

HERTFORD COUNTY BOARD OF EDUCATION
FINANCIAL REPORT
June 30, 2016

Hertford County Board of Education
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FINANCIAL SECTION



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Independent Auditors' Report

To the Hertford County Board of Education
Winton, 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 Hertford County Board of Education, North Carolina, as of and for the year then ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Hertford County Board of Education'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 statement 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, business-type activities, each major fund, and the aggregate remaining fund information of the Hertford County Board of Education, North Carolina 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 Fund, State Public School Fund, and Other Restricted Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4 through 9 and the Schedule of the Proportionate Share of the Net Pension Liability and the Schedule of Board Contributions on pages 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 an opinion on the financial statements that collectively comprise the Hertford County Board of Education's basic financial statements. The combining and individual non-major fund financial statements and schedules, budgetary schedules and other schedules, as well as the accompanying schedule of expenditures of federal and State awards as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and the State Single Audit Implementation Act, are presented for purpose of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2016 on our consideration of Hertford County Board of Education's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hertford County Board of Education's internal control over financial reporting and compliance.

Thompson, Rice, Scott, Adams & Co., P.A.

Whiteville, NC

October 10, 2016

Management's Discussion and Analysis

This section of the Hertford 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

- The Board experienced a decrease in enrollment of 48 students from the previous year. The Board is working diligently with the Hertford County Board of Commissioners to find ways to fund increases required for the continuing improvement of educational services for Hertford County students.
- The assets of Hertford County Board of Education exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$19,097,293 (net position). Of this amount, \$18,044,697 represents the Board's investment in capital assets.
- At the close of the fiscal year, the Board's governmental funds reported combined ending fund balances of \$6,147,144, an increase of \$859,844 in comparison with the prior year.

Overview of the Financial Statements

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

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

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

Government-wide Statements

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

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

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

The Board'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.

Hertford 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 – how cash and other assets can readily be converted to cash flow in and out, and the balances left at year-end that are available for spending. As a result of this focus, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the coming year to finance the Board's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental funds statements, in the form of a reconciliation, explains the relationship (or differences) between the government-side 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, and the Federal Grants Fund, and the Other Restricted Fund.

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

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

The proprietary fund statements are shown as Exhibits 6, 7, and 8 of this report.

Financial Analysis of the Schools as a Whole

Net position is an indicator of the fiscal health of the Board. Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$19,097,293 as of June 30, 2016. The largest component of net position is investment in capital assets, of \$18,044,697. It comprises 94.49% of total net position.

Following is a summary of the Statement of Net Position:

Table 1
Condensed Statement of Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	June 30 2016	June 30 2015	June 30 2016	June 30 2015	June 30 2016	June 30 2015
Current assets	\$ 7,601,928	\$ 6,737,715	\$ 877,369	\$ 757,954	\$ 8,479,297	\$ 7,495,669
Capital assets	18,120,293	18,555,202	66,768	38,118	18,187,061	18,593,320
Total assets	<u>25,722,221</u>	<u>25,292,917</u>	<u>944,137</u>	<u>796,072</u>	<u>26,666,358</u>	<u>26,088,989</u>
Deferred outflows of resources	1,542,800	1,364,008	47,325	46,243	1,590,125	1,410,251
Current liabilities	5,684,499	2,639,099	156,986	94,371	5,841,485	2,733,470
Long-term liabilities	1,844,764	1,873,008	58,594	63,965	1,903,358	1,936,973
Total liabilities	<u>7,529,263</u>	<u>4,512,107</u>	<u>215,580</u>	<u>158,336</u>	<u>7,744,843</u>	<u>4,670,443</u>
Deferred inflows of resources	1,359,089	5,383,815	55,258	177,605	1,414,347	5,561,420
Net investment in capital assets	17,977,929	18,431,870	66,768	38,118	18,044,697	18,469,988
Restricted net position	920,649	906,831	-	-	920,649	906,831
Unrestricted net position	<u>(521,909)</u>	<u>(2,577,698)</u>	<u>653,856</u>	<u>468,256</u>	<u>131,947</u>	<u>(2,109,442)</u>
Total net assets	<u>\$ 18,376,669</u>	<u>\$ 16,761,003</u>	<u>\$ 720,624</u>	<u>\$ 506,374</u>	<u>\$ 19,097,293</u>	<u>\$ 17,267,377</u>

Note that net position increased by 10.60% over the previous year. The increase in net position was due largely because of the increase in capital assets in the governmental activities. Unrestricted net position increased in the business-type activities primarily because of an increase in current assets in the School Food Service Fund.

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

Table 2
Condensed Statement of Revenues, Expenses, and Changes in Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>6/30/16</u>	<u>6/30/15</u>	<u>6/30/16</u>	<u>6/30/15</u>	<u>6/30/16</u>	<u>6/30/15</u>
Revenues:						
Program revenues:						
Charges for services	\$ 654,142	\$ 600,334	\$ 62,325	\$ 47,319	\$ 716,467	\$ 647,653
Operating grants and contributions	26,092,870	26,556,080	2,045,983	1,973,503	28,138,853	28,529,583
Capital grants and contributions	142,367	322,167	-	-	142,367	322,167
General revenues:						
Other revenues	5,472,098	4,712,104	511	423	5,472,609	4,712,527
Total revenues	<u>32,361,477</u>	<u>32,190,685</u>	<u>2,108,819</u>	<u>2,021,245</u>	<u>34,470,296</u>	<u>34,211,930</u>
Expenses:						
Governmental activities:						
Instructional programs	21,824,211	21,638,384	-	-	21,824,211	21,638,384
System-wide Support	7,494,861	7,727,980	-	-	7,494,861	7,727,980
Ancillary services	45,178	138,251	-	-	45,178	138,251
Non-programmed charges	121,432	88,385	-	-	121,432	88,385
Interest on long-term debt	-	-	-	-	-	-
Unallocated Depreciation	1,260,129	1,162,919	-	-	1,260,129	1,162,919
Business-type activities:						
Food service	-	-	1,894,569	1,898,745	1,894,569	1,898,745
Total expenses	<u>30,745,811</u>	<u>30,755,919</u>	<u>1,894,569</u>	<u>1,898,745</u>	<u>32,640,380</u>	<u>32,654,664</u>
Increase (decrease) in net position	1,615,666	1,434,766	214,250	122,500	1,829,916	1,557,266
Net position, beginning	16,761,003	21,534,621	506,374	598,160	17,267,377	22,132,781
Restatement	-	(6,320,680)	-	(214,286)	-	(6,534,966)
Net position, beginning, restated	16,761,003	15,213,941	506,374	383,874	17,267,377	15,597,815
Prior Period Adjustment	-	112,296	-	-	-	112,296
Net position, ending	<u>\$ 18,376,669</u>	<u>\$ 16,761,003</u>	<u>\$ 720,624</u>	<u>\$ 506,374</u>	<u>\$ 19,097,293</u>	<u>\$ 17,267,377</u>

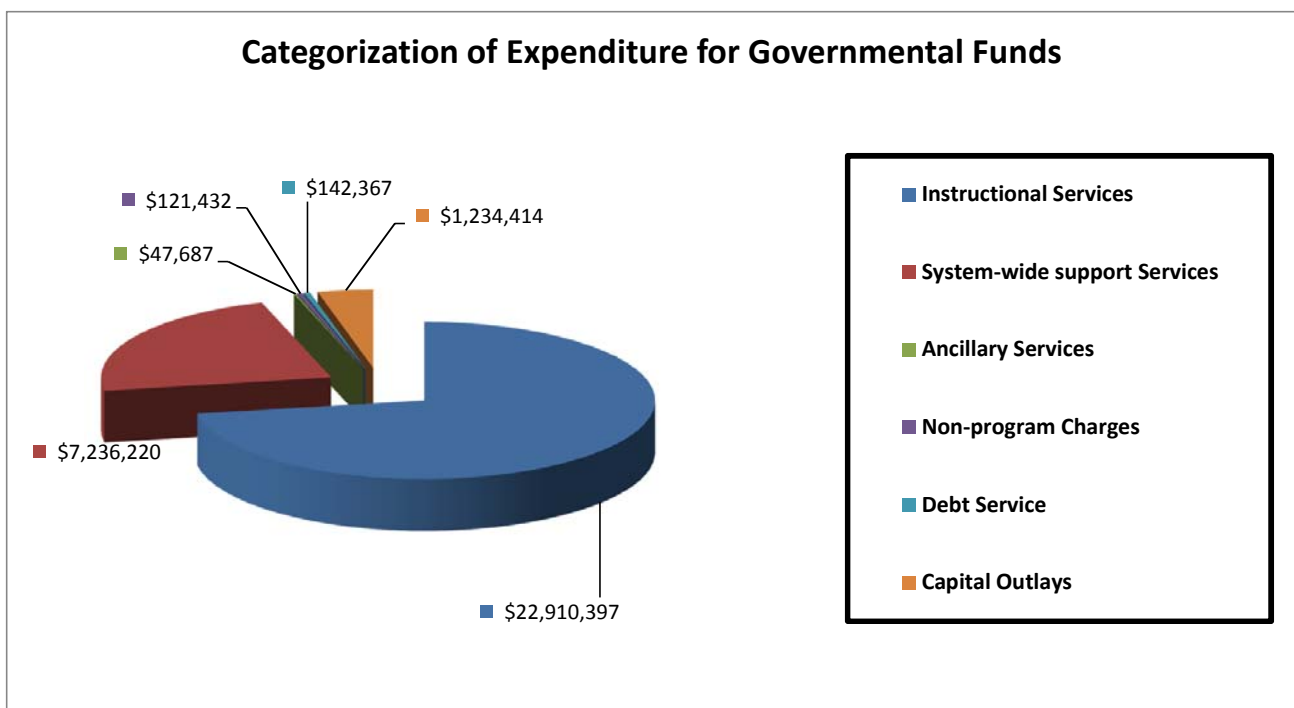
Total governmental activities generated revenues of \$32,361,477 while expenses in this category totaled \$30,745,811. Comparatively, revenues were \$32,190,685 and expenses totaled \$30,755,919, for the year ended June 30, 2015. The increase in net position stands at \$1,615,666, compared to an increase of \$1,434,766 in 2015. Instructional services comprised 70.98% of total governmental-type expenses while system-wide support services made up 24.38% of those expenses for 2016. County funding comprised 16.52% of total governmental revenue. In 2015, County funding was 13.88%. Much of the remaining 83.48% of total governmental revenue for 2016 consists of restricted State and Federal money. Business-type activities generated revenue of \$2,108,819 and had expenses of \$1,894,569. Net position increased in the business-type activities by \$214,250.

