities	<u>325,219</u>	<u>2,304,349</u>	<u>2,629,568</u>
Total governmental activities	<u>\$ 1,363,303</u>	<u>\$ 3,796,049</u>	<u>\$ 5,159,352</u>
Business-type activities:			
School Food Service Fund	\$ 193,211	\$ -	\$ 193,211
Child Care Fund	<u>5,776</u>	<u>-</u>	<u>5,776</u>
Total business-type activities	<u>\$ 198,987</u>	<u>\$ -</u>	<u>\$ 198,987</u>

3. Unearned Revenues

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

Governmental activities:		
Prepayment of pre-k tuition (General Fund)		\$ 6,983
Prepaid use fee (Capital Outlay Fund - see below)		<u>789,000</u>
Total governmental activities		<u>\$ 795,983</u>
Business-type activities:		
Prepayments of meals (School Food Service Fund)		\$ 111,911
Prepayments of tuition (Child Care Fund)		<u>165,339</u>
Total business-type activities		<u>\$ 277,250</u>

The Board entered into a lease agreement with the University of North Carolina at Chapel Hill (the "University"), whereby the Board constructed additional space at Smith Middle School which is being leased to the University for a period of thirty years. During the first ten years of the agreement, the parties may terminate the agreement only upon a breach of the agreement that remains uncured for a reasonable amount of time after receipt of notice of the breach. In such event, the Board shall refund the University an amount equal to the use fee prorated over the remaining number of years of the ten year period. The agreement required the University to pay a use fee of \$1,315,000 at the beginning of the lease. Due to the terms of the agreement, this fee is being recognized as revenue by the Board over a ten year period in the governmental funds statements (Capital Outlay Fund) and over a thirty year period in the governmental activities statements. At June 30, 2016 the fee had been fully recognized as revenue in the fund statements while unearned revenue reported in the Statement of Net Assets for governmental activities totaled \$789,000.

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4. Deferred Outflows and Inflows of Resources

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 2,720,654
Net difference between projected and actual earnings on pension plan investments	-	2,592,435
Changes in proportion and differences between Board contributions and proportionate share of contributions	601,866	-
Board contributions subsequent to the measurement date	7,890,669	-
Total	\$ 8,492,535	\$ 5,313,089

5. Risk Management

The Board is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board participates in the North Carolina School Boards Trust (the Trust), a member funded risk management program administered by the North Carolina School Boards Association. Through the Trust, the Board maintains general liability and errors and omissions coverage of \$1 million per claim. 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 \$100,000.

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

6. Contingent Liabilities

As of the date of our report, the Board was a defendant to various legal claims. The Board's management and the Board's attorney have been unable to determine the amount of loss, if any, the Board will incur as a result of these legal matters.

7. 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 fiscal years ended June 30, 2015 and 2016, the Board entered into such contracts for the purchase of school buses. The contracts each require four equal principal-only payments with the first payment due within 10 days of receipt of the buses and the following 3 payments due on the next 3 immediately following November 15th dates.

The Board also entered into an installment purchase contract for the purchase of computer networking equipment during the fiscal year ended June 30, 2013. The contract requires payments of principal and interest at 2.92% due annually on November 1st through 2016. 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	\$ 438,113
2018	124,725
2018	<u>43,053</u>
	605,891
Less portion representing interest	<u>(8,475)</u>
Total principal obligation	<u>\$ 597,416</u>

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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	\$ 601,602	\$ 498,898	\$ 503,084	\$ 597,416	\$ 429,638
Net pension liability	7,242,968	16,264,706	-	23,507,674	-
Compensated absences	8,237,967	5,603,736	5,395,710	8,445,993	3,292,379
Total	<u>\$ 16,082,537</u>	<u>\$ 22,367,340</u>	<u>\$ 5,898,794</u>	<u>\$ 32,551,083</u>	<u>\$ 3,722,017</u>
Business-type activities:					
Net pension liability	\$ 130,271	\$ 290,414	\$ -	\$ 420,685	\$ -
Compensated absences	143,879	118,549	121,151	141,277	63,482
Total	<u>\$ 274,150</u>	<u>\$ 408,963</u>	<u>\$ 121,151</u>	<u>\$ 561,962</u>	<u>\$ 63,482</u>

c. Interfund Balances and Activity

Transfers to/from other Funds

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

From the General Fund to the School Food Service Fund for the payment of operating expenses	<u>\$ 204,830</u>
From the General Fund to the Capital Outlay Fund for school capital improvement needs	<u>\$ 904,000</u>
From the State Public School Fund to the School Food Service Fund for the payment of administrative salaries	<u>\$ 48,648</u>
From the Child Care Fund to the General Fund for the payment of operating expenditures	<u>\$ 250,000</u>

