MONTGOMERY COUNTY
BOARD OF EDUCATION
Troy, North Carolina

Financial Statements
For the Fiscal Year Ended
June 30, 2016

MONTGOMERY COUNTY BOARD OF EDUCATION
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A S W ANDERSON SMITH & WIKE PLLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Montgomery County Board of Education
Troy, 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 Montgomery County Board of Education, as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Montgomery County Board of Education as of June 30, 2016, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General, State Public School, Other Special Revenue 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 40 and 41, 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 Montgomery County Board of Education's basic financial statements. The individual nonmajor fund schedule, budgetary schedules and the accompanying schedule of expenditures of federal and State awards as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and the State Single Audit Implementation Act are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual nonmajor fund schedule, budgetary 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 individual nonmajor fund schedule, budgetary schedules and the accompanying schedule of expenditures of federal and State awards are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2016 on our consideration of the Montgomery County Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Montgomery County Board of Education's internal control over financial reporting and compliance.

Anderson Smith & Wike PLLC

September 14, 2016
Rockingham, North Carolina
(910) 997-1418

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

Financial Highlights

For the fiscal year ended June 30, 2016, the Board's total government-wide net position increased by $552,000, or 1.6%. Governmental activities net position increased by $526,000, or 1.5%, and business-type activities net position increased by $26,000, or 3.0%.

- Total government-wide net investment in capital assets decreased by $1.2 million, or 3.0%, from the prior year. Governmental activities net investment in capital assets decreased by $1.1 million, or 3.0%, and business-type activities net investment in capital assets decreased by $9,000, or 5.2%.
- Total restricted net position decreased by $155,000, or 12.4%. Restricted net position is found only in the governmental activities.
- The Board's total government-wide unrestricted net position at June 30, 2016 increased by $1.8 million over the prior year. Governmental activities unrestricted net position increased by $1.8 million while business-type activities unrestricted net position increased by $35,000 over the prior year.
- Financial reporting awards from Association of School Business Officials International and the Government Finance Officers Association were received for the fifth consecutive year.

Overview of the Financial Statements

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

- *Independent Auditors' Report*
- *Management's Discussion and Analysis (required supplementary information)*
- *Basic Financial Statements*
- *Supplementary section that presents a nonmajor fund schedule and budgetary schedules for governmental and enterprise funds*

The *Basic Financial Statements* include two types of statements that present different views of the Board's finances. The first is the *Government-wide 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 and proprietary funds. These statements present the governmental funds on the modified accrual basis of accounting, measuring the near term inflows and outflows of financial resources and what is available at year-end to spend in the next fiscal year. The proprietary funds are presented on the full accrual basis of accounting.

The fund financial statements focus on the Board's most significant funds. Because a different basis of accounting is used in the government-wide statements, reconciliation from the governmental fund

financial statements to the government-wide 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 property tax base and the condition of its school buildings and other physical assets.

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

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

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

Fund Financial Statements

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

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

Montgomery County Board of Education has two types of funds:

Governmental funds: Most of the Board's basic services are included in the governmental funds, which generally focus on two things – 1) how cash and other assets that can readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. As a result of this focus, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the coming year to finance the Board's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental fund statements, in the form of a reconciliation, explains the relationship (or differences) between the government-wide and the fund financial statements. The Board has several governmental funds: the General Fund, the State Public School Fund, the Individual Schools Fund, the Capital Outlay Fund, the Other Special Revenue Fund and the Federal Grants Fund.

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

Proprietary fund: 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 Montgomery County Board of Education's only proprietary fund is an enterprise fund, the School Food Service Fund.

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

Financial Analysis of the Board as a Whole

Net position is an indicator of the fiscal health of the Board. Assets exceeded liabilities by $36.2 million as of June 30, 2016 as compared to $35.6 million as of June 30, 2015, an increase of $552,000. The largest component of net position is net investment in capital assets of $37.1 million. Following is a summary of the Statement of Net Position at June 30, 2016 and 2015:

Table 1
Condensed Statement of Net Position
As of June 30, 2016 and 2015

	Governmental Acitivities		Business-type Activities		Total Primary Government	
	6/30/16	6/30/15	6/30/16	6/30/15	6/30/16	6/30/15
Current assets	$ 6,345,106	$ 5,891,487	$ 980,532	$ 1,001,593	$ 7,325,638	$ 6,893,080
Capital assets	37,244,854	38,073,586	165,583	174,611	37,410,437	38,248,197
Total assets	43,589,960	43,965,073	1,146,115	1,176,204	44,736,075	45,141,277
Deferred outflows of resources	2,047,165	2,054,799	77,266	76,523	2,124,431	2,131,322
Current liabilities	1,729,501	1,237,370	44,984	43,029	1,774,485	1,280,399
Long-term liabilities	7,301,588	3,407,520	243,894	104,628	7,545,482	3,512,148
Total liabilities	9,031,089	4,644,890	288,878	147,657	9,319,967	4,792,547
Deferred inflows of resources	1,298,702	6,593,891	49,016	245,563	1,347,718	6,839,454
Net investment in capital assets	36,932,521	38,073,586	165,583	174,611	37,098,104	38,248,197
Restricted net position	1,095,880	1,250,895	-	-	1,095,880	1,250,895
Unrestricted net position (deficit)	(2,721,067)	(4,543,390)	719,904	684,896	(2,001,163)	(3,858,494)
Total net position	$ 35,307,334	$ 34,781,091	$ 885,487	$ 859,507	$ 36,192,821	$ 35,640,598

The net position of the Board's governmental activities increased $526,000 during the year to $35.3 million at June 30, 2016, indicating an improvement in the financial condition of the Board. Restricted net position decreased by $155,000 while unrestricted net position increased $1.8 million over the prior year. Net investment in capital assets decreased $1.1 million due to an excess of depreciation expense over capital additions for the year.

The net position of the Board's business-type activities increased $26,000 during the year. This increase of $26,000 is the net profit generated by our school food service operations during the 2016 fiscal year. The following table shows the revenues and expenses of the Board 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	$ 1,094,241	$ 1,006,431	$ 498,798	$ 573,499	$ 1,593,039	$ 1,579,930
Operating grants and contributions	30,794,571	31,863,423	2,384,496	2,268,502	33,179,067	34,131,925
Capital grants and contributions	186,183	82,714	-	-	186,183	82,714
General revenues:						
County appropriations	5,145,804	5,214,582	-	-	5,145,804	5,214,582
State appropriations	1,267,043	1,257,331	-	-	1,267,043	1,257,331
Other revenues	560,035	608,079	97	92	560,132	608,171
Total revenues	39,047,877	40,032,560	2,883,391	2,842,093	41,931,268	42,874,653
Expenses:						
Governmental activities:						
Instructional services	28,785,650	29,283,560	-	-	28,785,650	29,283,560
System-wide support services	8,419,380	9,260,014	-	-	8,419,380	9,260,014
Ancillary services	4,445	3,635	-	-	4,445	3,635
Unallocated depreciation	1,225,975	1,223,201	-	-	1,225,975	1,223,201
Business-type activities:						
School food service	-	-	2,943,595	2,779,102	2,943,595	2,779,102
Total expenses	38,435,450	39,770,410	2,943,595	2,779,102	41,379,045	42,549,512
Excess (deficiency) before transfers	612,427	262,150	(60,204)	62,991	552,223	325,141
Transfers in (out)	(86,184)	(86,015)	86,184	86,015	-	-
Increase in net position	526,243	176,135	25,980	149,006	552,223	325,141
Beginning net position as previously reported	34,781,091	42,249,845	859,507	995,204	35,640,598	43,245,049
Restatement	-	(7,644,889)	-	(284,703)	-	(7,929,592)
Beginning net position, restated	34,781,091	34,604,956	859,507	710,501	35,640,598	35,315,457
Ending net position	$ 35,307,334	$ 34,781,091	$ 885,487	$ 859,507	$ 36,192,821	$ 35,640,598