Financial Analysis of the Board's Funds

Governmental Funds: The focus of Hertford 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 \$6,147,144, a \$859,844 increase over the prior year. The General Fund and Other Restricted Fund had revenues in excess of expenditures of \$345,200 and \$501,011, respectively, while the Capital Outlay Fund had expenditures that equaled revenues for the year. The individual schools had combined revenues in excess of expenditures of \$13,633. Expenditures decreased from the prior year, and included \$1,184,962 in capitalizable assets.

Proprietary Funds: The Board's School Food Service Fund reflected an increase of 32.31% in net position from last year. Revenues increased and expenses decreased during the current year. Non-operating revenue brought most of the increase in net position with increases in federal reimbursements.



Expenditures presented on modified accrual basis of accounting.

General Fund Budgetary Highlights

Over the course of the year, the Board revised the budget several times to account for changes in expenditure expectations. The total general fund budget decreased \$196,699 during the year.

Capital Assets

Capital assets decreased by \$406,259 from the previous year. Total capital assets decreased as a result of depreciation expense exceeding acquisitions for the year. Major asset purchases included technology equipment, buses, and a HVAC replacement project.

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

Table 3
Summary of Capital Assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	6/30/16	6/30/15	6/30/16	6/30/15	6/30/16	6/30/15
Land	\$ 481,321	\$ 481,321	\$ -	\$ -	\$ 481,321	\$ 481,321
Construction in progress	37,424	189,028	-	-	37,424	189,028
Buildings	38,785,764	37,691,884	-	-	38,785,764	37,691,884
Equipment and furniture	9,786,867	9,399,081	357,657	321,416	10,144,524	9,720,497
Less accumulated depreciation	(30,971,083)	(29,206,112)	(290,889)	(283,298)	(31,261,972)	(29,489,410)
Total	<u>\$ 18,120,293</u>	<u>\$ 18,555,202</u>	<u>\$ 66,768</u>	<u>\$ 38,118</u>	<u>\$ 18,187,061</u>	<u>\$ 18,593,320</u>

Debt Outstanding

During the year, the Board's outstanding debt increased by \$19,032, as a result of debt payments on school bus leases that were offset by the acquisition of two new buses. 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.

Economic Factors

The Board anticipates enrollment will increase slightly over the next several years and will need a relatively steady or increasing stream of income in order to maintain existing facilities and equipment and to update and improve instructional efforts. County funding is a major source of income for the Board; therefore the County's economic outlook directly affects that of the schools. The following economic factors must be considered when viewing the County's ability to provide the required level of funding.

- The County's unemployment rate of 6.7% is a little higher than the state average of 5.2%.

Requests for Information

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

Cynthia H. Martin, Finance Director
Hertford County Board of Education
701 N. Martin Street
Winton, NC 27986

BASIC FINANCIAL STATEMENTS

Hertford County Board of Education
Statement of Net Position
June 30, 2016

Exhibit 1

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 6,428,002	\$ 894,090	\$ 7,322,092
Investments	87,188	-	87,188
Due from other governments	958,958	76,860	1,035,818
Receivables (net)	1,360	-	1,360
Internal balances	126,420	(126,420)	-
Inventories	-	32,839	32,839
Capital assets (Note 1)			
Land, improvements, and construction in progress	518,745	-	518,745
Other capital assets, net of depreciation	17,601,548	66,768	17,668,316
Total capital assets	<u>18,120,293</u>	<u>66,768</u>	<u>18,187,061</u>
Total assets	<u>25,722,221</u>	<u>944,137</u>	<u>26,666,358</u>
DEFERRED OUTFLOWS OF RESOURCES	1,542,800	47,325	1,590,125
LIABILITIES			
Accounts payable and accrued liabilities	304,739	5,303	310,042
Accrued salaries and wages payable	932,888	12,721	945,609
Prepaid meals	-	2,922	2,922
Long-term liabilities:			
Net pension liability	4,446,872	136,040	4,582,912
Due within one year	102,015	-	102,015
Due in more than one year	<u>1,742,749</u>	<u>58,594</u>	<u>1,801,343</u>
Total liabilities	<u>7,529,263</u>	<u>215,580</u>	<u>7,744,843</u>
DEFERRED INFLOWS OF RESOURCES	1,359,089	55,258	1,414,347
NET POSITION			
Net investment in capital assets	17,977,929	66,768	18,044,697
Restricted:			
Individual Schools	75,587	-	75,587
Stabilization by State Statute	5,104	-	5,104
School Capital Outlay	839,958	-	839,958
Unrestricted	<u>(521,909)</u>	<u>653,856</u>	<u>131,947</u>
Total net position	<u>\$ 18,376,669</u>	<u>\$ 720,624</u>	<u>\$ 19,097,293</u>

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

Hertford County Board of Education
Statement of Activities
For the Year Ended June 30, 2016

Exhibit 2

Functions / Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary government							
Governmental Activities:							
Instructional programs:							
Regular	\$ 11,931,149	\$ -	\$ 12,023,522	\$ -	\$ 92,373	\$ -	\$ 92,373
Special	3,006,261	-	3,041,890	-	35,629	-	35,629
Alternative programs	2,808,277	-	2,969,169	-	160,892	-	160,892
School leadership	1,810,848	-	1,823,645	-	12,797	-	12,797
Co-curricular	372,614	386,247	-	-	13,633	-	13,633
School-based support	1,895,062	-	1,893,269	-	(1,793)	-	(1,793)
System-wide support services:							
Support and development	333,323	-	234,403	-	(98,920)	-	(98,920)
Special populations	35,092	-	32,996	-	(2,096)	-	(2,096)
Alternative programs	137,355	-	142,844	-	5,489	-	5,489
Technology support	511,300	-	231,668	-	(279,632)	-	(279,632)
Operational support	4,973,492	267,895	2,730,749	142,367	(1,832,481)	-	(1,832,481)
Financial and human resource	707,787	-	464,849	-	(242,938)	-	(242,938)
Accountability	-	-	-	-	-	-	-
System-wide pupil support	-	-	-	-	-	-	-
Policy, leadership, and public relations	796,512	-	362,606	-	(433,906)	-	(433,906)
Ancillary services	45,178	-	46,245	-	1,067	-	1,067
Non-programmed charges	121,432	-	95,015	-	(26,417)	-	(26,417)
Unallocated depreciation expense	1,260,129	-	-	-	(1,260,129)	-	(1,260,129)
Total Governmental activities	<u>30,745,811</u>	<u>654,142</u>	<u>26,092,870</u>	<u>142,367</u>	<u>(3,856,432)</u>	<u>-</u>	<u>(3,856,432)</u>
Business-type activities:							
School Food service	1,894,569	62,325	2,045,983	-	-	213,739	213,739
Total business-type activities	<u>1,894,569</u>	<u>62,325</u>	<u>2,045,983</u>	<u>-</u>	<u>-</u>	<u>213,739</u>	<u>213,739</u>
Total primary government	<u>\$ 32,640,380</u>	<u>\$ 716,467</u>	<u>\$ 28,138,853</u>	<u>\$ 142,367</u>	<u>(3,856,432)</u>	<u>213,739</u>	<u>(3,642,693)</u>
General revenues:							
Unrestricted county appropriations - operating					4,273,524	-	4,273,524
Unrestricted county appropriations - capital					1,073,016	-	1,073,016
Miscellaneous, unrestricted					147,493	-	147,493
Gain(loss) on disposal					-	-	-
Investment earnings, unrestricted					(21,935)	511	(21,424)
Transfers					-	-	-
Total general revenues and transfers					<u>5,472,098</u>	<u>511</u>	<u>5,472,609</u>
Change in net position					1,615,666	214,250	1,829,916
Net position, beginning					16,761,003	506,374	17,267,377
Net position, ending					<u>\$ 18,376,669</u>	<u>\$ 720,624</u>	<u>\$ 19,097,293</u>

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

**Hertford County Board of Education
Balance Sheet
Governmental Funds
June 30, 2016**

Exhibit 3

	Major Funds				Non-Major Governmental Fund	
	General Fund	State Public School Fund	Capital Outlay Fund	Other Restricted Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 2,842,346	\$ -	\$ 811,394	\$ 2,694,948	\$ 79,314	\$ 6,428,002
Due from other governments	3,744	769,893	90,555	25,198	69,568	958,958
Accounts receivable	1,360	-	-	-	-	1,360
Due from other funds	-	-	-	126,880	-	126,880
Total assets	<u>\$ 2,847,450</u>	<u>\$ 769,893</u>	<u>\$ 901,949</u>	<u>\$ 2,847,026</u>	<u>\$ 148,882</u>	<u>\$ 7,515,200</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities	\$ 216,603	\$ -	\$ 61,991	\$ 22,613	\$ 3,532	\$ 304,739
Due to other funds	265	-	-	-	195	460
Accrued salaries and benefits	60,857	769,893	-	51,399	50,739	932,888
Total liabilities	<u>277,725</u>	<u>769,893</u>	<u>61,991</u>	<u>74,012</u>	<u>54,466</u>	<u>1,238,087</u>
Deferred inflows of resources	-	-	-	111,140	18,829	129,969
Fund balances:						
Nonspendable						
Inventories	-	-	-	-	-	-
Restricted						
Stabilization by State Statute	5,104	-	-	-	-	5,104
School Capital Outlay	-	-	839,958	-	-	839,958
Individual Schools	-	-	-	-	75,587	75,587
Committed						
Other Restricted Funds	-	-	-	2,661,874	-	2,661,874
Assigned						
Subsequent Year's Expenditures	973,100	-	-	-	-	973,100
Unassigned	1,591,521	-	-	-	-	1,591,521
Total fund balances	<u>2,569,725</u>	<u>-</u>	<u>839,958</u>	<u>2,661,874</u>	<u>75,587</u>	<u>6,147,144</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,847,450</u>	<u>\$ 769,893</u>	<u>\$ 901,949</u>	<u>\$ 2,847,026</u>	<u>\$ 148,882</u>	<u>\$ 7,515,200</u>

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

**Hertford County Board of Education
Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Position
June 30, 2016**

Exhibit 3a

Total fund balance, governmental funds	\$ 6,147,144
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.	18,120,293
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Market Value of Investments	87,188
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Deferred outflows of resources related to pensions	1,542,800
--	-----------

Some liabilities, (such as Installment Payables and Compensated Absences), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Position.	(1,844,764)
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Net Pension liability	(4,446,872)
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Deferred inflows of resources related to pensions	(1,229,120)
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Net Position of governmental activities	<u>\$ 18,376,669</u>
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The notes to the financial statements are an integral part of this statement.

