

ORANGE COUNTY
BOARD OF EDUCATION

AGENDA ITEM ABSTRACT

Meeting Date: December 10, 2012

AGENDA ITEM No. 12-12-07

ACTION ITEM: (Y/N) N

SUBJECT: Audit Report 2011-2012

INFO. CONTACT: Donna Brinkley PHONE: 919 732-8126

ATTACHMENTS: 1. Local Fund Balance History
2. Local and Capital 2012-13 Fund Balance Appropriation

PURPOSE: To present the results of the annual audit of the Orange County Board of Education (BOE) for the Fiscal Year ended June 30, 2012.

BACKGROUND: N.C. GS 115C-447 requires the Orange County Board of Education to have its accounts and the accounts of the individual schools audited after the close of each fiscal year. The BOE's independent certified public accountants, Anderson Smith & Wike PLLC, have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Orange County Board of Education, as of and for the year ended June 30, 2012.

It should be noted that there are no negative findings in this comprehensive audit. There are no 2012 improvement recommendations to report.

FINANCIAL IMPACT: The cost of this audit is \$ 35,000.

RECOMMENDATION: The Superintendent recommends the Board of Education accept the audit of the Orange County Board of Education for the year ended June 30, 2012.

Orange County Schools
Local Fund Balance History

A	B	C	D	E	F	G	H	I	J
		Actual 2006-07 (1)	Actual 2007-08 (1)	Actual 2008-09 (1)	Actual 2009-10 (1) (5)	Actual 2010-11 (1) (5)	Actual 2011-12 (1) (5)	Projected 2012-13 (2) (5)	
1	Total Revenues	\$23,244,926	\$23,900,496	\$25,547,610	\$24,394,063	\$24,834,942	\$25,297,288	\$26,034,970	(6)
2	Total Expenditures	\$23,994,714	\$25,680,826	\$24,463,223	\$23,445,101	\$23,333,026	\$23,068,634	\$28,884,970	
3	Revenues Less Expenditures (Row 1 minus Row 2)	(\$749,788)	(\$1,780,330)	\$1,084,387	\$948,962	\$1,501,916	\$2,228,654	(\$2,850,000)	
4	Prior Year's Fund Balance	\$4,182,038	\$3,272,250	\$1,727,828	\$2,756,877	\$3,687,208	\$5,169,626	\$7,389,692	
5	Less Operating Transfers	(\$160,000)	(\$288,386)	(\$55,338)	(\$18,631)	(\$19,498)	(\$8,588)	(\$20,000)	
6	Less Capital Lease Obligations Issued	\$0	\$524,294	\$0	\$0	\$0	\$0	\$0	
7	Ending Fund Balance Total (Rows 3 & 4 minus Rows 5 & 6)	\$3,272,250	\$1,727,828	\$2,756,877	\$3,687,208	\$5,169,626	\$7,389,692	\$4,519,692	
8	Fund Balance Reserved ⁽³⁾	\$205,964	\$338,976	\$283,772	\$105,890	\$123,799	\$332,275	\$115,000	
9	Fund Balance Assigned to Next Year Budget	\$2,137,164	\$339,855	\$464,308	\$297,722	\$170,582	\$2,850,000	\$2,429,000	
10	Unassigned Fund Balance (Row 7 minus Rows 8 & 9)	\$929,122	\$1,048,997	\$2,008,797	\$3,283,596	\$4,875,245	\$4,207,417	\$1,975,692	
11	Unassigned Fund Balance % of Local Budget (Row 10 divided by Row 2)	3.87%	4.08%	8.21%	14.01%	20.89%	18.24%	6.84%	
12	Unassigned Fund Balance Target 3% (Row 2 multiplied by 3%) ⁽⁴⁾	\$719,841	\$770,425	\$733,897	\$703,353	\$699,991	\$692,059	\$866,549	

(1) Per year-end audit

(2) Unaudited

(3) Receivables collected after June 30th are reserved by State statute

(4) Per Board Policy #8101, a joint fiscal policy developed by Orange County Local Government, CHCCS and OCS, "the targeted level of unassigned fund balance for cash flow purposes will be at a minimum of 3% of budgeted expenditures. As a point of reference, 1 month of OCS payroll liability totals \$5.3M.

(5) Includes the Other Restricted Fund

(6) Fund Balance appropriated is not included

FY 2012-13 Additional Budget Considerations

The list below contains items that were not part of the Board approved budget that was forwarded to Commissioners in April 2012. Instead, it offers a list of additional priority items that potentially could be funded by additional Fund Balance appropriations. This list is not in priority order.