Total governmental activities generated revenues of $39.0 million while expenses in this category totaled $38.4 million for the year ended June 30, 2016, resulting in an increase in net position of $526,000 (including transfers to business-type activities of $86,000). Comparatively, revenues were $40.0 million, expenses totaled $39.8 million and transfers out were $86,000 for the year ended June 30, 2015, resulting in an increase in net position of $176,000.

In comparing the two years, revenues decreased $985,000, or 2.5%, while expenses decreased by $1.3 million, or 3.4%. The change in revenues and expenses primarily relate to a $736,000 decrease in funding received from a federal technology enhancement grant in the Other Special Revenue Fund.

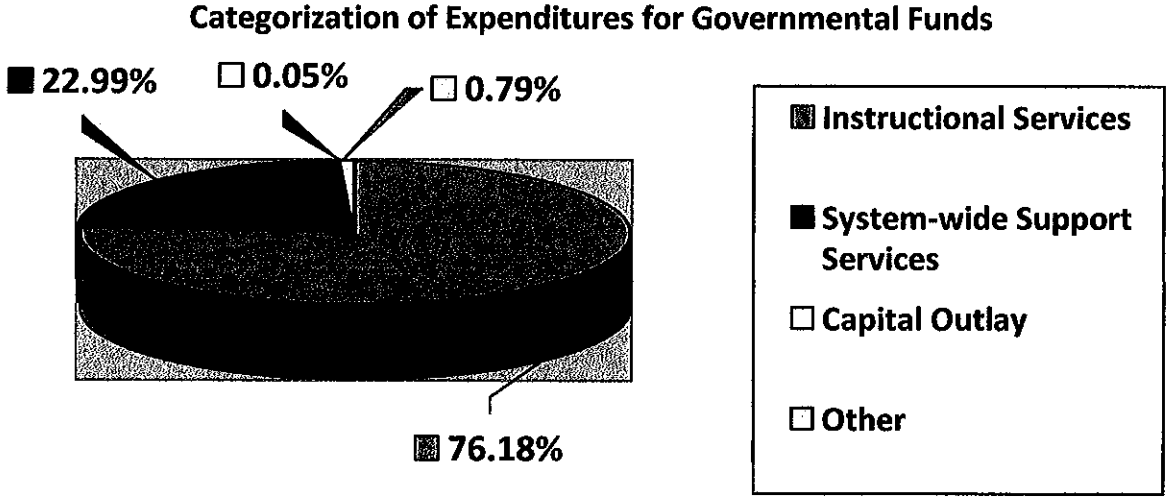
The Board's primary sources of revenues were funding from the State of North Carolina, Montgomery County, and the United States Government, which respectively comprised 70.4%, 13.1% and 10.4% of our total revenues. As would be expected, the major component of our expenditures was instructional services which accounted for 74.9% of our total expenditures during the most recent fiscal year. Of the remaining 25.1% of our total expenditures, 21.9% was attributable to system-wide support services.

Our business-type activities generated revenues of $2.9 million while expenses in this category also totaled $2.8 million for the year ended June 30, 2016. For the year, net position increased by $26,000 (including transfers in of $86,000). Comparatively, revenues and expenses were both $2.8 million for the year ended June 30, 2015, resulting in an increase in net position of $149,000 (including transfers in of $86,000). In comparing the two years, there were no significant changes in revenues or expenses.

Financial Analysis of the Board's Funds

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

The Board's governmental funds reported a combined fund balance of $5.7 million at June 30, 2016, an increase of $121,000 over the $5.6 million reported at June 30, 2015. The Board's General Fund reported a decrease in fund balance for the year ended June 30, 2016 of $34,000. The Other Special Revenue and Individual Schools funds each reported increases in fund balance of $125,000 and $35,000, respectively, while the Capital Outlay Fund reported a slight decrease of $4,000. Overall, total governmental fund revenues decreased by $969,000, or 2.4%, while total expenditures decreased by $641,000, or 1.6%, from the prior year. In comparing the two years, there were no significant changes in revenues or expenses.



Expenditures presented on modified accrual basis of accounting.

Proprietary Fund: The Board's business-type fund, the School Food Service Fund, reported an increase in net position of $26,000 for the fiscal year ended June 30, 2016 compared to an increase of $149,000 for the same 2015 period. Overall, revenues and expenses remained comparable from year to year.

General Fund Budgetary Highlights

Over the course of a year, the Board will revise the budget, as necessary, to account for changes in revenue expectations and program allocations. However, during the year ended June 30, 2016, no significant budget revisions were made in the General Fund as revenue and expenditure expectations remained consistent throughout the year. In addition, the timing of some revenues and expenditures is less predictable which leads to differences between the budgeted and actual amounts. Variances between actual expenditures and final budget amounts relate to conservative budgeting practices and cost containment strategies.

Capital Assets

Total primary government capital assets were $37.4 million at June 30, 2016 compared to $38.2 million at June 30, 2015, a decline of 2.2%. More detailed information about the Board's capital assets is contained in Note 2.A.4 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

	Governmental Acitivities		Business-type Activities		Total Primary Government	
	6/30/16	6/30/15	6/30/16	6/30/15	6/30/16	6/30/15
Land	$ 568,931	$ 568,931	$ -	$ -	$ 568,931	$ 568,931
Buildings and improvements	35,765,970	36,942,309	-	-	35,765,970	36,942,309
Equipment and furniture	184,345	233,981	165,583	174,611	349,928	408,592
Vehicles	725,608	328,365	-	-	725,608	328,365
Total	$ 37,244,854	$ 38,073,586	$ 165,583	$ 174,611	$ 37,410,437	$ 38,248,197

Debt Outstanding

During the year, the Board's long-term debt increased to $312,000 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. The County holds virtually all debt issued for school capital construction. More detailed information about the Board's outstanding debt is contained in Note 2.B.6 to the financial statements.