Hertford County Board of Education
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2016

Exhibit 4

	Major Funds				Non-Major Governmental Funds	Total Governmental Funds
	General Fund	State Public School Fund	Capital Outlay Fund	Other Restricted Funds	Other Governmental Funds	
REVENUES						
State of North Carolina	\$ -	\$ 21,847,025	\$ 142,367	\$ 958,097	\$ -	\$ 22,947,489
U.S. Government	-	-	-	220,330	3,067,419	3,287,749
Hertford County	4,273,524	-	1,073,016	-	-	5,346,540
Other	61,252	-	-	361,686	386,247	809,185
Total	<u>4,334,776</u>	<u>21,847,025</u>	<u>1,215,383</u>	<u>1,540,113</u>	<u>3,453,666</u>	<u>32,390,963</u>
EXPENDITURES						
Current:						
Instructional						
Regular Instructional	561,603	11,693,286	-	40,139	284,716	12,579,744
Special Populations	123,907	2,418,580	-	1,251	621,893	3,165,631
Alternative Programs	27,498	323,833	-	815,038	1,721,015	2,887,384
School Leadership	100,665	1,761,426	-	54,863	-	1,916,954
Co-Curricular	-	-	-	-	372,614	372,614
School-Based Support	111,503	1,608,017	-	124,565	143,985	1,988,070
System-wide support services					-	
Support and Development	114,342	233,803	-	-	600	348,745
Special Populations Support and Development	4,256	32,259	-	-	737	37,252
Alternative programs and Services Support	414	-	-	-	142,844	143,258
Technology Support	194,801	231,668	-	-	-	426,469
Operational Support	1,980,189	2,707,939	-	2,463	20,017	4,710,608
Financial and Human Resources	264,630	432,488	-	-	32,360	729,478
Accountability	-	-	-	-	-	-
System-Wide Pupil Support Policy, Leadership, and Public Relations	477,909	361,718	-	783	-	840,410
Ancillary services	1,442	46,245	-	-	-	47,687
Non-Program Charges	26,417	(4,237)	-	-	99,252	121,432
Debt Service						
Principal	-	-	142,367	-	-	142,367
Interest	-	-	-	-	-	-
Capital outlay						
Real Property and Buildings	-	-	797,151	-	-	797,151
Furniture and Equipment	-	-	261,961	-	-	261,961
Buses and Motor Vehicles	-	-	175,302	-	-	175,302
Total Expenditures	<u>3,989,576</u>	<u>21,847,025</u>	<u>1,376,781</u>	<u>1,039,102</u>	<u>3,440,033</u>	<u>31,692,517</u>
Excess (deficiency) of revenues over expenditures	<u>345,200</u>	<u>-</u>	<u>(161,398)</u>	<u>501,011</u>	<u>13,633</u>	<u>698,446</u>
OTHER FINANCING SOURCES (USES)						
Transfers to other funds	-	-	-	-	-	-
Installment purchase obligations issued	-	-	161,398	-	-	161,398
Total other financing sources and (uses)	<u>-</u>	<u>-</u>	<u>161,398</u>	<u>-</u>	<u>-</u>	<u>161,398</u>
Net change in fund balances	345,200	-	-	501,011	13,633	859,844
Fund balances - beginning	2,224,525	-	839,958	2,160,863	61,954	5,287,300
Prior Period Adjustment	-	-	-	-	-	-
Fund balances - ending	<u>\$ 2,569,725</u>	<u>\$ -</u>	<u>\$ 839,958</u>	<u>\$ 2,661,874</u>	<u>\$ 75,587</u>	<u>\$ 6,147,144</u>

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

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

Exhibit 4a

Net change in fund balances - total governmental funds:	\$ 859,844
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlays exceeded depreciation in the current period.	(434,909)
Change in market value of investments - unrealized gains/losses are not reported on the fund statements	(29,486)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities. Difference in accrued investment income and income reported in fund statements.	1,542,800
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. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(19,031)
Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:	
Pension expense	(350,830)
Compensated absences	47,276
Change in net position of governmental activities	<u><u>\$ 1,615,664</u></u>

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

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

Exhibit 5

	General Fund				State Public School Fund				Other Restricted Fund			
	Budget		Actual Amounts	Variance with Final Budget - Positive (Negative)	Budget		Actual Amounts	Variance with Final Budget - Positive (Negative)	Budget		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final			Original	Final			Original	Final		
REVENUES												
State of North Carolina	\$ -	\$ -	\$ -	\$ -	\$ 23,284,512	\$ 23,112,119	\$ 21,847,025	\$ (1,265,094)	\$ 1,038,121	\$ 1,153,721	\$ 958,097	\$ -
U.S. Government	-	-	-	-	-	-	-	-	75,000	85,500	220,330	134,830
Hertford County	4,273,524	4,273,524	4,273,524	-	-	-	-	-	-	-	-	-
Other	102,000	102,000	61,252	(40,748)	-	-	-	-	250,620	270,620	361,686	-
Total revenues	4,375,524	4,375,524	4,334,776	(40,748)	23,284,512	23,112,119	21,847,025	(1,265,094)	1,363,741	1,509,841	1,540,113	134,830
EXPENDITURES												
Current:												
Instructional												
Regular	910,826	939,448	561,603	377,845	12,495,915	12,413,598	11,693,286	720,312	195,045	302,409	40,139	262,270
Special Populations	236,904	145,453	123,907	21,546	2,399,813	2,422,214	2,418,580	3,634	57,918	10,000	1,251	8,749
Alternative programs	19,564	30,450	27,498	2,952	243,699	395,348	323,833	71,515	831,211	887,429	815,038	72,391
School leadership	117,754	130,391	100,665	29,726	1,839,283	1,805,968	1,761,426	44,542	48,410	54,863	54,863	-
Co-curricular	-	-	-	-	-	-	-	-	-	-	-	-
School-based support	93,993	140,052	111,503	28,549	1,754,641	1,663,473	1,608,017	55,456	129,136	153,118	124,565	28,553
System-wide support services:												
Support and development	205,334	174,544	114,342	60,202	213,283	524,474	233,803	290,671	-	-	-	-
Special populations	3,521	4,520	4,256	264	48,532	32,262	32,259	3	-	-	-	-
Alternative programs	414	414	414	-	-	-	-	-	-	-	-	-
Technology support	368,425	259,676	194,801	64,875	209,537	235,495	231,668	3,827	-	-	-	-
Operational support	2,283,028	2,408,689	1,980,189	428,500	3,014,833	2,755,643	2,707,939	47,704	102,021	102,022	2,463	99,559
Financial and human resources	284,136	304,860	264,630	40,230	513,696	436,488	432,488	4,000	-	-	-	-
Accountability	-	-	-	-	-	-	-	-	-	-	-	-
System-wide pupil support	-	-	-	-	-	-	-	-	-	-	-	-
Policy, leadership, and public relations	437,995	552,357	477,909	74,448	498,280	362,718	361,718	1,000	-	-	783	(783)
Ancillary services												
Community	-	-	-	-	-	-	-	-	-	-	-	-
Nutrition	2,630	61,369	1,442	59,927	53,000	54,438	46,245	8,193	-	-	-	-
Non-programmed charges	26,000	35,000	26,417	8,583	-	10,000	(4,237)	14,237	-	-	-	-
Capital Outlay	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenditures	4,990,524	5,187,223	3,989,576	1,197,647	23,284,512	23,112,119	21,847,025	1,265,094	1,363,741	1,509,841	1,039,102	470,739
Revenues over (under) expenditures	(615,000)	(811,699)	345,200	1,156,899	-	-	-	-	-	-	501,011	605,569
OTHER FINANCING SOURCES												
Fund balance appropriated	615,000	811,699	-	(811,699)	-	-	-	-	-	-	-	-
Total other financing sources and (uses)	615,000	811,699	-	(811,699)	-	-	-	-	-	-	-	-
Net change in fund balances	\$ -	\$ -	345,200	\$ 345,200	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	501,011	\$ 605,569
Fund balances, beginning			2,224,525								2,160,863	
Prior period adjustment (see Note VI)			-				-				-	
Fund balances, ending			\$ 2,569,725				\$ -				\$ 2,661,874	

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

**Hertford County Board of Education
Statement of Net Position
Proprietary Funds
June 30, 2016**

Exhibit 6

	Enterprise Fund
	Major Fund
	School Food Service
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 894,090
Due from other governments	76,860
Receivables (net)	-
Inventories	32,839
Total current assets	<u>1,003,789</u>
Non-current assets:	
Capital Assets:	
Equipment	357,657
Less accumulated depreciation	<u>(290,889)</u>
Total non-current assets	<u>66,768</u>
Total assets	<u><u>\$ 1,070,557</u></u>
DEFERRED OUTFLOWS OF RESOURCES	\$ 47,325
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	\$ 5,303
Due to other funds	126,420
Accrued salaries and wages payable	12,721
Prepaid Meals	2,922
Total current liabilities	<u>147,366</u>
Non-current liabilities:	
Net Pension liability	136,040
Compensated absenses	58,594
Total non-current liabilities	<u>194,634</u>
Total liabilities	<u>342,000</u>
DEFERRED INFLOWS OF RESOURCES	55,258
NET POSITION	
Net investment in capital assets	66,768
Unrestricted	653,856
Total net position	<u><u>\$ 720,624</u></u>