Item	Mandatory (M) /Discretionary (D)	Explanation/Description	Additional Funding	Recurring/Non-Recurring
1 Local Salary Increase of 1.2% (including benefits)	M	General Assembly awarded State employees a 1.2% salary increase for 2012-13. This recommendation funds the same increase for locally paid employees.	\$185,000	R
2 Restore Funding for Media Assistant Positions/Reclassify as tech support position.	M	The 1:1 Initiative promulgated the need for additional staff to trouble shoot and provide tech support help . As a remedy to this need, the Board approved a plan on August 13, 2012 to restore funding for 5 technology assistants in the district .	\$135,000	R
3 Restore Internal Control/Audit Functions	D	There is a need for fiscal internal control of all aspects of school system finances . This level of funding would incorporate salary for 1.0 FTE Internal Auditor and contractual services for audits of quasi-school functions such as Booster Clubs.	\$75,000	R
4 Restore Assistant Principal Months of Employment to 11	D	In order to comply with State discretionary funding reductions in 2011-12, months of employment for Assistant Principals at all levels were reduced from 11 or 12 months to 10 months. After assessing this staffing scenario at the end of the first year, the Superintendent recommends that funding be increased to return to 11 months of employment. This recommendation is based on principal feedback and school level needs. Maximum flexibility will be given to principals as to how this month will be scheduled to best meet school needs.	\$18,182	R
5 One-Time Employee Bonus	D	Aside from the 1.2% increase awarded to employees by the General Assembly in June 2012, the most recent salary increase received by employees was in 2008. In addition, employees have witnessed health insurance increases in premiums, co-pays and increased inflation. This proposal would award a one-time (non-recurring) bonus of \$500 for all employees of the District (regardless of their funding source), recommended to be paid the first week of January 2013.	\$644,000	N

6	Exceptional Children	D	Historically, the Exceptional Children's Program has needed additional support through local funding to ensure that students with disabilities were served appropriately. The financial needs of the program can greatly vary depending upon specific needs of students, as dictated by their IEPs. Some examples are a student with autism that needs his/her own individual teacher and teacher assistant, a medically fragile child that needs their own nurse, private evaluations, assistive technology needs, etc. The list of needs can never be anticipated and difficult to budget for. Additional dollars are needed to add to the local Exceptional Children's budget to help pay for possible unanticipated expenses.	\$110,000	R
7	Efland Cheeks Refocus Initiative	D	Efland-Cheeks Elementary School during the 2011-2012 school year began exploring potential initiatives to improve their school's culturally diverse student achievement. They chose the focus to develop leadership skills in their students using The Seven Habits of Successful Students as their framework. The Board of Education approved the concept Spring of 2012. First year costs are \$42,000.00.	\$42,000	One Time Startup Cost
8	STEM Initiative Support	D	One of the Board of Education goals is to strengthen STEM initiatives K-12. These dollars will be used to continue to support EIE at Central Elementary, math and science initiatives, i.e. materials and supplies for Discovery Ed., etc.	\$60,000	R
9	AIG/Rigor Support	D	These dollars will be spent to provide focused training to AIG teachers at the elementary/secondary levels and to send high school teachers to AP/IB trainings throughout the year.	\$50,000	R
10	Legal Expense Increase	D	This is an adjustment to reflect actual expenditures.	\$20,000	R
11	H.R. Recognitions and Contracted Services	D	Additional funding to support staff recognition programs, new teacher support, and digitizing files.	\$14,000	R
12	Testing Program Support	D	These dollars will be used to pay for reorganizing the existing testing staff to create a testing coordinator position and to employ an office support position. Other costs included in this amount are the unfunded mandate of printing and shredding the newly created Measures of Student Learning.	\$45,000	R
13	Employee Wellness	D	Funding to be provided to support employee wellness activities.	\$10,000	R
14	Driver's Ed. Vehicle Replacement	D	Due to state cuts to driver education, this appropriation is needed to provide vehicle replacement.	\$25,000	N
15	Weekend Technical Support	D	Provide weekend technical support service to students. (Local)	\$16,818	R
			TOTAL RECURRING FUNDING		\$779,000
			TOTAL NON-RECURRING FUNDING		\$671,000
			TOTAL	\$1,450,000	

2011-12 BUDGET CONSIDERATIONS (EduJobs Funding)	\$ 1,400,000
2012-13 BUDGET CONSIDERATIONS	\$ 1,450,000
TOTAL CONSIDERATIONS FOR 2012-13 BUDGET	\$ 2,850,000

FY 2012-13 Additional Capital Investment Plan (CIP) Budget Considerations

The list below contains items that were not part of the Board approved budget that was forwarded to Commissioners in April 2012. Instead, it offers a list of additional priority items that potentially could be funded by additional Pay-As-You-Go funds OR Capital Fund Balance appropriations. This list is not in priority order.