Economic Factors

County funding is a major source of income for the Board; therefore the County's economic outlook directly affects the school district. The following factors have affected the economic outlook of Montgomery County:

- As of June 30, 2016, Montgomery County experienced an unemployment rate of approximately 5.2% as compared to an unemployment rate of approximately 6.2% at June 30, 2015. Montgomery County's unemployment rate is slightly above the June 30, 2016 State of N.C. and national unemployment rates which were both 5.1%.

- Due to limited regional growth, the Board expects enrollment to remain consistent for the next year.

Requests for Information

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

Mitch Taylor, Chief Financial Officer
Montgomery County Board of Education
Post Office Box 427
Troy, NC 27371-0427

MONTGOMERY COUNTY BOARD OF EDUCATION **Exhibit 1**
STATEMENT OF NET POSITION
June 30, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	$ 5,976,644	$ 814,504	$ 6,791,148
Due from other governments	234,533	100,530	335,063
Receivables	31,066	617	31,683
Inventories	102,863	64,881	167,744
Capital assets:			
Land	568,931	-	568,931
Other capital assets, net of depreciation	36,675,923	165,583	36,841,506
Total capital assets	37,244,854	165,583	37,410,437
Total assets	43,589,960	1,146,115	44,736,075
Deferred Outflows of Resources	2,047,165	77,266	2,124,431
Liabilities			
Accounts payable and accrued expenses	396,479	-	396,479
Accrued salaries and wages payable	212,650	-	212,650
Unearned revenue	-	7,932	7,932
Long-term liabilities:			
Net pension liability	5,635,348	212,693	5,848,041
Due within one year	1,120,372	37,052	1,157,424
Due in more than one year	1,666,240	31,201	1,697,441
Total liabilities	9,031,089	288,878	9,319,967
Deferred Inflows of Resources	1,298,702	49,016	1,347,718
Net position			
Net investment in capital assets	36,932,521	165,583	37,098,104
Restricted for:			
Stabilization by State statute	59,913	-	59,913
School capital outlay	560,812	-	560,812
Individual schools activities	475,155	-	475,155
Unrestricted (deficit)	(2,721,067)	719,904	(2,001,163)
Total net position	$ 35,307,334	$ 885,487	$ 36,192,821

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

MONTGOMERY COUNTY BOARD OF EDUCATION
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2016

Exhibit 2

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Primary Government: Business-type Activities	Net (Expense) Revenue and Changes in Net Position: Primary Government: Total
Primary government:							
Governmental activities:							
Instructional services:							
Regular instructional	$ 15,914,346	$ -	$ 16,197,321	$ -	$ 282,975	$ -	$ 282,975
Special populations	4,029,190	-	4,272,831	-	243,641	-	243,641
Alternative programs	3,540,818	-	3,406,494	-	(134,324)	-	(134,324)
School leadership	2,397,957	-	1,602,874	-	(795,083)	-	(795,083)
Co-curricular	1,263,916	1,086,741	-	-	(177,175)	-	(177,175)
School-based support	1,639,423	-	1,467,234	-	(172,189)	-	(172,189)
System-wide support services:							
Support and development	297,727	-	267,545	-	(30,182)	-	(30,182)
Special population support and development	125,476	-	29,643	-	(95,833)	-	(95,833)
Alternative programs and services support and development	1,122,035	-	254,668	-	(867,367)	-	(867,367)
Technology support	479,561	-	226,164	-	(253,397)	-	(253,397)
Operational support	4,778,953	-	2,506,261	186,183	(2,086,509)	-	(2,086,509)
Financial and human resource services	810,376	7,500	152,641	-	(650,235)	-	(650,235)
Accountability	100,079	-	103,864	-	3,785	-	3,785
System-wide pupil support	149,536	-	35,405	-	(114,131)	-	(114,131)
Policy, leadership and public relations	555,637	-	147,373	-	(408,264)	-	(408,264)
Ancillary services	4,445	-	4,445	-	-	-	-
Payments to other governments	-	-	119,808	-	119,808	-	119,808
Unallocated depreciation expense**	1,225,975	-	-	-	(1,225,975)	-	(1,225,975)
Total governmental activities	38,435,450	1,094,241	30,794,571	186,183	(6,360,455)	-	(6,360,455)
Business-type activities:							
School food service	2,943,595	498,798	2,384,496	-	-	(60,301)	(60,301)
Total primary government	$ 41,379,045	$ 1,593,039	$ 33,179,067	$ 186,183	(6,360,455)	(60,301)	(6,420,756)
		General revenues:					
		Unrestricted county appropriations - operating			5,145,804	-	5,145,804
		Unrestricted State appropriations - operating			1,267,043	-	1,267,043
		Investment earnings, unrestricted			28,330	97	28,427
		Miscellaneous, unrestricted			531,705	-	531,705
		Transfers			(86,184)	86,184	-
		Total general revenues and transfers			6,886,698	86,281	6,972,979
		Change in net position			526,243	25,980	552,223
		Net position - beginning			34,781,091	859,507	35,640,598
		Net position - ending			$ 35,307,334	$ 885,487	$ 36,192,821

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

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

MONTGOMERY COUNTY BOARD OF EDUCATION **Exhibit 3**
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016

	Major Funds					Non-major Fund	
	General	State Public School	Federal Grants	Other Special Revenue	Capital Outlay	Individual Schools	Total Governmental Funds
Assets							
Cash and cash equivalents	$ 3,889,171	$ -	$ -	$ 1,051,506	$ 560,812	$ 475,155	$ 5,976,644
Due from other governments	-	199,788	5,898	28,847	-	-	234,533
Accounts receivable	29,535	-	-	1,531	-	-	31,066
Inventories	102,863	-	-	-	-	-	102,863
Total assets	$ 4,021,569	$ 199,788	$ 5,898	$ 1,081,884	$ 560,812	$ 475,155	$ 6,345,106
Liabilities and Fund balances							
Liabilities:							
Accounts payable and accrued liabilities	$ 396,479	$ -	$ -	$ -	$ -	$ -	$ 396,479
Accrued salaries and wages payable	-	199,788	5,898	6,964	-	-	212,650
Total liabilities	396,479	199,788	5,898	6,964	-	-	609,129
Fund balances:							
Nonspendable:							
Inventories	102,863	-	-	-	-	-	102,863
Restricted:							
Stabilization by State statute	29,535	-	-	30,378	-	-	59,913
School capital outlay	-	-	-	-	560,812	-	560,812
Individual schools	-	-	-	-	-	475,155	475,155
Assigned:							
Subsequent year's expenditures	879,878	-	-	-	-	-	879,878
Special revenues	-	-	-	1,044,542	-	-	1,044,542
Unassigned	2,612,814	-	-	-	-	-	2,612,814
Total fund balances	3,625,090	-	-	1,074,920	560,812	475,155	5,735,977
Total liabilities and fund balances	$ 4,021,569	$ 199,788	$ 5,898	$ 1,081,884	$ 560,812	$ 475,155	

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.	37,244,854
Deferred outflows of resources related to pensions	2,047,165
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.	(2,786,612)
Net pension liability	(5,635,348)
Deferred inflows of resources related to pensions	(1,298,702)
Net position of governmental activities	$ 35,307,334