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

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

Exhibit 7

	Enterprise Fund
	Major Fund
	School Food Service
OPERATING REVENUES:	
Food sales	\$ 57,949
Miscellaneous local revenues	4,376
Total operating revenues	<u>62,325</u>
OPERATING EXPENDITURES:	
Purchase of food	682,114
Donated commodities	118,391
Salaries and benefits	846,037
Indirect cost	161,302
Materials and supplies	59,819
Repairs and maintenance	5,338
Contracted services	6,800
Depreciation	7,591
Capital outlay	-
Other	7,177
Total operating expenditures	<u>1,894,569</u>
Operating income (loss)	(1,832,244)
NON-OPERATING REVENUES (EXPENSES):	
Federal reimbursements	1,924,330
Federal commodities used	121,653
Investment earnings	511
Indirect cost not paid	-
Total non-operating revenues (expenses)	<u>2,046,494</u>
Income (loss) before contributions and transfers	214,250
Transfers from other funds	<u>-</u>
Change in net position	214,250
Total net position, beginning	506,374
Total net position, ending	<u><u>\$ 720,624</u></u>

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

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

Exhibit 8
Page 1 of 2

	Enterprise Fund
	Major Fund
	School Food Service
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 58,343
Cash paid for goods and services	(953,757)
Cash paid to employees for services	(887,971)
Other operating revenues	4,376
Net cash used by operating activities	<u>(1,779,009)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Federal reimbursements	1,930,421
Due to / from other funds	(41,093)
Total cash provided by noncapital financing activities	<u>1,889,328</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(36,241)
Disposition of capital assets	-
Total cash provided by capital and related financing activities	<u>(36,241)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>511</u>
Net increase/(decrease) in cash and cash equivalents	74,589
Cash and cash equivalents, July 1	819,501
Cash and cash equivalents, June 30	<u>\$ 894,090</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (1,832,244)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	7,591
Donated commodities consumed	118,391
Indirect cost not paid	-
Changes in assets and liabilities:	
(Increase)/decrease in accounts receivable	1,122
(Increase)/decrease in inventory	(7,684)
Increase/(decrease) in accounts payable	(23,523)
Increase/(decrease) in prepaid meals	(728)
Increase/(decrease) in net pension liability	86,866
(Increase)/decrease in deferred outflows	(1,082)
Increase/(decrease) in deferred inflows	(122,347)
Increase/(decrease) in compensated absences	(5,371)
Total adjustments	<u>53,235</u>
Net cash used by operating activities	<u>\$ (1,779,009)</u>

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

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

Exhibit 8
Page 2 of 2

Non-cash operating and non capital financing activities:

The School Food Service Fund received donated commodities with a value of \$121,653 during the fiscal year. The receipt of the commodities is recognized as a non-operating revenue. The Fund recorded the consumption of \$118,391 worth of donated commodities during the fiscal year as an operating expense. These transactions are reported on Exhibit 7.

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

Hertford County Board of Education
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

I. Summary of Significant Accounting Policies

The accounting policies of Hertford 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 Hertford 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 Hertford County, North Carolina. The Board receives State, local, and federal government funding and must adhere to the legal requirements of each funding entity.

B. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities display information about the Board. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the effect of internal activities upon revenues and expenses. These statements distinguish between the *governmental* and *business-type activities* of the Board. Governmental activities generally are financed through intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

Fund Financial Statements: The fund financial statements provide information about the Board's funds. 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.

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

The Board reports the following major governmental funds:

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

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

Other Restricted Fund. The Other Restricted Grants Fund is used to account for various restricted funds that are not required to be in the State Public School Fund or the Federal Grants Fund.

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 Hertford County appropriations, proceeds of Hertford County bonds issued for public school construction, lottery proceeds, as well as certain State assistance.

The Board reports the following major enterprise fund:

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

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 are both restricted and unrestricted net position available to finance the program. It is the Board's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

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 code level for all annually budgeted funds. The Superintendent is authorized by the governing Board to transfer amounts within individual funds. Amendments are required for any revisions that alter total expenditures of any fund. All amendments must be approved by the governing board. During the year, several immaterial 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 fair value as determined by quoted market prices. The Board has 2,189 shares in a MetLife investment policy. Those shares were allocated to those with active eligible life insurance policies on the date that MetLife went public, which was 4/7/2000. These shares have a cost basis of \$0, so there is no value recorded on the fund statements for this policy.

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 board had no inventories in the General Fund. Proprietary Fund inventories consist of food and supplies and are recorded as expenses when consumed.

4. Capital Assets

The Board's capital assets are recorded at original cost. Donated assets are listed at their estimated fair value at the date of donation or forfeiture. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. Certain items acquired before July 1, 1950 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.

It is the policy of the Board to capitalize all capital assets costing more than \$5,000 with an estimated useful life of two or more years. In addition, other items that are purchased and used in large quantities such as student desks, are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

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

	<u>Years</u>
Buildings	10 - 40
Equipment and furniture	5 - 12
Vehicles	10

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

5. Deferred outflows and inflows of resources

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

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 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 Balance

In the governmental fund financial statements, fund balance is composed of five 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.

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

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

Assigned fund balance - portion of fund balance that Hertford County Board of Education intends to use for specific purposes.

Subsequent year's expenditures - portion of total fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation; however the budget ordinance authorizes the manager to modify the appropriations by resource or appropriation within funds up to \$100,000.

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

Hertford County Board of Education has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-board of education funds, board of education funds. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance, and lastly unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the Board of Education.

9. Reconciliation of Government-wide and Fund Financial Statements

1. 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 of the governmental funds and net position of the governmental activities as reported in the government-wide statement of net position. The net adjustment of \$13,126,803 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)	\$ 49,091,376
Less Accumulated Depreciation	(30,971,083)
Net Capital Assets	18,120,293

Description	Amount
Market Value of Investments	87,188
Pension related deferred outflows of resources	
Contributions made to the pension plan in current fiscal year	1,542,800
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not recorded in the fund statements:	
Installment Purchases	(142,364)
Compensated absences	(1,702,400)
Net Pension liability	(4,446,872)
Deferred inflows of resources related to pensions	
Differences between contributions and proportional share of contributions and changes in proportion	(258,215)
Differences between expected and actual experience	(504,511)
Difference between projected and actual earnings on plan investments	(466,394)
Total Adjustment	<u>\$ 12,229,525</u>

2. 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 \$755,820 as follows:

Description	Amount
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.	\$ (1,619,871)
Capital outlay expenditures recorded in the fund statements but capitalized as assets in the statement of activities	1,184,962
Amount by which retirement of asset cost exceeded accumulated depreciation.	-
Net Capital Assets	(434,909)
Change in market value of investments - unrealized gains/losses are not reported on the fund statements	(29,486)
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 affects only the government-wide statement of net position	(161,398)
Principal payments on debt owed are recorded as a use of funds on the fund statements but affect only the statement of net position in the government-wide statements.	142,367
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	1,542,800
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	(350,830)
Compensated absences are accrued in the government-wide statements but not in the fund statements because they do not use current resources	47,276
Total Adjustment	<u>\$ 755,820</u>

10. Defined Benefit Pension Plans

For purposes of measuring the net pension liability, 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.

II. Stewardship, Compliance, and Accountability

Material Violations of Finance-Related Legal and Contractual Provisions

There were no material violations for the year ended June 30, 2016.

III. 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 financial institutions with a carrying amount of \$7,322,092 and with the State Treasurer of \$0. The bank balances with the financial institutions and the State Treasurer were \$7,690,396 and \$1,100,159, respectively. Of these balances, \$555,588 was covered by federal depository insurance and \$8,234,968 was covered by collateral held by authorized escrow agents in the name of the State Treasurer.

2. Investments

At June 30, 2016, the Board's investment balances were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Rating</u>
MetLife	\$ 87,188	N/A	N/A

Interest Rate Risk. The Board of Education does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. The Board has no policy on credit risk.

Concentration of Credit Risk. The Board places no limit on the amount the Board may invest with any one issuer.

2. Accounts Receivable.

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

	Due from other funds (Internal Balances)	Due from other governments	Other
Governmental activities:			
General Fund	\$ (265)	\$ 3,744	\$ 1,360
Other governmental activities	126,685	955,214	-
Total	<u>\$ 126,420</u>	<u>\$ 958,958</u>	<u>\$ 1,360</u>
Business-type activities:			
School Food Service	\$ (126,420)	\$ 76,860	\$ -
Total	<u>\$ (126,420)</u>	<u>\$ 76,860</u>	<u>\$ -</u>

Due from other governments consists of the following:

Governmental Activities:		
General Fund	\$ 3,744	County - Fines & Forfeitures
State Public School Fund	769,893	Operating Funds from DPI
Federal Grants Fund	50,739	Federal Grants Fund
Federal Grants Fund	17,065	Sales tax refund receivable
Capital Outlay Fund	7,422	Sales tax refund receivable
Capital Outlay Fund	83,133	County - Sales Tax
Other Restricted Funds	4,478	JROTC
Other Restricted Funds	20,720	Sales tax refund receivable
Individual Schools	1,764	Sales tax refund receivable
Total	<u>\$ 958,958</u>	
Business-type activities:		
School Food Service Fund	\$ 69,495	USDA Reimbursement Claim
School Food Service Fund	5,536	DHHS - Summer Feeding
School Food Service Fund	1,829	Sales tax refund receivable
Total	<u>\$ 76,860</u>	

3. Capital Assets

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 481,321	\$ -	\$ -	\$ 481,321
Construction in Progress	189,028	634,126	(785,730)	37,424
Total capital assets not being depreciated	<u>670,349</u>	<u>634,126</u>	<u>(785,730)</u>	<u>518,745</u>
Capital assets being depreciated:				
Buildings and Improvements	37,691,884	1,035,172	58,708	38,785,764
Equipment, furniture, and Vehicles	9,399,081	301,394	86,392	9,786,867
Total capital assets being depreciated	<u>47,090,965</u>	<u>1,336,566</u>	<u>145,100</u>	<u>48,572,631</u>
Less accumulated depreciation for:				
Buildings and Improvements	22,294,224	889,728	58,708	23,242,660
Equipment, furniture, and Vehicles	6,911,888	730,143	86,392	7,728,423
Total accumulated depreciation	<u>29,206,112</u>	<u>1,619,871</u>	<u>145,100</u>	<u>30,971,083</u>
Total capital assets being depreciated, net	<u>17,884,853</u>	<u>\$ (283,305)</u>	<u>\$ -</u>	<u>\$ 17,601,548</u>
Governmental activity capital assets, net	<u>\$ 18,555,202</u>			<u>\$ 18,120,293</u>

Depreciation was charged to governmental functions as follows:

Unallocated depreciation	\$ 1,260,129
Operational support services	359,742
Total	<u>\$ 1,619,871</u>

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type activities:				
School Food Service Fund:				
Capital assets being depreciated:				
Furniture and office equipment	\$ 321,416	\$ 36,241	\$ -	\$ 357,657
Total capital assets being depreciated	<u>321,416</u>	<u>36,241</u>	<u>-</u>	<u>357,657</u>
Less accumulated depreciation for:				
Furniture and office equipment	283,298	7,591	-	290,889
Total accumulated depreciation	<u>283,298</u>	<u>\$ 7,591</u>	<u>\$ -</u>	<u>290,889</u>
Business-type activity capital assets, net	<u>\$ 38,118</u>			<u>\$ 66,768</u>

Construction Commitments

Hertford County Schools has an active construction project at June 30, 2016. The project consists of constructing a running track at the High School. There was a remaining commitment of \$183,868 at year end.