Transfers / Contributed Capital

During the year ended June 30, 2016, the Capital Outlay Fund purchased capitalized equipment for the School Food Service Fund totaling \$31,313. This amount is presented as a transfer between governmental and business-type activities in Exhibit 2 and as contributed capital in Exhibit 8.

**CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
 NOTES TO THE FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2016**

D. 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	\$ 10,662,198
Less:	
Prepaid expenditures	(1,134,291)
Stabilization by State statute	(824,953)
Appropriated fund balance in the fiscal year 2016-2017 budget	<u>(2,148,000)</u>
Unassigned fund balance at June 30, 2016	<u>\$ 6,554,954</u>

Encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end. Encumbrances outstanding at June 30, 2016 are as follows:

General Fund	\$ 378,159
Capital Outlay Fund	651,458
School Food Service Fund	51,004
Child Care Fund	3,217
Non-Major Governmental Funds	12,369

NOTE 4 - SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

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

**CHAPEL HILL-CARRBORO CITY 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)	0.649%	0.629%	0.624%
Board's proportionate share of the net pension liability (asset)	\$ 23,928,359	\$ 7,373,239	\$ 37,907,443
Board's covered-employee payroll	\$ 85,908,323	\$ 81,794,672	\$ 81,543,352
Board's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	27.85%	9.01%	46.49%
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.

**CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
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	\$ 7,890,669	\$ 7,860,612	\$ 7,107,957
Contributions in relation to the contractually required contribution	<u>7,890,669</u>	<u>7,860,612</u>	<u>7,107,957</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Board's covered-employee payroll	\$ 86,236,820	\$ 85,908,323	\$ 81,794,672
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.

CHAPEL HILL-CARRBORO CITY 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	\$ 45,253,437	\$ 45,253,137	\$ (300)
Other	494,000	494,000	-
Total Orange County	<u>45,747,437</u>	<u>45,747,137</u>	<u>(300)</u>
Other:			
Fines and forfeitures	340,000	389,455	49,455
Supplemental school taxes	22,344,343	22,681,603	337,260
Interest earned on investment	25,000	32,149	7,149
Indirect costs allocated	110,000	149,311	39,311
Medicaid reimbursement program	450,000	644,753	194,753
Tuition and fees	758,402	808,240	49,838
ABC revenues	40,000	40,000	-
Sales and use tax refund	75,000	293,913	218,913
Miscellaneous	333,950	168,664	(165,286)
Total other	<u>24,476,695</u>	<u>25,208,088</u>	<u>731,393</u>
Total revenues	<u>70,224,132</u>	<u>70,955,225</u>	<u>731,093</u>
Expenditures:			
Current:			
Instructional services:			
Regular instructional	20,729,096	20,077,884	651,212
Special populations	12,828,436	12,764,260	64,176
Alternative programs	2,687,572	2,534,097	153,475
School leadership	4,486,485	4,376,419	110,066
Co-curricular	2,311,828	2,224,871	86,957
School-based support	8,725,950	8,353,937	372,013
Total instructional services	<u>51,769,367</u>	<u>50,331,468</u>	<u>1,437,899</u>
System-wide support services:			
Support and development	1,625,960	1,604,948	21,012
Special population support and development	366,664	349,276	17,388
Alternative programs and services support and development	53,558	50,847	2,711
Technology support	2,170,179	2,150,620	19,559
Operational support	9,714,440	8,850,838	863,602
Financial and human resource services	2,125,251	2,087,876	37,375
Accountability	449,600	432,864	16,736
Policy, leadership and public relations	2,960,933	2,523,974	436,959
Total system-wide support services	<u>19,466,585</u>	<u>18,051,243</u>	<u>1,415,342</u>