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

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

Exhibit 4

	Major Funds					Non-major Fund	
	General	State Public School	Federal Grants	Other Special Revenue	Capital Outlay	Individual Schools	Total Governmental Funds
Revenues:							
State of North Carolina	$ -	$ 26,389,394	$ -	$ 1,041,778	$ 186,183	$ -	$ 27,617,355
Montgomery County:							
Local current expense	5,145,804	-	-	-	-	-	5,145,804
U.S. Government	-	-	3,299,803	782,625	-	-	4,082,428
Other	391,657	-	-	876,302	17,599	1,086,741	2,372,299
Total revenues	5,537,461	26,389,394	3,299,803	2,700,705	203,782	1,086,741	39,217,886
Expenditures:							
Current:							
Instructional services:							
Regular instructional	1,340,846	15,090,750	184,166	87,243	-	-	16,703,005
Special populations	32,549	3,051,884	1,006,936	115,336	-	-	4,206,705
Alternative programs	4,082	1,232,528	1,473,060	972,265	-	-	3,681,935
School leadership	467,601	2,045,955	2,258	-	-	-	2,515,814
Co-curricular	223,295	-	-	-	-	1,052,210	1,275,505
School-based support	225,766	1,115,766	253,924	119,261	-	-	1,714,717
System-wide support services:							
Support and development	37,394	282,513	-	-	-	-	319,907
Special population support and development	-	29,643	-	96,110	-	-	125,753
Alternative programs and services support and development	71,041	110,025	144,643	813,187	-	-	1,138,896
Technology support	29,037	342,353	57,311	67,207	-	-	495,908
Operational support	2,048,202	2,397,383	22,694	305,343	502,016	-	5,275,638
Financial and human resource services	547,634	309,160	35,003	-	-	-	891,797
Accountability	1,511	103,864	-	-	-	-	105,375
System-wide pupil support	114,461	35,405	-	-	-	-	149,866
Policy, leadership and public relations	428,401	151,536	-	-	-	-	579,937
Ancillary services	-	4,445	-	-	-	-	4,445
Non-programmed charges	-	-	119,808	-	-	-	119,808
Debt service:							
Principal retirement	-	-	-	-	186,183	-	186,183
Capital outlay	-	-	-	-	18,409	-	18,409
Total expenditures	5,571,820	26,303,210	3,299,803	2,575,952	706,608	1,052,210	39,509,603
Revenues over (under) expenditures	(34,359)	86,184	-	124,753	(502,826)	34,531	(291,717)
Other financing sources (uses):							
Transfers to other funds	-	(86,184)	-	-	-	-	(86,184)
Installment purchase obligations issued	-	-	-	-	498,516	-	498,516
Total other financing sources (uses)	-	(86,184)	-	-	498,516	-	412,332
Net change in fund balance	(34,359)	-	-	124,753	(4,310)	34,531	120,615
Fund balances:							
Beginning of year	3,659,187	-	-	950,167	565,122	440,624	5,615,100
Change in reserve for inventories	262	-	-	-	-	-	262
End of year	$ 3,625,090	$ -	$ -	$ 1,074,920	$ 560,812	$ 475,155	$ 5,735,977

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

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

Net changes in fund balances - total governmental funds	$ 120,615
Change in fund balance due to change in reserve for inventory	262
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.	(828,732)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	2,004,034
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(312,333)
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	(543,983)
Compensated absences	86,380
Total changes in net position of governmental activities	$ 526,243

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

MONTGOMERY COUNTY BOARD OF EDUCATION ***Exhibit 6***
GENERAL FUND AND ANNUALLY BUDGETED MAJOR SPECIAL REVENUE FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2016

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
State of North Carolina	$ -	$ -	$ -	$ -
Montgomery County	5,083,604	5,083,604	5,145,804	62,200
U.S. Government	-	-	-	-
Other	470,000	295,000	391,657	96,657
Total revenues	5,553,604	5,378,604	5,537,461	158,857
Expenditures:				
Current:				
Instructional services	2,798,544	2,573,944	2,294,139	279,805
System-wide support services	3,642,315	3,341,915	3,277,681	64,234
Ancillary services	-	-	-	-
Non-programmed charges	-	-	-	-
Total expenditures	6,440,859	5,915,859	5,571,820	344,039
Revenues over (under) expenditures	(887,255)	(537,255)	(34,359)	502,896
Other financing uses:				
Transfers to other funds	-	-	-	-
Fund balance appropriated	887,255	537,255	-	(537,255)
Net change in fund balance	$ -	$ -	(34,359)	$ (34,359)
Fund balances:				
Beginning of year			3,659,187	
Change in reserve for inventories			262	
End of year			$ 3,625,090	

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

MONTGOMERY COUNTY BOARD OF EDUCATION ***Exhibit 6 (continued)***
GENERAL FUND AND ANNUALLY BUDGETED MAJOR SPECIAL REVENUE FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2016

	State Public School Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
State of North Carolina	$ 26,027,041	$ 27,188,702	$ 26,389,394	$ (799,308)
Montgomery County	-	-	-	-
U.S. Government	-	-	-	-
Other	-	-	-	-
Total revenues	26,027,041	27,188,702	26,389,394	(799,308)
Expenditures:				
Current:				
Instructional services	22,574,852	23,352,715	22,536,883	815,832
System-wide support services	3,365,876	3,741,367	3,761,882	(20,515)
Ancillary services	86,313	8,436	4,445	3,991
Non-programmed charges	-	-	-	-
Total expenditures	26,027,041	27,102,518	26,303,210	799,308
Revenues over (under) expenditures	-	86,184	86,184	-
Other financing uses:				
Transfers to other funds	-	(86,184)	(86,184)	-
Fund balance appropriated	-	-	-	-
Net change in fund balance	$ -	$ -	-	$ -
Fund balances:				
Beginning of year			-	
Change in reserve for inventories			-	
End of year			$ -	

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

MONTGOMERY COUNTY BOARD OF EDUCATION ***Exhibit 6 (continued)***
GENERAL FUND AND ANNUALLY BUDGETED MAJOR SPECIAL REVENUE FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2016

	Federal Grants Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
State of North Carolina	$ -	$ -	$ -	$ -
Montgomery County	-	-	-	-
U.S. Government	3,538,489	4,072,210	3,299,803	(772,407)
Other	-	-	-	-
Total revenues	3,538,489	4,072,210	3,299,803	(772,407)
Expenditures:				
Current:				
Instructional services	3,137,496	3,607,791	2,920,344	687,447
System-wide support services	254,434	309,010	259,651	49,359
Ancillary services	3,500	3,500	-	3,500
Non-programmed charges	143,059	151,909	119,808	32,101
Total expenditures	3,538,489	4,072,210	3,299,803	772,407
Revenues over (under) expenditures	-	-	-	-
Other financing uses:				
Transfers to other funds	-	-	-	-
Fund balance appropriated	-	-	-	-
Net change in fund balance	$ -	$ -	-	$ -
Fund balances:				
Beginning of year			-	
Change in reserve for inventories			-	
End of year			$ -	