Financing Commitments

Recent legislation permits the State Board of Education to finance the purchase of replacement school buses through installment purchases. Hertford County Board of Education has entered into an agreement to purchase 3 buses in this manner. The term of the financing cannot exceed three years and the Board must purchase the buses from vendors approved by the Department of Public Instruction. The Department of Public Instruction will make the payments to the lender on behalf of the County Board of Education out of funds allocated to the County Board of Education. Because future resources will be used to fund the payments under the installment agreement, no encumbrance of fund balance at June 30, 2016, has been recorded.

The payments due in the fiscal year ended June 30, 2016 are as follows:

Total purchase price, 3 buses	\$	252,918
Total payments due in 2016-17	\$	126,459
Remaining payments in subsequent years	\$	126,459

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 12 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 serves 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 six percent of their compensation. Employer contributions are actuarially determined and set annually by the TSERS Board of Trustees. The Board's contractually required contributions 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 \$1,590,125 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 \$4,582,912 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 of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The Board's proportion of the net pension liability was based on a projection of the Board's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating TSERS employers, actuarially determined. At June 30, 2015 and at June 30, 2014, the Board's proportion was .001%.

For the year ended June 30, 2016, the Board recognized pension expense of \$361,591. At June 30, 2016, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<i>Deferred Outflows of Resources</i>	<i>Deferred Inflows of Resources</i>
Differences between expected and actual experience	\$ -	\$ 521,078
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	496,520
Changes in proportion and differences between Board contributions and proportionate share of contributions	-	266,780
Board contributions subsequent to the measurement date	1,590,125	-
Total	<u>\$ 1,590,125</u>	<u>\$ 1,284,378</u>

\$1,590,125 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	\$ (682,999)
2018	(682,999)
2019	(652,728)
2020	734,348
2021	-
Thereafter	-
	<u>\$ (1,284,378)</u>

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

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

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

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

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2015 are summarized in the following table:

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

The information above is based on 30 year expectations developed with the consulting actuary for the 2014 asset liability and investment policy study for the North Carolina Retirement Systems, including TSERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

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

Sensitivity of the County's proportionate share of the net pension asset to changes in the discount rate. The following presents the Board's proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the Board's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Board's proportionate share of the net pension liability (asset)	\$ 13,793,301	\$ 4,582,912	\$ (3,233,165)

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 Post-employment Benefits

1. 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 \$973,191, \$970,029, and \$961,195, respectively. These contributions represented 5.60%, 5.49%, and 5.40%, of covered payroll, respectively.

2. Long-term Disability Benefits

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

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 you might be entitled should you become age 62 during the first 36 months. After 36 months of long-term disability, there will be no further payments from the DIPNC unless the member is approved for and are in receipt of primary Social Security disability benefits. It is payable so long as the member remains disabled and is in receipt of a primary Social Security disability benefit until eligible for an unreduced service retirement benefit. When an employee qualifies for an unreduced service retirement allowance from the Retirement System, the benefits payable from DIPNC will cease, and the employee will commence retirement under 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 \$71,251, \$72,443, and \$78,320, respectively. These contributions represented .41%, .41%, and .44%, respectively of covered payroll.

2. Accounts Payable

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

	Vendors	Salaries and Benefits	Total
Governmental Activities:			
General	\$ 216,603	\$ 60,857	\$ 277,460
Other Governmental	88,136	872,031	960,167
Total governmental activities	<u>\$ 304,739</u>	<u>\$ 932,888</u>	<u>\$ 1,237,627</u>
Business-type Activities			
School Food Service	\$ 5,303	\$ 12,721	\$ 18,024
Total business-type activities	<u>\$ 5,303</u>	<u>\$ 12,721</u>	<u>\$ 18,024</u>

3. Deferred Inflows of Resources

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Grants not yet earned (Other Restricted Funds)	\$ -	\$ 111,140
Sales tax refunds receivable (Federal Grants)	-	17,065
Sales tax refunds receivable (Individual Schools)	-	1,764
Change in proportion and difference between employer contributions and proportionate share of contributions	-	266,780
Employer contributions subsequent to the measurement date	1,590,125	-
Difference between projected and actual earnings on plan investments	-	496,520
Difference between expected and actual experience	-	521,078
Totals	<u>\$ 1,590,125</u>	<u>\$ 1,414,347</u>

4. Risk Management

The Board is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board participates in the North Carolina School Boards Trust (the Trust), a member funded risk management program administered by the North Carolina School Boards Association. Through the Trust, the Board maintains general liability and errors and omissions coverage of \$600,000 per claim. The Trust has an annual aggregate limit for general liability and errors and omissions claims of \$2,550,000. The Trust is reinsured through commercial companies for losses in excess of \$150,000 per claim for errors and omissions and general liability. Statutory workers' compensation coverage is purchased through private insurers. Coverage is provided to the extent employees are paid from Federal or local funds. Worker's compensation coverage is provided by the State of North Carolina through a self-insured fund, to the extent employees are paid from State funds. The Board also participates in the Public School Insurance Fund (the Fund), a voluntary, self-insured risk control and risk-financing fund administered by the North Carolina Department of Public Instruction, insuring the tangible property assets of the Board. Coverage is provided on an "all risk" perils contract. Buildings and contents are insured on a replacement cost basis. The Fund purchases excess reinsurance to protect the assets of the fund in the event of a catastrophic event. The fund maintains a self-insured retention of \$10 million. Excess reinsurance is purchased through commercial insurers. A limit of \$5 million per occurrence is provided on Flood, Earthquake, Business Interruption and Extra Expense. \$10 million per occurrence is provided on Increased Cost of Construction.

The Board also participates in the Teachers' and State Employees' Comprehensive Major Medical Plan, a self-funded risk financing pool of the State administered by Blue Cross and Blue Shield of North Carolina. Through the Plan, permanent full-time employees of the Board are eligible to receive health care benefits up to a \$5 million lifetime limit. In addition, employees had the option of receiving health care benefits through one of the health maintenance organizations (HMOs) offering coverage to teachers and State employees. Effective October 1, 2001, HMOs were no longer offered to Board employees. The Board pays the full cost of coverage for employees enrolled in the Comprehensive Major Medical Plan.

In accordance with G.S. 115C-442, the Board's employees who have custody of the Board's monies at any given time of the Board's funds are performance bonded through a commercial surety bond. The finance officer is bonded for \$75,000. The remaining employees that have access to funds are bonded under a blanket bond for \$10,000.

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

5. Contingent Liabilities

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

6. Long-Term Obligations

Installment Purchase

The State has accepted the bid to purchase buses through a special third party financing arrangement by Mercedes Benz Financial Services USA LLC at total payments less than the purchase price. In June 2014, the Board entered into an installment purchase contract to finance the purchase of three school buses. The financing contract requires only principal payments of \$61,667 due at November 15 each contract year.

The State has accepted the bid to purchase buses through a special third party financing arrangement by Banc of America Public Capital Corp at total payments less than the purchase price. In September 2015, the Board entered into an installment purchase contract to finance the purchase of two school buses. The financing contract requires only principal payments of \$40,798 due at November 15 each contract year.

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

Year Ending June 30	Governmental Activities	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 102,015	\$ -
2018	40,349	-
Total	<u>\$ 142,364</u>	<u>\$ -</u>

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:

	Balance July 01, 2015	Increases	Decreases	Balance June 30, 2016	Current Portion
Governmental activities:					
Installment purchase	\$ 123,332	161,398	\$ 142,366	\$ 142,364	\$ 102,015
Compensated absences	1,749,676	-	47,276	1,702,400	-
Total	<u>\$ 1,873,008</u>	<u>\$ 161,398</u>	<u>\$ 189,642</u>	<u>\$ 1,844,764</u>	<u>\$ 102,015</u>
Business-type activities:					
Compensated absences	\$ 63,965	\$ -	\$ 5,371	\$ 58,594	\$ -
Total	<u>\$ 63,965</u>	<u>\$ -</u>	<u>\$ 5,371</u>	<u>\$ 58,594</u>	<u>\$ -</u>

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

C. Interfund Balances and Activity

Receivables / payables from / to other funds at June 30, 2016, consist of the following:

	Amount
From the School Food Service Fund to the Other Restricted Fund for Indirect Cost	\$ 126,880
From the Local Fund to the School Food Service Fund for Ice Cream Social	265
From the Individual Schools to the School Food Service Fund for Banquet Meals	195
Total interfund balances	<u>\$ 127,340</u>

Fund Balance

The Board of Education has a revenue spending policy that provides policy for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: federal funds, State funds, local non-Board of Education funds, Board of Education funds. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance, and lastly unassigned fund balance. The Finance officer has the authority to deviate from this policy if it is in the best interest of the Board of Education.