CHAPEL HILL-CARRBORO CITY 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):			
Current:			
Ancillary services:			
Nutrition	20,170	20,170	-
Non-programmed charges:			
Payments to other governments	906,930	691,229	215,701
Total expenditures	72,163,052	69,094,110	3,068,942
Revenues over (under) expenditures	(1,938,920)	1,861,115	3,800,035
Other financing sources (uses):			
Transfers from other funds	250,000	250,000	-
Transfers to other funds	(1,108,830)	(1,108,830)	-
Total other financing sources (uses)	(858,830)	(858,830)	-
Fund balance appropriated	2,797,750	-	(2,797,750)
Net change in fund balance	\$ -	1,002,285	\$ 1,002,285
Fund balance:			
Beginning of year		9,659,913	
End of year		\$ 10,662,198	

**CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 June 30, 2016**

	Special Revenue Funds		Totals
	Other Special Revenue	Individual Schools	
Assets			
Cash and cash equivalents	\$ 936,210	\$ 1,153,362	\$ 2,089,572
Accounts receivable	<u>3,056</u>	<u>-</u>	<u>3,056</u>
Total assets	<u>\$ 939,266</u>	<u>\$ 1,153,362</u>	<u>\$ 2,092,628</u>
Liabilities			
Accounts payable and accrued liabilities	\$ 5,038	\$ -	\$ 5,038
Accrued salaries and wages payable	<u>20,023</u>	<u>-</u>	<u>20,023</u>
Total liabilities	<u>25,061</u>	<u>-</u>	<u>25,061</u>
Fund balances			
Restricted:			
Stabilization by State statute	15,425	-	15,425
Instructional services	927,643	-	927,643
Individual schools	-	1,153,362	1,153,362
Unassigned	<u>(28,863)</u>	<u>-</u>	<u>(28,863)</u>
Total fund balances	<u>914,205</u>	<u>1,153,362</u>	<u>2,067,567</u>
Total liabilities and fund balances	<u>\$ 939,266</u>	<u>\$ 1,153,362</u>	<u>\$ 2,092,628</u>

CHAPEL HILL-CARRBORO CITY 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

	<u>Special Revenue Funds</u>		<u>Totals</u>
	<u>Other Special Revenue</u>	<u>Individual Schools</u>	
Revenues:			
State of North Carolina	\$ 709,210	\$ -	\$ 709,210
U.S. Government	1,104,947	-	1,104,947
Other	<u>333,312</u>	<u>2,578,856</u>	<u>2,912,168</u>
Total revenues	<u>2,147,469</u>	<u>2,578,856</u>	<u>4,726,325</u>
Expenditures:			
Current:			
Instructional services:			
Regular instructional	212,279	-	212,279
Special populations	82,716	-	82,716
Alternative programs	1,627,487	-	1,627,487
Co-curricular	<u>-</u>	<u>2,539,999</u>	<u>2,539,999</u>
Total instructional services	<u>1,922,482</u>	<u>2,539,999</u>	<u>4,462,481</u>
System-wide support services:			
Alternative programs and services support and development	47,737	-	47,737
Operational support	<u>7,936</u>	<u>-</u>	<u>7,936</u>
Total system-wide support services	<u>55,673</u>	<u>-</u>	<u>55,673</u>
Ancillary services:			
Nutrition	<u>6,113</u>	<u>-</u>	<u>6,113</u>
Non-programmed charges	<u>25,807</u>	<u>-</u>	<u>25,807</u>
Total expenditures	<u>2,010,075</u>	<u>2,539,999</u>	<u>4,550,074</u>
Net change in fund balance	137,394	38,857	176,251
Fund balances:			
Beginning of year	<u>776,811</u>	<u>1,114,505</u>	<u>1,891,316</u>
End of year	<u>\$ 914,205</u>	<u>\$ 1,153,362</u>	<u>\$ 2,067,567</u>

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
OTHER SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2016