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

MONTGOMERY COUNTY BOARD OF EDUCATION ***Exhibit 6 (continued)***
GENERAL FUND AND ANNUALLY BUDGETED MAJOR SPECIAL REVENUE FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2016

	Other Special Revenue Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
State of North Carolina	$ 952,550	$ 1,041,692	$ 1,041,778	$ 86
Montgomery County	-	-	-	-
U.S. Government	412,468	792,169	782,625	(9,544)
Other	569,356	836,498	876,302	39,804
Total revenues	1,934,374	2,670,359	2,700,705	30,346
Expenditures:				
Current:				
Instructional services	1,353,789	1,401,906	1,294,105	107,801
System-wide support services	580,585	1,618,453	1,281,847	336,606
Ancillary services	-	-	-	-
Non-programmed charges	-	-	-	-
Total expenditures	1,934,374	3,020,359	2,575,952	444,407
Revenues over (under) expenditures	-	(350,000)	124,753	474,753
Other financing uses:				
Transfers to other funds	-	-	-	-
Fund balance appropriated	-	350,000	-	(350,000)
Net change in fund balance	$ -	$ -	124,753	$ 124,753
Fund balances:				
Beginning of year			950,167	
Change in reserve for inventories			-	
End of year			$ 1,074,920	

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

MONTGOMERY COUNTY BOARD OF EDUCATION **Exhibit 7**
STATEMENT OF NET POSITION
PROPRIETARY FUND TYPE
June 30, 2016

	Enterprise Fund Major Fund School Food Service
Assets	
Current assets:	
Cash and cash equivalents	$ 814,504
Due from other governments	100,530
Receivables	617
Inventories	64,881
Total current assets	980,532
Noncurrent assets:	
Capital assets:	
Furniture and office equipment, net	165,583
Total assets	1,146,115
Deferred Outflows of Resources	77,266
Liabilities	
Current liabilities:	
Compensated absences	37,052
Unearned revenue	7,932
Total current liabilities	44,984
Noncurrent liabilities:	
Net pension liability	212,693
Compensated absences	31,201
Total noncurrent liabilities	243,894
Total liabilities	288,878
Deferred Inflows of Resources	49,016
Net position	
Net investment in capital assets	165,583
Unrestricted	719,904
Total net position	$ 885,487

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

MONTGOMERY COUNTY BOARD OF EDUCATION **Exhibit 8**
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND TYPE
For the Fiscal Year Ended June 30, 2016

	Enterprise Fund Major Fund School Food Service
Operating revenues:	
Food sales	$ 494,412
Other	4,386
Total operating revenues	498,798
Operating expenses:	
Food cost:	
Purchase of food	1,090,008
Donated commodities	180,183
Salaries and benefits	1,383,172
Indirect costs	234,092
Materials and supplies	95,245
Repairs and maintenance	23,825
Depreciation	40,624
Non-capitalized equipment	39,703
Contracted services	24,322
Other	16,312
Total operating expenses	3,127,486
Operating loss	(2,628,688)
Nonoperating revenues:	
Federal reimbursements	2,195,007
Federal commodities	180,183
State reimbursements	9,306
Indirect costs not paid	183,891
Interest earned	97
Total nonoperating revenues	2,568,484
Loss before transfers	(60,204)
Transfers from other funds	86,184
Change in net position	25,980
Net position, beginning of year	859,507
Net position, end of year	$ 885,487

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

MONTGOMERY COUNTY BOARD OF EDUCATION **Exhibit 9**
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
For the Fiscal Year Ended June 30, 2016

	Enterprise Fund Major Fund School Food Service
Cash flows from operating activities:	
Cash received from customers	$ 495,790
Cash paid for goods and services	(1,346,449)
Cash paid to employees for services	(1,354,733)
Other operating revenue	4,386
Net cash used by operating activities	(2,201,006)
Cash flows from noncapital financing activities:	
Federal and State reimbursements	2,205,951
Cash flows from capital and related financing activities:	
Purchase of capital assets	(31,596)
Cash flows from investing activities:	
Interest earned on investments	97
Net decrease in cash and cash equivalents	(26,554)
Cash and cash equivalents, beginning of year	841,058
Cash and cash equivalents, end of year	$ 814,504
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	$ (2,628,688)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	40,624
Donated commodities	180,183
Salaries paid by special revenue fund	86,184
Indirect costs not paid	183,891
Changes in assets and liabilities:	
Increase in accounts receivable	(298)
Increase in inventories	(6,833)
Increase in unearned revenue	1,676
Increase in net pension liability	145,367
Increase in deferred outflows	(743)
Decrease in deferred inflows	(196,547)
Decrease in compensated absences payable	(5,822)
Total adjustments	427,682
Net cash used by operating activities	$ (2,201,006)

NONCASH OPERATING AND NONCAPITAL FINANCING ACTIVITIES:

The School Food Service Fund received donated commodities with a value of $180,183 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.

Indirect costs of $183,891 that would be due to the Other Special Revenue Fund were not paid. These unpaid costs are reflected as a nonoperating revenue and an operating expense on Exhibit 8.

The State Public School Fund paid salaries and benefits of $86,184 to administrative personnel of the School Food Service Fund during the fiscal year. The payment is reflected as an operating transfer in and an operating expense on Exhibit 8.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Montgomery County Board of Education (Board) is a Local Education Agency empowered by State law [Chapter 115C of the North Carolina General Statutes] with the responsibility to oversee and control all activities related to public school education in Montgomery County, 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. 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. Separate statements for each fund category – *governmental and proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Interfund services provided and used are not eliminated in the process of consolidation.

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

The Board reports the following major governmental funds:

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

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

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

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

Capital Outlay Fund. The Capital Outlay Fund accounts for financial resources to be used for the acquisition and construction of major capital facilities (other than those financed by proprietary funds and trust funds). It is mandated by State law [G.S.115C-426]. Capital projects are funded by Montgomery 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:

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

The Board reports the following major enterprise fund:

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

C. Measurement Focus and Basis of Accounting

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

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

Under the terms of grant agreements, the Board funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there 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 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 purpose level for all annually budgeted funds. Any revisions that alter the total expenditures of any fund or require a transfer between purpose codes within a fund must be approved by the Board of Education prior to any expenditures being made. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

1. Deposits and Investments

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

State law [G.S. 115C-443] authorizes the Board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; the North Carolina Capital Management Trust (NCCMT), an SEC-registered (2a-7) money market mutual fund; and the North Carolina State Treasurer's Short Term Investment Fund (STIF). The STIF is managed by the staff of the Department of State Treasurer and operated in accordance with State laws and regulations. It is not registered with the SEC. It consists of an internal portion and an external portion in which the Board participates. Investments are restricted to those enumerated in G.S. 147-69.1.