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	<u>\$ 2,569,725</u>
Less:	
Inventories	-
Stabilization by State Statute	5,104
Appropriated Fund Balance in 2016 Budget	973,100
Remaining Fund Balance	<u>\$ 1,591,521</u>

Encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end.

	<u>General Fund</u>	<u>State Public School Fund</u>	<u>Federal Grants Fund</u>	<u>Capital Outlay</u>	<u>Other Restricted Funds</u>
Encumbrances	\$ -	\$ -	\$ -	\$ -	\$ -

IV. 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.

V. Significant Effects of Subsequent Events

Fines, Forfeitures and Supplemental School Tax

Hertford County Board of Education has paid all amounts due to Charter Schools for years prior to June 30, 2016 as of the report date. Currently, there are 24 students from Hertford County attending charter schools.

REQUIRED SUPPLEMENTAL FINANCIAL DATA

Schedule of Proportionate Share of Net Pension Asset for Local Government Employees' Retirement System

Schedule of Contributions to Local Government Employees' Retirement System

Hertford County Board of Education
Schedules of Required Supplementary Information
SCHEDULE OF THE BOARD'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Teachers' and State Employees' Retirement System
Last Two Fiscal Years*

	<u>2015</u>	<u>2015</u>	<u>2014</u>
Board's proportion of the net pension liability (asset)	0.124%	0.128%	0.133%
Board's proportionate share of the net pension liability (asset)	\$ 4,582,912	\$ 1,499,644	\$ 1,551,631
Board's covered-employee payroll	\$ 17,680,706	\$ 17,837,027	\$ 18,353,800
Board's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	25.92%	8.41%	8.45%
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.

**Hertford County Board of Education
Schedule of Board Contributions
Teachers' and State Employees' Retirement System
Last Three Fiscal Years**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 1,590,125	\$ 1,616,715	\$ 1,546,811
Contributions in relation to the contractually required contribution	<u>1,590,125</u>	<u>1,616,715</u>	<u>1,546,811</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Board's covered-employee payroll	\$ 17,338,709	\$ 17,680,706	\$ 17,837,027
Contributions as a percentage of covered-employee payroll	9.17%	9.14%	8.67%

**Combining and Individual Fund
Financial Statements Section**

**Hertford County Board of Education
General Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2016**

Exhibit B-1

	2016		
	Budget	Actual	Positive (Negative) Variance
REVENUES			
Hertford County Appropriation	\$ 4,273,524	\$ 4,273,524	\$ -
Other			
Fines and Forfeitures	100,000	57,007	(42,993)
Interest earned on investments	2,000	4,213	2,213
Indirect Cost Allocated	-	-	-
Miscellaneous	-	32	32
Total	102,000	61,252	(40,748)
Total revenues	4,375,524	4,334,776	(40,748)
EXPENDITURES			
Instructional services:			
Regular instructional services:			
Regular curricular services		542,718	
CTE curricular services		18,885	
Total	939,448	561,603	377,845
Special populations services:			
Children with disabilities		86,850	
Pre-K Children with Disabilities		1,765	
Speech and language pathology		17,950	
Academically gifted		14,631	
Limited English proficiency		2,711	
Total	145,453	123,907	21,546
Alternative Programs and services:			
Alternative instructional		6,477	
Attendance and social work		2,505	
Remedial and supplemental		11,524	
Pre-K readiness		1,041	
Extended day / year instructional		5,951	
Total	30,450	27,498	2,952
School leadership services	130,391	100,665	29,726
Co-Curricular Services	-	-	-

**Hertford County Board of Education
General Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2016**

Exhibit B-1

	2016		
	Budget	Actual	Positive (Negative) Variance
School-based support services:			
Educational Media services		9,123	
Guidance services		12,603	
Health services		20,918	
Safety and security		66,663	
Instructional Technology		-	
Staff development		2,196	
Parent involvement		-	
Total	140,052	111,503	28,549
System-wide support services:			
Support and development services:			
Regular curricular		104,976	
CTE curricular		9,366	
	174,544	114,342	60,202
Special population support and development	4,520	4,256	264
Alternative programs and services support and development services	414	414	-
Technology support services	259,676	194,801	64,875
Operational support services:			
Communication services		62,479	
Public Utility and Energy		894,509	
Custodial / Housekeeping		111,196	
Transportation services		577,948	
Maintenance		334,057	
Total	2,408,689	1,980,189	428,500
Financial and human resource services:			
Financial services		241,189	
Human resource services		23,441	
Total	304,860	264,630	40,230
System-wide pupil support services:			
Instructional Technology		-	
Total	-	-	-
Policy, leadership and public relations:			
Board of education		182,585	
Legal services		30,828	
Audit services		15,500	
Leadership services		158,553	
Public relations and marketing		90,443	
Total	552,357	477,909	74,448

**Hertford County Board of Education
General Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2016**

Exhibit B-1

	2016		Positive (Negative) Variance
	Budget	Actual	
Ancillary services			
Community Service		-	
Nutrition		1,442	
Total	61,369	1,442	59,927
Non-Programmed charges			
Payments to charter schools		26,417	
Total	35,000	26,417	8,583
Total expenditures	5,187,223	3,989,576	1,197,647
Excess of revenues over (under)	(811,699)	345,200	1,156,899
OTHER FINANCING SOURCES (USES)			
Fund balance appropriated	811,699	-	(811,699)
Total other financing sources and (uses)	811,699	-	(811,699)
Net Change in Fund Balance	<u>\$ -</u>	345,200	<u>\$ 345,200</u>
Fund balance, beginning		2,224,525	
Fund balance, ending		<u>\$ 2,569,725</u>	

**Hertford County Board of Education
State Public School Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2016**

Exhibit B-2

	2016		Positive (Negative) Variance
	Budget	Actual	
REVENUES			
State of North Carolina	\$ 23,112,119	\$ 21,847,025	\$ (1,265,094)
EXPENDITURES			
Instructional services:			
Regular Instructional services:			
Regular curricular services		10,559,827	
CTE curricular services		1,133,459	
Total	12,413,598	11,693,286	720,312
Special populations services:			
Children with Disabilities		1,936,705	
Special Populations CTE		316	
Pre-K Children with Disabilities		64,678	
Speech and language pathology		168,380	
Academically gifted		146,419	
Limited English proficiency		102,082	
Total	2,422,214	2,418,580	3,634
Alternative programs and services:			
Alternative instructional services		162,399	
Attendance and social work		61,691	
Remedial and supplemental		-	
Extended day / year instructional		99,743	
Total	395,348	323,833	71,515
School leadership services	1,805,968	1,761,426	44,542
School-based support services:			
Educational media		339,288	
Guidance services		749,828	
Health services		259,583	
Safety and Security		259,318	
Instructional Technology		-	
Total	1,663,473	1,608,017	55,456
System-wide support services:			
Support and development services:			
Regular curricular support		142,126	
CTE curricular support		91,677	
Total	524,474	233,803	290,671
Special population support	32,262	32,259	3
Technology support services	235,495	231,668	3,827

**Hertford County Board of Education
State Public School Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2016**

Exhibit B-2

	2016		
	Budget	Actual	Positive (Negative) Variance
Operational support			
Communication Services		-	
Custodial / Housekeeping		909,166	
Transportation		1,370,547	
Maintenance		428,226	
Total	<u>2,755,643</u>	<u>2,707,939</u>	<u>47,704</u>
Financial and human resource:			
Financial services		292,326	
Human resource services		140,162	
Total	<u>436,488</u>	<u>432,488</u>	<u>4,000</u>
System-wide pupil support services:			
Instructional Technology		-	
Total	<u>-</u>	<u>-</u>	<u>-</u>
Policy, leadership and public relations:			
Leadership services		361,718	
Total	<u>362,718</u>	<u>361,718</u>	<u>1,000</u>
Ancillary services	<u>54,438</u>	<u>46,245</u>	<u>8,193</u>
Nonprogrammed charges	<u>10,000</u>	<u>(4,237)</u>	<u>14,237</u>
Total Expenditures	<u>23,112,119</u>	<u>21,847,025</u>	<u>1,265,094</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balance, beginning		-	
Fund balance, ending		<u>\$ -</u>	

**Hertford County Board of Education
Other Restricted Funds
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2016**

Exhibit B-3

	2016		
	Budget	Actual	Positive (Negative) Variance
REVENUES			
State of North Carolina			
School Nurse Funding	\$ 50,000	\$ 50,000	\$ -
Smart Start	48,500	48,500	-
NC Pre-K	795,879	761,880	(33,999)
NC IRIS Grant	179,680	50,639	(129,041)
Other	79,662	47,078	(32,584)
Total	1,153,721	958,097	(195,624)
U.S. Government			
JROTC	54,000	54,012	12
NCSBA Medicaid	20,000	45,516	25,516
Medicaid reimbursement	1,000	118,727	117,727
Fresh Fruit and Vegetable	-	-	-
Other	10,500	2,075	(8,425)
Total	85,500	220,330	134,830
Other			
Tuition and fees	7,000	6,755	(245)
Rental of school property	1,500	1,932	432
Contributions and donations	40,214	21,777	(18,437)
Albemarle Math/Science	20,000	9,050	(10,950)
Erate	-	-	-
NC Quest	23,406	774	(22,632)
Digital Learning Grant	-	-	-
Interest earned on investments	3,500	3,338	(162)
Indirect cost allocated	110,000	267,895	157,895
Insurance Settlement	-	9,661	9,661
Miscellaneous local operating revenues	65,000	40,504	(24,496)
Total	270,620	361,686	91,066
Total revenues	1,509,841	1,540,113	30,272
EXPENDITURES			
Instructional services:			
Regular instructional services:			
Regular curricular services		40,139	
CTE curricular services		-	
Total	302,409	40,139	262,270
Special Populations services:			
Pre-K Children with Disabilities		-	
Limited English Proficiency		1,251	
Total	10,000	1,251	8,749

Hertford County Board of Education
Other Restricted Funds
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2016