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
State of North Carolina:			
NC Pre-Kindergarten Program	\$ 709,210	\$ 709,210	\$ -
U.S. Government:			
Headstart	1,480,202	1,104,947	(375,255)
Other:			
Miscellaneous	417,857	333,312	(84,545)
Total revenues	<u>2,607,269</u>	<u>2,147,469</u>	<u>(459,800)</u>
Expenditures:			
Current:			
Instructional services:			
Regular instructional	192,762	212,279	(19,517)
Special populations	104,685	82,716	21,969
Alternative programs	<u>2,395,745</u>	<u>1,627,487</u>	<u>768,258</u>
Total instructional services	<u>2,693,192</u>	<u>1,922,482</u>	<u>770,710</u>
System-wide support services:			
Alternative programs and services support and development	110,078	47,737	62,341
Operational support	7,738	7,936	(198)
Financial and human resource services	-	-	-
Total system-wide support services	<u>117,816</u>	<u>55,673</u>	<u>62,143</u>
Ancillary services:			
Nutrition	<u>41,708</u>	<u>6,113</u>	<u>35,595</u>
Non-programmed charges:			
Payments to other governments	<u>42,136</u>	<u>25,807</u>	<u>16,329</u>
Total expenditures	<u>2,894,852</u>	<u>2,010,075</u>	<u>884,777</u>
Revenues over (under) expenditures	(287,583)	137,394	424,977
Fund balance appropriated	<u>287,583</u>	-	<u>(287,583)</u>
Net change in fund balance	<u>\$ -</u>	137,394	<u>\$ 137,394</u>
Fund balance:			
Beginning of year		<u>776,811</u>	
End of year		<u>\$ 914,205</u>	

**CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 INDIVIDUAL SCHOOLS FUND
 For the Fiscal Year Ended June 30, 2016**

	<u>Elementary Schools</u>	<u>Middle Schools</u>	<u>High Schools</u>	<u>Totals</u>
Revenues	\$ 468,659	\$ 627,773	\$ 1,482,424	\$ 2,578,856
Expenditures	<u>450,383</u>	<u>615,286</u>	<u>1,474,330</u>	<u>2,539,999</u>
Net change in fund balance	18,276	12,487	8,094	38,857
Fund balances:				
Beginning of year	<u>158,151</u>	<u>211,874</u>	<u>744,480</u>	<u>1,114,505</u>
End of year	<u>\$ 176,427</u>	<u>\$ 224,361</u>	<u>\$ 752,574</u>	<u>\$ 1,153,362</u>

CHAPEL HILL-CARRBORO CITY 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:			
State appropriations - buses	\$ 566,530	\$ 226,924	\$ (339,606)
Orange County:			
Local bond revenues	6,643,921	5,047,953	(1,595,968)
General county appropriations	1,832,400	1,832,400	-
Total Orange County	<u>8,476,321</u>	<u>6,880,353</u>	<u>(1,595,968)</u>
Other:			
Sales tax refund	-	121,331	121,331
Miscellaneous	11,967	22,809	10,842
Total revenues	<u>9,054,818</u>	<u>7,251,417</u>	<u>(1,803,401)</u>
Expenditures:			
Current:			
Instructional services:			
Regular instructional	143,517	132,079	11,438
System-wide support services:			
Technology support	310,000	269,003	40,997
Operational support	624,670	525,009	99,661
Policy, leadership and public relations	11,370	10,787	583
Total system-wide support services	<u>946,040</u>	<u>804,799</u>	<u>141,241</u>
Ancillary services:			
Nutrition	45,000	35,973	9,027
Debt service:			
Principal retirement	503,084	503,084	-
Interest and fees	16,704	16,704	-
Total debt service	<u>519,788</u>	<u>519,788</u>	<u>-</u>
Capital outlay	<u>8,400,797</u>	<u>6,117,029</u>	<u>2,283,768</u>
Total expenditures	<u>10,055,142</u>	<u>7,609,668</u>	<u>2,445,474</u>
Revenues under expenditures	<u>(1,000,324)</u>	<u>(358,251)</u>	<u>642,073</u>
Other financing sources:			
Transfers from other funds	904,000	904,000	-
Installment purchase obligations issued	-	498,898	498,898
Total other financing sources	<u>904,000</u>	<u>1,402,898</u>	<u>498,898</u>
Fund balance appropriated	<u>96,324</u>	-	<u>(96,324)</u>
Net change in fund balance	<u>\$ -</u>	<u>1,044,647</u>	<u>\$ 1,044,647</u>
Fund balance:			
Beginning of year		<u>347,345</u>	
End of year		<u>\$ 1,391,992</u>	