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

2. Cash and Cash Equivalents

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

3. Inventories

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

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

4. Capital Assets

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

For capital assets utilized in governmental 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, while for capital assets utilized in business-type activities, it is the policy of the Board to capitalize those assets costing more than $500 with an estimated useful life of two or more years. The cost of normal repairs and maintenance 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:

	Years
Buildings and improvements	20 - 50
Equipment and furniture	3 - 10
Vehicles	6 - 15

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

5. Deferred outflows and inflows of resources

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

6. Long-term Obligations

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

7. Compensated Absences

The Board follows the State's policy for vacation and sick leave. Employees may accumulate up to thirty (30) days earned vacation leave with such leave being fully vested when earned. For the Board, the current portion of the accumulated vacation pay is not considered to be material. The Board's liability for accumulated earned vacation and the salary-related payments as of June 30, 2016 is recorded in the

government-wide and proprietary fund financial statements on a FIFO basis. An estimate has been made based on prior years' records of the current portion of compensated absences.

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

8. Net Position/Fund Balances

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

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

The governmental fund types classify fund balances as follows:

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

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

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

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

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

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

Assigned fund balance – portion of fund balance that the Board of Education intends to use for specific purposes. The assignment of fund balance is governed by NC General Statutes. The Board of Education is authorized to approve appropriations of fund balance in accordance with restrictions established by NC General Statutes.

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.

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

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

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

9. Reconciliation of Government-wide and Fund Financial Statements

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

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. The net adjustment of $29,571,357 consists of several elements as follows:

Description	Amount
Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column)	$ 72,111,561
Less accumulated depreciation	(34,866,707)
Net capital assets	37,244,854
Pension related deferred outflows of resources:	
Contributions made to the pension plan in the current fiscal year	2,004,034
Changes in proportion and differences between Board contributions and proportionate share of contributions	43,131
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 purchase	(312,333)
Compensated absences	(2,474,279)
Net pension liability	(5,635,348)
Deferred inflows of resources related to pensions:	
Differences between contributions and proportional share of contributions and changes in proportion	(47,420)
Differences between expected and actual experience	(640,739)
Difference between projected and actual earnings on plan investments	(610,543)
Total adjustment	$ 29,571,357

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 $405,628 as follows:

Description	Amount
Change in fund balance due to change in reserve for inventory	$ 262
Capital outlay expenditures recorded in the fund statements but capitalized as assets in the statement of activities	498,516
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	(1,327,248)
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	(498,516)
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	186,183
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	2,004,034
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	(543,983)
Compensated absences are accrued in the government-wide statements but not in the fund statements because they do not use current resources	86,380
Total adjustment	$ 405,628

10. Defined Benefit Pension Plans

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

NOTE 2 - 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 State Public School Fund by $20,515 for system-wide 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 $2,803,205 and with the State Treasurer of $0. The bank balances with the financial institutions and the State Treasurer were $2,963,912 and $357,480, respectively. Of these balances, $994,940 was covered by federal depository insurance and $2,326,452 was covered by collateral held by authorized escrow agents in the name of the State Treasurer. The Board also had petty cash on hand at year end totaling $100.

2. Investments

At June 30 2016, the Board had $3,987,843 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 policy for managing interest rate risk or credit risk.

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	$ -	$ 29,535	$ 29,535
Other governmental activities	234,533	1,531	236,064
Total governmental activities	$ 234,533	$ 31,066	$ 265,599
Business-type activities:			
School Food Service Fund	$ 100,530	$ 617	$ 101,147

Due from other governments consists of the following:

Governmental activities:		
State Public School Fund	$ 199,788	Operating funds from DPI
Federal Grants Fund	5,898	Federal grant funds
Other Special Revenue Fund	28,847	Federal grant funds
Total	$ 234,533	
Business-type activities:		
School Food Service Fund	$ 100,530	Federal grant funds

4. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 568,931	$ -	$ -	$ 568,931
Capital assets being depreciated:				
Buildings and improvements	65,153,305	-	-	65,153,305
Equipment and furniture	1,088,431	-	-	1,088,431
Vehicles	4,802,378	498,516	-	5,300,894
Total capital assets being depreciated	71,044,114	498,516	-	71,542,630
Less accumulated depreciation for:				
Buildings and improvements	28,210,996	1,176,339	-	29,387,335
Equipment and furniture	854,450	49,636	-	904,086
Vehicles	4,474,013	101,273	-	4,575,286
Total accumulated depreciation	33,539,459	1,327,248	-	34,866,707
Total capital assets being depreciated, net	37,504,655			36,675,923
Governmental activity capital assets, net	$ 38,073,586			$ 37,244,854
Business-type activities:				
School Food Service Fund:				
Capital assets being depreciated:				
Equipment and furniture	$ 1,295,247	$ 31,596	$ 13,932	$ 1,312,911
Vehicles	23,986	-	-	23,986
Total capital assets being depreciated	1,319,233	31,596	13,932	1,336,897
Less accumulated depreciation for:				
Equipment and furniture	1,120,636	40,624	13,932	1,147,328
Vehicles	23,986	-	-	23,986
Total accumulated depreciation	1,144,622	40,624	13,932	1,171,314
School Food Service capital assets, net	$ 174,611			$ 165,583

Depreciation was charged to governmental functions as follows:

System-wide support services	$ 101,273
Unallocated depreciation	1,225,975
Total	$ 1,327,248

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.

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 $2,079,672 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 $5,848,041 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The Board's proportion of the net pension liability was based on a projection of the Board's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating TSERS employers, actuarially determined. At both June 30, 2015 and at June 30, 2014, the Board's proportion was .16%.

For the year ended June 30, 2016, the Board recognized pension expense of $567,698. At June 30, 2016, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 664,923
Net difference between projected and actual earnings on pension plan investments	-	633,585
Changes in proportion and differences between Board contributions and proportionate share of contributions	44,759	49,210
Board contributions subsequent to the measurement date	2,079,672	-
Total	$ 2,124,431	$ 1,347,718

$2,079,672 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	$ (766,692)
2018	(766,692)
2019	(738,958)
2020	969,383
2021	-
Thereafter	-
Total	$ (1,302,959)

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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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	100%	

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:

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Board's proportionate share of the net pension liability (asset)	$ 17,600,989	$ 5,848,041	$ (4,125,691)

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 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 $1,278,416, $1,277,373 and $1,194,447, 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 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 $93,598, $95,396 and $97,325, respectively. These contributions represented 0.41%, 0.41% and 0.44% of covered payroll, respectively.

2. Accounts Payable

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

	Vendors and Other	Salaries and Benefits	Total
Governmental activities:			
General Fund	$ 396,479	$ -	$ 396,479
Other governmental activities	-	212,650	212,650
Total governmental activities	$ 396,479	$ 212,650	$ 609,129

3. Unearned Revenues

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

Business-type activities:	
Prepayments of meals (School Food Service Fund)	$ 7,932

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	$ -	$ 664,923
Net difference between projected and actual earnings on pension plan investments	-	633,585
Changes in proportion and differences between Board contributions and proportionate share of contributions	44,759	49,210
Board contributions subsequent to the measurement date	2,079,672	-
Total	$ 2,124,431	$ 1,347,718

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. Business property insurance is purchased through a private insurer. The policy coverage insures the tangible property assets of the Board. Buildings and contents are insured on an agreed value basis. A limit of $5 million per occurrence is provided on flood and earthquake expense and a limit of $1 million per occurrence is provided on business interruption and extra expense.