Exhibit B-3

	2016		
	Budget	Actual	Positive (Negative) Variance
Alternative Programs and services:			
Remedial and Supplemental K-12		-	
Pre-K Readiness / Remedial and Supp		810,380	
Extended day / year instruction		4,658	
Total	887,429	815,038	72,391
School leadership services	54,863	54,863	-
Co-curricular activities	-	-	-
School-based support services:			
Guidance services		65,713	
Health services		58,682	
Instructional Technology		-	
Total	153,118	124,565	28,553
Total instructional programs	1,407,819	1,035,856	371,963
System-wide support services:			
Technology support services	-	-	-
Operational support services:			
Maintenance of plant		-	
Custodial / Housekeeping		-	
Warehouse and Delivery		2,463	
Total	102,022	2,463	99,559
Policy, leadership and public relations:			
Leadership		783	
Total	-	783	(783)
Total supporting services	102,022	3,246	98,776
Ancillary services	-	-	-

**Hertford County Board of Education
Other Restricted Funds
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2016**

Exhibit B-3

	2016		
	Budget	Actual	Positive (Negative) Variance
Nonprogram charges			
Transfer of Funds to Other Agencies		-	
Total	-	-	-
Capital Outlay	-	-	-
Total expenditures	1,509,841	1,039,102	470,739
Excess of revenues over (under) expenditures	-	501,011	501,011
OTHER FINANCING SOURCES (USES)			
Transfers to other funds	-	-	-
Fund balance appropriated	-	-	-
Total other financing sources and (uses)	-	-	-
NET CHANGE IN FUND BALANCE	\$ -	501,011	\$ 501,011
Fund balance, beginning		2,160,863	
Prior period adjustment (see Note VI)		-	
Fund balance, ending		<u><u>\$ 2,661,874</u></u>	

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

Exhibit B-4

	2016		
	Budget	Actual	Positive (Negative) Variance
REVENUES			
State of North Carolina:			
Public School Capital Fund	\$ -	\$ -	\$ -
State appropriations - Buses	150,000	142,367	(7,633)
Total State of North Carolina	150,000	142,367	(7,633)
 Hertford County:			
Restricted portion of sales taxes	1,458,700	1,073,016	(385,684)
 Other:			
Interest Income	900	-	(900)
Disposition of Fixed Assets	-	-	-
Total Other	900	-	(900)
Total Revenues	1,609,600	1,215,383	(394,217)
 EXPENDITURES			
Capital outlay:			
Real Property and Buildings	1,238,600	797,151	
Furniture and equipment	593,000	261,961	
Motor vehicles	450,000	175,302	
Total Capital Outlay	2,281,600	1,234,414	1,047,186
 Debt Service:			
Principal	150,000	142,367	
Interest	-	-	
Total Debt Service	150,000	142,367	7,633
 Total Expenditures	2,431,600	1,376,781	1,054,819
 Revenues Over (Under) Expenditures	(822,000)	(161,398)	660,602
 OTHER FINANCING SOURCES (USES)			
Installment purchase obligations issued	422,000	161,398	(260,602)
Fund balance appropriated	400,000	-	(400,000)
Total other financing sources and (uses)	822,000	161,398	(660,602)
 Net Change in Fund Balance	\$ -	-	\$ -
 FUND BALANCE			
Beginning of year, July 1		839,958	
End of year, June 30		\$ 839,958	

**Hertford County Board of Education
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2016**

	Special Revenue Funds		
	Federal Grant Fund	Individual Schools	Total Nonmajor Governmental Funds
ASSETS			
Cash and cash equivalents	\$ -	\$ 79,314	\$ 79,314
Due from other governments	67,804	1,764	69,568
Accounts receivable	-	-	-
Due from other funds	-	-	-
Prepaid expenses	-	-	-
Total assets	<u>67,804</u>	<u>81,078</u>	<u>148,882</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	-	3,532	3,532
Due to other funds	-	195	195
Accrued salaries and benefits	50,739	-	50,739
Total liabilities	<u>50,739</u>	<u>3,727</u>	<u>54,466</u>
Deferred inflows of resources	<u>17,065</u>	<u>1,764</u>	<u>18,829</u>
Fund balances:			
Nonspendable:			
Inventories	-	-	-
Prepaid expenses	-	-	-
Restricted:			
Stabilization by State Statute	-	-	-
School Capital Outlay	-	-	-
Individual Schools	-	75,587	75,587
Committed:			
Other Restricted Funds	-	-	-
Assigned:			
Subsequent Year's Expenditures	-	-	-
Unassigned:	-	-	-
Total fund balances	<u>-</u>	<u>75,587</u>	<u>75,587</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 67,804</u>	<u>\$ 81,078</u>	<u>\$ 148,882</u>

Hertford County Board of Education
Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2016

	Special Revenue Funds		Total Nonmajor Special Revenue Funds
	Federal Grant Fund	Individual Schools	
REVENUES			
State of North Carolina	\$ -	\$ -	\$ -
U.S. Government	3,067,419	-	3,067,419
Hertford County	-	-	-
Other	-	386,247	386,247
Total Revenues	3,067,419	386,247	3,453,666
EXPENDITURES			
Current:			
Instructional services			
Regular Instructional	284,716	-	284,716
Special Populations	621,893	-	621,893
Alternative Programs	1,721,015	-	1,721,015
School Leadership	-	-	-
Co-Curricular	-	372,614	372,614
School-Based Support	143,985	-	143,985
System-wide support services			
Support and Development	600	-	600
Special Populations Support and Development	737	-	737
Alternative programs and Services			
Support	142,844	-	142,844
Technology Support	-	-	-
Operational Support	20,017	-	20,017
Financial and Human Resources	32,360	-	32,360
Accountability	-	-	-
System-Wide Pupil Support	-	-	-
Policy, Leadership, and Public Relations	-	-	-
Ancillary services	-	-	-
Non-Program Charges	99,252	-	99,252
Capital outlay			
Real Property and Buildings	-	-	-
Furniture and Equipment	-	-	-
Buses and Motor Vehicles	-	-	-
Debt Service			
Principal	-	-	-
Total Expenditures	3,067,419	372,614	3,440,033
Excess (deficiency) of revenues over expenditures	-	13,633	13,633
OTHER FINANCING SOURCES (USES)			
Transfers to other funds	-	-	-
Installment purchase obligations issued	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balances	-	13,633	13,633
Fund balances, beginning	-	61,954	61,954
Fund balances, ending	\$ -	\$ 75,587	\$ 75,587

Hertford County Board of Education
Federal Grants Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2016

Exhibit C-3

	2016		Positive (Negative) Variance
	Budget	Actual	
REVENUES			
U.S. Government	\$ 4,528,939	\$ 3,067,419	\$ (1,461,520)
EXPENDITURES			
Instructional services:			
Regular Instructional services:			
Regular curricular services		233,520	
CTE curricular services		51,196	
Total	409,449	284,716	124,733
Special populations services:			
Children with Disabilities		586,882	
Pre-K children with disabilities		35,076	
Speech and language pathology		-	
Limited English proficiency		(65)	
Total	802,471	621,893	180,578
Alternative programs and services:			
Alternative instructional		-	
Attendance and social work		1,587	
Remedial and supplemental		1,553,318	
Pre-K readiness		-	
Extended day / year instructional		166,110	
Total	2,701,970	1,721,015	980,955
School leadership services	-	-	-
School-based support services:			
Educational media services		-	
Guidance services		1,715	
Health services		131,631	
Staff development		-	
Parent involvement		10,639	
Total	173,706	143,985	29,721

Hertford County Board of Education
Federal Grants Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2016

Exhibit C-3

	2016		
	Budget	Actual	Positive (Negative) Variance
System-wide support services:			
Support and development services:			
Regular curricular support		-	
CTE curricular support		600	
Total	<u>600</u>	<u>600</u>	<u>-</u>
Special population support and development services	<u>1,500</u>	<u>737</u>	<u>763</u>
Alternative programs and services support and development services	<u>167,135</u>	<u>142,844</u>	<u>24,291</u>
Operational support services:			
Transportation		20,017	
Total	<u>65,625</u>	<u>20,017</u>	<u>45,608</u>
Financial and human resource:			
Financial Services		-	
Human resource		32,360	
Total	<u>50,579</u>	<u>32,360</u>	<u>18,219</u>
Ancillary services	<u>-</u>	<u>-</u>	<u>-</u>
Nonprogrammed charges	<u>155,904</u>	<u>99,252</u>	<u>56,652</u>
Total Expenditures	<u>4,528,939</u>	<u>3,067,419</u>	<u>1,461,520</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balance, beginning		-	
Fund balance, ending		<u>\$ -</u>	

Combining Balance Sheet and Statement of Revenues,
Expenditures, and Changes in Fund Balance – Individual
Schools

Hertford County Board of Education
Combining Balance Sheet
Individual Schools
June 30, 2016

Exhibit C-4

	Cash and Investments	Due From Other Governments	Total Assets	Accounts Payable	Due to Other Funds	Deferred Revenue	Fund Balance	Total Liabilities & Fund Balance
Bearfield Primary	\$ 14,762	\$ 532	\$ 15,294	\$ -	\$ -	\$ 532	\$ 14,762	\$ 15,294
Hertford County Middle	14,475	553	15,028	-	-	553	14,475	15,028
Riverview Elementary	2,615	380	2,995	-	-	380	2,615	2,995
Ahoskie Elementary	9,837	199	10,036	-	-	199	9,837	10,036
Hertford County High	30,753	25	30,778	3,532	195	25	27,026	30,778
Hertford County Early College	3,413	65	3,478	-	-	65	3,413	3,478
CSB Student Development	3,459	10	3,469	-	-	10	3,459	3,469
Total	<u>\$ 79,314</u>	<u>\$ 1,764</u>	<u>\$ 81,078</u>	<u>\$ 3,532</u>	<u>\$ 195</u>	<u>\$ 1,764</u>	<u>\$ 75,587</u>	<u>\$ 81,078</u>

Hertford County Board of Education
Combining Statement of Revenues, Expenditures And
Changes in Fund Balance -- Individual Schools
For the Year Ended June 30, 2016

Exhibit C-5

	<u>Revenues</u>	<u>Transfers and Expenditures</u>	<u>Excess (Deficiency) of Revenues Over Expenditures</u>	<u>Fund Balance June 30, 2016</u>
Bearfield Primary	\$ 60,824	\$ 49,058	\$ 11,766	\$ 14,762
Hertford County Middle	50,654	48,083	2,571	14,475
Riverview Elementary	29,320	27,223	2,097	2,615
Ahoskie Elementary	24,461	32,208	(7,747)	9,837
Hertford County High	197,069	194,773	2,296	27,026
Hertford County Early College	13,153	10,999	2,154	3,413
CSB Student Development	10,766	10,270	496	3,459
Total	<u>\$ 386,247</u>	<u>\$ 372,614</u>	<u>\$ 13,633</u>	<u>\$ 75,587</u>

ENTERPRISE FUNDS

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises -- where the intent of the government's council is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; where the government's council has decided that the periodic determination of net income is appropriate for accountability purposes.