CHAPEL HILL-CARRBORO CITY 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	\$ 1,964,293	\$ 1,671,160	\$ (293,133)
Operating expenditures:			
Business support services:			
Salaries and benefits	-	1,100,847	-
Materials and supplies	-	32,510	-
Repairs and maintenance	-	44,991	-
Non-capitalized equipment	-	11,804	-
Chartwells management fees	-	2,954,241	-
Other	-	12,916	-
Total operating expenditures	4,481,771	4,157,309	324,462
Operating loss	(2,517,478)	(2,486,149)	31,329
Nonoperating revenues:			
Federal reimbursements	-	2,077,777	-
Federal commodities	-	251,491	-
State reimbursements	-	5,156	-
Total nonoperating revenues	2,292,478	2,334,424	41,946
Excess of expenditures over revenues before other financing sources	(225,000)	(151,725)	73,275
Other financing sources:			
Transfers from other funds	225,000	253,478	28,478
Net change in fund balance	\$ -	101,753	\$ 101,753
Reconciliation of modified accrual to full accrual basis:			
Reconciling items:			
Depreciation		(94,447)	
Net pension liability		(130,635)	
Deferred outflows - pension		3,025	
Deferred inflows - pension		176,085	
Capital contributions		31,313	
Indirect costs		(151,268)	
Indirect costs not paid		151,268	
Increase in compensated absences payable		(424)	
Change in net position (full accrual)		\$ 86,670	

CHAPEL HILL-CARRBORO CITY 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	\$ 1,599,131	\$ 1,516,946	\$ (82,185)
Rental of school property	<u>400,000</u>	<u>480,196</u>	<u>80,196</u>
 Total operating revenue	 <u>1,999,131</u>	 <u>1,997,142</u>	 <u>(1,989)</u>
Operating expenditures:			
Regular community services:			
Purchase of food	-	120,750	-
Salaries and benefits	-	1,529,598	-
Materials and supplies	-	43,746	-
Non-capitalized equipment	-	755	-
Contracted services	-	33,323	-
Other	<u>-</u>	<u>16,785</u>	<u>-</u>
 Total operating expenditures	 <u>1,836,031</u>	 <u>1,744,957</u>	 <u>91,074</u>
Excess of revenues over expenditures before other financing uses	 <u>163,100</u>	 <u>252,185</u>	 <u>89,085</u>
Other financing uses:			
Transfers to other funds	(489,100)	(250,000)	239,100
Fund balance appropriated	<u>326,000</u>	<u>-</u>	<u>(326,000)</u>
Net change in fund balance	<u>\$ -</u>	<u>2,185</u>	<u>\$ 2,185</u>
Reconciliation of modified accrual to full accrual basis:			
Reconciling items:			
Net pension liability		(159,779)	
Deferred outflows - pension		6,734	
Deferred inflows - pension		201,006	
Decrease in compensated absences payable		<u>3,026</u>	
Change in net position (full accrual)		<u>\$ 53,172</u>	

**CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
EMPLOYEE FLEXIBLE SPENDING ACCOUNT AGENCY FUND
For the Fiscal Year Ended June 30, 2016**

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
Assets				
Cash and cash equivalents	<u>\$ 149,950</u>	<u>\$ 746,754</u>	<u>\$ 704,077</u>	<u>\$ 192,627</u>
Liabilities				
Accounts payable and accrued liabilities	<u>\$ 149,950</u>	<u>\$ 746,754</u>	<u>\$ 704,077</u>	<u>\$ 192,627</u>



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 Chapel Hill-Carrboro City Board of Education
Chapel Hill, 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 Chapel Hill-Carrboro City 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 Chapel Hill-Carrboro City Board of Education, North Carolina's basic financial statements and have issued our report thereon dated October 17, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Chapel Hill-Carrboro City 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 Chapel Hill-Carrboro City 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 17, 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 Chapel Hill-Carrboro City Board of Education
Chapel Hill, North Carolina

Report on Compliance for Each Major Federal Program

We have audited Chapel Hill-Carrboro City 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 Chapel Hill-Carrboro City 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 Chapel Hill-Carrboro City 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 Chapel Hill-Carrboro City 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 Chapel Hill-Carrboro City Board of Education's compliance.