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 $175,000.

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

6. Long-Term Obligations

a. Installment Purchases

The Board is authorized to finance the purchase of school buses under G.S. 115C-528(a). Session law 2003-284, section 7.25 authorized the State Board of Education to allot monies 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 2015-2016 fiscal year, the Board entered into two such financing contracts for the purchase of school buses. The financing contracts each require four equal principal-only payments with the first payment due within 10 days of receipt of the bus and the following 3 payments due on the next 3 immediately following November 15th dates. The future minimum payments of the installment purchases as of June 30, 2016 are as follows:

Year Ending June 30,	Governmental Activities Principal
2017	$ 124,628
2018	124,630
2019	63,075
Total	$ 312,333

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:

	July 1, 2015	Increases	Decreases	June 30, 2016	Current Portion
Governmental activities:					
Installment purchases	$ -	$ 498,516	$ 186,183	$ 312,333	$ 124,628
Net pension liability	1,807,844	3,827,504	-	5,635,348	-
Compensated absences	2,560,659	1,579,963	1,666,343	2,474,279	995,744
Total	$ 4,368,503	$ 5,905,983	$ 1,852,526	$ 8,421,960	$ 1,120,372
Business-type activities:					
Net pension liability	$ 67,326	$ 145,367	$ -	$ 212,693	$ -
Compensated absences	74,075	75,229	81,051	68,253	37,052
Total	$ 141,401	$ 220,596	$ 81,051	$ 280,946	$ 37,052

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

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 State Public School Fund to the School Food Service Fund for administrative costs	$ 86,184

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	$ 3,625,090
Less:	
Inventories	(102,863)
Stabilization by State statute	(29,535)
Appropriated Fund Balance in 2016-2017 budget	(879,878)
Remaining fund balance	$ 2,612,814

NOTE 4 – OTHER SPECIAL REVENUE FUND – OTHER REVENUES

Other revenues for the fiscal year ended June 30, 2016 in the Other Special Revenue Fund consists of the following:

Medicaid reimbursement program	$ 274,181
Indirect costs allocated	169,784
Private grants and programs	238,938
Other	193,399
Total other revenues	$ 876,302

NOTE 5 - 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.

MONTGOMERY COUNTY BOARD OF EDUCATION
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE BOARD'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM
LAST THREE FISCAL YEARS*

	2016	2015	2014
Board's proportion of the net pension liability (asset)	0.159%	0.160%	0.162%
Board's proportionate share of the net pension liability (asset)	$ 5,848,041	$ 1,875,170	$ 9,853,264
Board's covered-employee payroll	$ 23,293,136	$ 22,136,594	$ 22,658,461
Board's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	25.11%	8.47%	43.49%
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.

MONTGOMERY COUNTY BOARD OF EDUCATION
SCHEDULE OF BOARD CONTRIBUTIONS
TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM
LAST THREE FISCAL YEARS

	2016	2015	2014
Contractually required contribution	$ 2,079,672	$ 2,131,322	$ 1,923,670
Contributions in relation to the contractually required contribution	2,079,672	2,131,322	1,923,670
Contribution deficiency (excess)	$ -	$ -	$ -
Board's covered-employee payroll	$ 22,728,656	$ 23,293,136	$ 22,136,594
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.

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

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Montgomery County:			
County appropriation	$ 5,048,604	$ 5,048,602	$ (2)
Timber receipts	35,000	97,202	62,202
Total Montgomery County	5,083,604	5,145,804	62,200
Other:			
Fines and forfeitures	230,000	312,795	82,795
Interest earned on investment	10,000	23,680	13,680
Refunds and reimbursements	25,000	25,182	182
Miscellaneous	30,000	30,000	-
Total other	295,000	391,657	96,657
Total revenues	5,378,604	5,537,461	158,857
Expenditures:			
Current:			
Instructional services:			
Regular instructional	-	1,340,846	-
Special populations	-	32,549	-
Alternative programs	-	4,082	-
School leadership	-	467,601	-
Co-curricular	-	223,295	-
School-based support	-	225,766	-
Total instructional services	2,573,944	2,294,139	279,805
System-wide support services:			
Support and development	-	37,394	-
Alternative programs and services support and development	-	71,041	-
Technology support	-	29,037	-
Operational support	-	2,048,202	-
Financial and human resource services	-	547,634	-
Accountability	-	1,511	-
System-wide pupil support	-	114,461	-
Policy, leadership and public relations	-	428,401	-
Total system-wide support services	3,341,915	3,277,681	64,234
Total expenditures	5,915,859	5,571,820	344,039
Revenues over (under) expenditures	(537,255)	(34,359)	502,896
Fund balance appropriated	537,255	-	(537,255)
Net change in fund balance	$ -	(34,359)	$ (34,359)
Fund balance:			
Beginning of year		3,659,187	
Change in reserve for inventories		262	
End of year		$ 3,625,090	

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

	Revenues	Expenditures	Net change in fund balance	Fund balances June 30, 2015	Fund balances June 30, 2016
West Montgomery High	$ 327,757	$ 320,817	$ 6,940	$ 82,621	$ 89,561
East Montgomery High	342,442	327,735	14,707	137,143	151,850
West Middle	87,048	91,463	(4,415)	25,859	21,444
East Middle	83,506	72,556	10,950	58,528	69,478
Candor Elementary	18,621	22,070	(3,449)	22,841	19,392
Green Ridge Elementary	34,468	39,468	(5,000)	31,132	26,132
Mt. Gilead Elementary	42,393	47,479	(5,086)	15,167	10,081
Page Street Elementary	33,067	33,125	(58)	10,789	10,731
Star-Biscoe Elementary	65,153	63,296	1,857	30,510	32,367
Troy Elementary	52,286	34,201	18,085	26,034	44,119
Totals	$ 1,086,741	$ 1,052,210	$ 34,531	$ 440,624	$ 475,155

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

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
State of North Carolina:			
State appropriations - buses	$ 186,183	$ 186,183	$ -
Other:			
Interest earned on investments	-	2,485	2,485
Miscellaneous	6,253	15,114	8,861
Total other	6,253	17,599	11,346
Total revenues	192,436	203,782	11,346
Expenditures:			
Current:			
System-wide support services:			
Operational support	504,769	502,016	2,753
Debt service:			
Principal retirement	186,183	186,183	-
Capital outlay	18,880	18,409	471
Total expenditures	709,832	706,608	3,224
Revenues over (under) expenditures	(517,396)	(502,826)	14,570
Other financing sources:			
Installment purchase obligations issued	498,516	498,516	-
Fund balance appropriated	18,880	-	(18,880)
Net change in fund balance	$ -	(4,310)	$ (4,310)
Fund balance:			
Beginning of year		565,122	
End of year		$ 560,812	