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

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

Exhibit D-1

	2016		Positive (Negative) Variance
	Budget	Actual	
OPERATING REVENUES:			
Food sales	\$ 151,000	\$ 57,949	\$ (93,051)
Miscellaneous local revenues	51,000	4,376	(46,624)
Total operating revenues	202,000	62,325	(139,675)
OPERATING EXPENDITURES:			
Business support services:			
Purchase of food		682,114	
Donated commodities		118,391	
Salaries and benefits		882,600	
Indirect cost		161,302	
Materials and supplies		59,819	
Repairs and maintenance		5,338	
Contracted services		6,800	
Other		7,177	
Total business support services	2,332,186	1,923,541	408,645
Capital outlay	73,814	36,241	37,573
Total operating expenditures	2,406,000	1,959,782	446,218
Operating income (loss)	(2,204,000)	(1,897,457)	306,543
NON-OPERATING REVENUES:			
Federal reimbursements	2,082,500	1,924,330	(158,170)
Federal commodities used	120,000	121,653	1,653
Investment earnings	1,500	511	(989)
Indirect cost not paid	-	-	-
Total operating revenues (expenditures)	2,204,000	2,046,494	(157,506)
Excess of revenues over (under) expenditures before other financing sources	-	149,037	149,037
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	-	-	-
Fund balance appropriated	-	-	-
Total other financing sources and (uses)	-	-	-
Excess of revenues and other financing sources over (under) expenditures	\$ -	149,037	\$ 149,037
Reconciliation from modified accrual to full accrual basis:			
Excess of revenue and other sources over expenditures			
Reconciling items:			
Contributions to the pension plan in current fiscal year		47,324	
Depreciation		(7,591)	
Pension expense		(10,761)	
Capital Outlay		36,241	
Total Reconciling Items		65,213	
Change in Net Position (full accrual)		\$ 214,250	

COMPLIANCE SECTION



**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***

Independent Auditors' Report

To the Board of Education
Hertford County, North Carolina

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hertford County Board of Education as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprises the Hertford County Board of Education's basic financial statements, and have issued our report thereon dated October 10, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Board of Education's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstance 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 of Education'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 function, 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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 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.

Thompson, Rice, Scott, Adams & Co., P.A.

Whiteville, NC

October 10, 2016



Thompson, Price, Scott, Adams & Co, P.A.

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**Report on Compliance With Requirements Applicable to Each Major Federal Program
And Internal Control Over Compliance In Accordance With Uniform Guidance and the
State Single Audit Implementation Act**

Independent Auditors' Report

To the Board of Education
Hertford County, North Carolina

Report on Compliance for Each Major Federal Program

We have audited the Hertford County Board of Education'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 Hertford County Board of Education's major federal programs for the year ended June 30, 2016. The Hertford 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 Hertford 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; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the State Single Audit Implementation Act. Those standards, the Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hertford 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 of the Hertford County Board of Education's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of the Hertford 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 Hertford 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 federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over compliance.

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

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

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

Thompson, Rice, Scott, Adams & Co., P.A.

Whiteville, NC

October 10, 2016



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**Report on Compliance With Requirements Applicable To Each Major State Program And
Internal Control Over Compliance In Accordance With Uniform Guidance and the
State Single Audit Implementation Act**

Independent Auditors' Report

To the Board of Education
Hertford County, North Carolina

Report on Compliance for Each Major State Program

We have audited the Hertford County Board of Education'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 Hertford County Board of Education's major state programs for the year ended June 30, 2016. The Hertford 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 requirement 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 Hertford 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 US Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Hertford County Board of Education's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

Members

American Institute of CPAs - N.C. Association of CPAs - AICPA Division of Firms

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 Hertford County Board of Education's compliance.

Opinion on Each Major State Program

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

Report on Internal Control Over Compliance

Management of the Hertford County Board of Education's 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 Hertford 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 in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over compliance.

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

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

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

Thompson, Rice, Scott, Adams & Co., P.A.

Whiteville, NC

October 10, 2016

**Hertford County Board of Education
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016**

Section I. Summary of Auditors' Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

Significant Deficiency(s) identified
that are not considered to be
material weaknesses _____ yes X none reported

Noncompliance material to financial statements noted _____ yes X no

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified? _____ yes X no

Significant Deficiency(s) identified
that are not considered to be
material weaknesses _____ yes X none reported

Noncompliance material to federal awards noted _____ yes X no

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported
in accordance with Section 510(a) of Circular A-133 _____ yes X no

Identification of major federal programs:

CFDA Numbers	Names of Federal Program or Cluster
	Child Nutrition Program Cluster
10.553	School Breakfast Program
10.555	National School Lunch Program
10.559	Summer Food Service Program
84.367	Improving Teacher Quality

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

Auditee qualified as low-risk auditee _____ yes X no

**Hertford County Board of Education
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016**

Section I. Summary of Auditors' Results (Continued)

State Awards

Internal control over major State programs:

Material weakness(es) identified? _____ yes X no

Significant Deficiency(s) identified that are not considered
to be material weaknesses _____ yes X none reported

Noncompliance material to State awards _____ yes X no

Type of auditor's report issued on compliance for major State programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance
with State Single Audit Implementation Act _____ yes X no

Identification of major State programs:

Program Name

State Public School Fund
Vocational Education - State Months of Employment
NC Pre-K

**Hertford County Board of Education
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016**

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.

**Hertford County Board of Education
Corrective Action Plan
For the Year Ended June 30, 2016**

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.

**Hertford County Board of Education
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2016**

2015-01 Prior Period Adjustment

Status: Corrected

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

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	2016 Expenditures
Federal Grants:			
<u>U. S. Department of Agriculture</u>			
<u>Food and Nutrition Service</u>			
Child Nutrition Cluster			
Non-Cash Assistance (Commodities):			
Passed-through the N.C. Department of Agriculture:			
Commodity Supplemental Food Program	10.555		\$ 118,391
Non-Cash Assistance			118,391
Cash Assistance:			
Passed-through the N. C. Department of Public Instruction:			
School Breakfast Program	10.553		590,152
National School Lunch Program	10.555		1,317,622
Passed-through N.C. Department of Health and Human Services:			
Division of Public Health			
Summer Food Service Program for Children	10.559		16,556
Total Cash Assistance			1,924,330
Total Child Nutrition Cluster			2,042,721
Total U. S. Department of Agriculture			2,042,721
<u>U. S. Department of Education</u>			
<u>Office of Elementary and Secondary Education</u>			
Passed-through the N. C. Department of Public Instruction:			
Title I, Part A Cluster			
Title I Grants to Local Educational Agencies (Title I, Part A of ESEA)	84.010	PRC 050	1,741,125
Total Title I, Part A Cluster			1,741,125
School Improvements Cluster			
Title I Grants to Local Educational Agencies (Title I, Part A of ESEA) - School Improvements	84.010	PRC 105	(71)
Total School Improvement Cluster			(71)

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

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>2016 Expenditures</u>
<u>Special Education Cluster:</u>			
Special Education - Grants to States (IDEA, Part B) - Education of the Handicapped	84.027	PRC 060	681,850
Special Education - Preschool Grants (IDEA Preschool) - Preschool Handicapped	84.173	PRC 049	35,997
Special Needs Targeted Assistance	84.027	PRC 118	8,914
Children with Special Needs Risk Pool	84.027	PRC 114	37,259
Total Special Education Cluster			<u>764,020</u>
Career and Technical Education - Basic Grants to States	84.048	PRC 017	54,941
Special Education - State Personnel Development Grant	84.323	PRC 082	10,581
Rural Education	84.358	PRC 109	38,747
Improving Teacher Quality	84.367	PRC 103	237,711
21st Century Community Learning Center	84.287	PRC 110	220,792
Race to the Top - Recruit Incentive - ARRA	84.395	PRC 158	(428)
Total Race to the Top - ARRA			<u>(428)</u>
State Fiscal Stabilization Fund - Investing in Innovation Fund (I3) Fund, Recovery Act (Non ARRA Funds)	84.411B		50,639
Safe Schools / Healthy Students Grant	84.184L	PRC 406	<u>829</u>
Total U.S. Department of Education			<u>3,118,886</u>
<u>U. S. Department of Defense</u>			
Direct Program: ROTC	None	PRC 301	<u>54,012</u>
Total federal assistance			\$ <u>5,215,619</u>
State Grants:			
Cash Assistance:			
<u>N. C. Department of Public Instruction</u>			
State Public School Fund			\$ 20,601,753
Driver Training - SPSF		PRC 012	45,061
School Technology Fund - SPSF		PRC 015	79,576
Vocational Education			
-- State Months of Employment		PRC 013	921,482
-- Program Support Funds		PRC 014	199,153
Total N. C. Department of Public Instruction			<u>21,847,025</u>

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

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>2016 Expenditures</u>
<u>N.C. Department of Health and Human Services</u>			
Division of Child Development			
Smart Start			48,500
NC Pre-Kindergarten Program			761,880
Division of Public Health			
School Nurse Funding Initiative			50,000
Total N.C. Department of Health and Human Services			860,380
NonCash Assistance:			
<u>N. C. Department of Public Instruction</u>			
School Buses Appropriation			142,367
Textbooks - Noncash			-
Total State Assistance			22,849,772
Total Federal and State Assistance			\$ 28,065,391

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

1. Basis of Presentation

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

2 Summary of Significant Accounting Policies

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

3 Cluster of Programs

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