Opinion on Each Major Federal Program

In our opinion, the Chapel Hill-Carrboro City 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 Chapel Hill-Carrboro City 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 Chapel Hill-Carrboro City 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 Chapel Hill-Carrboro City 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 17, 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 Chapel Hill-Carrboro City Board of Education
Chapel Hill, North Carolina

Report on Compliance for Each Major State Program

We have audited Chapel Hill-Carrboro City 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 Chapel Hill-Carrboro City 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 Chapel Hill-Carrboro City 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 Chapel Hill-Carrboro City 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 Chapel Hill-Carrboro City Board of Education's compliance.

Opinion on Each Major State Program

In our opinion, the Chapel Hill-Carrboro City 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 Chapel Hill-Carrboro City 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 Chapel Hill-Carrboro City 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 Chapel Hill-Carrboro City 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 17, 2016
Rockingham, North Carolina*

**CHAPEL HILL-CARRBORO CITY 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
	Special Education Cluster:
84.027	Grants to States - IDEA, part B (611)
84.027	Coordinated Early Intervening Services
84.027	Special Needs Targeted Assistance
84.027	Special Education – Risk Pool
84.173	Preschool Targeted Assistance
84.173	Preschool Grants - IDEA, Part B (619)

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

Auditee qualified as low-risk auditee? *Yes*

**CHAPEL HILL-CARRBORO CITY 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.

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Fiscal Year Ended June 30, 2016

No findings were reported in the prior year.

CHAPEL HILL-CARRBORO CITY 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		\$ 251,491
Cash Assistance:			
School Breakfast Program	10.553		413,044
National School Lunch Program	10.555		1,592,109
Seamless Summer Program	10.555		72,624
Cash Assistance Subtotal			<u>2,077,777</u>
Total Child Nutrition Cluster			<u>2,329,268</u>
<u>U.S. Department of Education</u>			
Office of Elementary and Secondary Education			
Passed-through the N.C. Department of Public Instruction:			
Education Consolidation and Improvement Act of 1981			
Improving America School Act of 1994 (IASA)			
Title I, Grants to Local Educational Agencies	84.010	PRC 050	1,148,176
Supporting Effective Instruction State Grant	84.367	PRC 103	233,207
Language Acquisition Grant	84.365	PRC 104, 111	499,076
Office of Special Education and Rehabilitative Services			
Passed-through the N.C. Department of Public Instruction:			
Special Education Cluster:			
Grants to States - IDEA, part B (611)	84.027	PRC 060	2,036,459
Coordinated Early Intervening Services	84.027	PRC 070	216,844
Special Needs Targeted Assistance	84.027	PRC 118	12,134
Special Education - Risk Pool	84.027	PRC 114	121,265
Preschool Targeted Assistance	84.173	PRC 119	1,596
Preschool Grants - IDEA, Part B (619)	84.173	PRC 049	81,131
Total Special Education Cluster			<u>2,469,429</u>
Office of Vocational and Adult Education			
Passed-through the N.C. Department of Public Instruction:			
Carl D. Perkins Vocational and Applied Technology			
Education Act Amendments of 1990			
Basic Grants to States			
Program Development	84.048	PRC 017	76,956
Total U.S. Department of Education			<u>4,426,844</u>

CHAPEL HILL-CARRBORO CITY 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>
<u>U.S. Department of Health and Human Services</u>			
Direct Program:			
Administration for Youth and Families			
Head Start	93.600		1,104,947
Total Federal Assistance			<u>7,861,059</u>
State Grants:			
<u>N.C. Department of Public Instruction</u>			
State Public School Fund			57,868,226
Vocational Education:			
State Months of Employment		PRC 013	2,608,614
Program Support Funds		PRC 014	1,004,923
Driver Training		PRC 012	174,146
School Technology Fund		PRC 015	133,864
State appropriations - buses (noncash)		PRC 120	226,924
Textbooks (noncash)			12,914
Total NC Department of Public Instruction			<u>62,029,611</u>
<u>N.C. Department of Agriculture</u>			
State Reduced Breakfast Program			5,156
<u>N.C. Department of Health and Human Services</u>			
Division of Child Development:			
NC Pre-Kindergarten Program			489,674
Total State Assistance			<u>62,524,441</u>
Total Federal and State Assistance			<u>\$ 70,385,500</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 Chapel Hill-Carrboro City 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 Chapel Hill-Carrboro City Board of Education, it is not intended to and does not present the financial position, changes in net assets or cash flows of Chapel Hill-Carrboro City 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.

Chapel Hill-Carrboro City Board of Education has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.