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

	Final Budget	Actual	Variance Positive (Negative)
Operating revenues:			
Food sales	$ 590,000	$ 494,412	$ (95,588)
Other	4,000	4,386	386
Total operating revenues	594,000	498,798	(95,202)
Operating expenditures:			
Business support services:			
Purchase of food	-	1,096,841	-
Donated commodities	-	180,183	-
Salaries and benefits	-	1,440,917	-
Indirect costs	-	234,092	-
Materials and supplies	-	95,245	-
Repairs and maintenance	-	23,825	-
Non-capitalized equipment	-	39,703	-
Contracted services	-	24,322	-
Other	-	16,312	-
Capital outlay	-	31,596	-
Total operating expenditures	3,391,679	3,183,036	208,643
Operating loss	(2,797,679)	(2,684,238)	113,441
Nonoperating revenues:			
Federal reimbursements and grants	2,136,500	2,195,007	58,507
Federal commodities	167,000	180,183	13,183
State reimbursements	10,000	9,306	(694)
Indirect costs not paid	195,000	183,891	(11,109)
Interest earned	100	97	(3)
Total nonoperating revenues	2,508,600	2,568,484	59,884
Excess (deficiency) of revenues over expenditures before other financing sources and fund balance appropriated	(289,079)	(115,754)	173,325
Other financing sources:			
Transfers from other funds	87,000	86,184	(816)
Fund balance appropriated	202,079	-	(202,079)
Net change in fund balance	$ -	(29,570)	$ (29,570)
Reconciliation of modified accrual to full accrual basis:			
Reconciling items:			
Depreciation		(40,624)	
Net pension liability		(145,367)	
Deferred outflows - pension		743	
Deferred inflows - pension		196,547	
Equipment purchases		31,596	
Decrease in compensated absences payable		5,822	
Increase in inventories		6,833	
Change in net position (full accrual)		$ 25,980	

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 Montgomery County Board of Education
Troy, 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 Montgomery County Board of Education, North Carolina, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprises the Montgomery County Board of Education, North Carolina's basic financial statements and have issued our report thereon dated September 14, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Anderson Smith & Wike PLLC

September 14, 2016
Rockingham, North Carolina

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 Montgomery County Board of Education
Troy, North Carolina

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

Anderson Smith & Wike PLLC

September 14, 2016
Rockingham, North Carolina

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 Montgomery County Board of Education
Troy, North Carolina

Report on Compliance for Each Major State Program

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

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major State Program

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

Report on Internal Control Over Compliance

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

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

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

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

Anderson Smith & Wike PLLC

September 14, 2016
Rockingham, North Carolina

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

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance to GAAP:	*Unmodified*
Internal control over financial reporting:	
• Material weakness(es) identified?	*No*
• Significant deficiency(ies) identified?	*None Identified for Reporting*
Noncompliance material to financial statements noted?	*No*

Federal Awards

Internal control over major federal programs:	
• Material weakness(es) identified?	*No*
• Significant deficiency(ies) identified?	*None Identified for Reporting*
Type of auditors' report issued on compliance for major federal programs:	*Unmodified*
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	*No*

Identification of major federal programs:

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

Dollar threshold used to distinguish between Type A and Type B Programs	*$ 750,000*
Auditee qualified as low-risk auditee?	*Yes*

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

Section I - Summary of Auditors' Results (Continued)

State Awards

Internal control over major State programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act? *No*

Identification of major State programs:

Program Name
State Public School Fund

Section II - Financial Statement Findings

None reported.

Section III - Federal Award Findings and Questioned Costs

None reported.

Section IV - State Award Findings and Questioned Costs

None reported.

No findings were reported in the prior year.

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Expenditures
Federal Grants:			
U.S. Department of Agriculture			
Passed-through the N.C. Department of Public Instruction:			
Child Nutrition Cluster:			
Noncash Assistance (Commodities):			
National School Lunch Program	10.555		$ 180,183
Cash Assistance:			
School Breakfast Program	10.553		642,690
National School Lunch Program	10.555		1,418,391
Seamless Summer Program	10.555		46,025
Cash Assistance Subtotal			2,107,106
Total Child Nutrition Cluster			2,287,289
Fresh Fruit and Vegetable Grant	10.582		87,901
Total School Nutrition Program (Note 3)			2,375,190
Total U.S. Department of Agriculture			2,375,190
U.S. Department of Education			
Direct Programs:			
Investing in Innovation (i3) Fund - ARRA	84.411		700,906
Passed-through the N.C. Department of Public Instruction:			
Title I, Grants to Local Educational Agencies	84.010	PRC 050	1,452,409
Twenty-first Century Community Learning Centers	84.287	PRC 110	339,583
Improving Teacher Quality	84.367	PRC 103	175,680
Language Acquisition Grant	84.365	PRC 104, 111	102,330
Rural and Low Income Schools	84.358	PRC 109	81,741
Race to the Top - ARRA	84.395	PRC 160	37,299
Special Education Cluster:			
Grants to States - IDEA, Part B (611)	84.027	PRC 060	934,849
Special Needs Targeted Assistance	84.027	PRC 118	11,877
Special Education - Risk Pool	84.027	PRC 114	62,292
Preschool Grants - IDEA, Part B (619)	84.173	PRC 049	26,917
Preschool Targeted Assistance	84.173	PRC 119	1,855
Total Special Education Cluster			1,037,790
Title VI-B, Education of the Handicapped	84.323	PRC 082	11,241
Career and Technical Education - Basic Grants to States Program Development	84.048	PRC 017	61,730
Total U.S. Department of Education			4,000,709

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Expenditures
U.S. Department of Health and Human Services			
Passed-through the N.C. Department of Health and Human Services:			
School Nurse Funding Initiative	93.994		57,140
U.S. Department of Defense			
Direct Program:			
ROTC	None		24,579
Total Federal Assistance			**6,457,618**
State Grants:			
N.C. Department of Public Instruction:			
Cash Assistance:			
State Public School Fund			24,731,582
Vocational Education			
State Months of Employment		PRC 013	1,185,719
Program Support Funds		PRC 014	341,804
Driver Training		PRC 012	60,477
School Technology Fund		PRC 015	47,922
Cash assistance subtotal			26,367,504
Non-Cash Assistance:			
State Buses Appropriation			186,183
Textbooks		PRC 130	21,890
Total NC Department of Public Instruction			26,575,577
N.C. Department of Agriculture:			
State Reduced Breakfast Program			9,306
N.C. Department of Health and Human Services:			
Division of Child Development:			
Smart Start			104,760
NC Pre-Kindergarten Program			894,158
Division of Public Health:			
School Nurse Funding Initiative			42,860
Total NC Department of Health and Human Services			1,041,778
Total State Assistance			**27,626,661**
Total Federal and State Assistance			**$ 34,084,279**

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

Note 2. Summary of Significant Accounting Policies

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

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

Note 3. Cluster of Programs

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