Item	Explanation/Description	Additional Funding	Project Already on CIP
1 Activity Bus Replacements	The district currently maintains a fleet of 12 activity buses. This fleet is old and unreliable for long-distance trips, e.g. out of state. The mileage on these buses range from a low of 78,864 to a high of 249,445. This \$250,000 will purchase two 72 passenger buses, one 15 passenger bus and one 30 passenger bus. This is the first phase of a replacement plan for old activity buses.	\$250,000	X (Years 6-9)
2 Central Elementary Window Replacements	There are only 22 of the original windows that were installed when the school was built in 1952. Over the past three years, all of the school's windows except these 22 have been replaced. These 22 windows would be replaced like the others with more energy efficient double-paned windows with boron gas between the panes.	\$45,000	
3 Cedar Ridge High Baseball Field Renovation	The baseball field is located at the lowest point on the campus, and the water from the athletic complex drains to this area. This project corrects the drainage problems, levels the field and top-dresses the field with better soil.	\$150,000	
4 Cedar Ridge High Tennis Court Renovation	The Cedar Ridge High tennis court project was on the 2011-2012 CIP, but only \$30K was budgeted. This amount would cover resurfacing the courts, but after getting an engineering firm to look at the site, it was determined that water drainage was a problem and had led to the deterioration of the court surfaces.	\$150,000	X (2011-2012)
5 GA Brown Elementary Concrete Repairs	The concrete pads facing both parking lots (front drop-off and bus parking lots) are badly cracked and eroding. This has created a serious trip hazard and is difficult to traverse considering ADA compliance. Project includes demolition of old pad and removal of fractured concrete.	\$100,000	X (Year 6)
6 Orange High Building Repairs and Renovations	This 50 year-old building is in need of additional funding to cover a number of problem areas at the school to include: replace lockers throughout the gymnasium and field house; install drop ceiling from the Media Center to the Panther's Den to improve aesthetics; Ag Shop electrical upgrade; replace kitchen HVAC; replace public address system in the stadium.	\$295,000	
	TOTAL	\$990,000	*

*** All items were approved by the B.O.E. on October 8, 2012. These items will be funded from the additional \$368,348 appropriation from the County in Pay-as-you-Go funding and \$621,652 from capital fund balance.**

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

*Financial Statements
For the Fiscal Year Ended
June 30, 2012*

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

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Orange County Board of Education
Hillsborough, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Orange County Board of Education, as of and for the year ended June 30, 2012, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Orange County Board of Education's management. 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Orange County Board of Education as of June 30, 2012, and the respective changes in financial position and its cash flows, where applicable, thereof and the respective budgetary comparison for the General, State Public School and Federal Grants funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2012 on our consideration of the Orange County Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 9 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Orange County Board of Education's basic financial statements. The combining and individual nonmajor fund financial statements and schedules, budgetary schedules and other schedules, as well as the accompanying schedule of expenditures of federal and State awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The combining and individual nonmajor fund financial statements and schedules, budgetary schedules and other schedules, and the accompanying schedule of expenditures of federal and State awards have been subjected to the auditing procedures applied by us 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 nonmajor fund financial statements and schedules, budgetary schedules and other schedules, and the accompanying schedule of expenditures of federal and State awards are fairly stated in all material respects in relation to the financial statements taken as a whole.

Anderson Smith & Wike PLLC

November 2, 2012
Rockingham, North Carolina
(910) 997-1418

ORANGE COUNTY BOARD OF EDUCATION MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Orange County Board of Education's (the "Board") financial report represents our discussion and analysis of the financial performance of the Board for the year ended June 30, 2012. This information should be read in conjunction with the audited financial statements included in this report.

Financial Highlights

- Student enrollment increased by 167 students over the average daily membership of the prior fiscal year.
- Orange County Schools made a continued effort in the 2011-2012 fiscal year to increase efficiency and reduce staff as vacancies occurred. This is evidenced by the improvement in the Board's financial position over the previous year.
- The Child Nutrition Program was profitable for the fourth consecutive year.

Overview of the Financial Statements

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

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

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

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

ORANGE COUNTY BOARD OF EDUCATION MANAGEMENT'S DISCUSSION AND ANALYSIS

Government-wide Statements

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

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

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

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

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

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

Fund Financial Statements

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

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

Orange County Board of Education has three types of funds:

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

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

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

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

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

Fiduciary Funds: Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Orange County Board of Education has three fiduciary funds – an administrative fund and two agency funds. The Administrative Fund is a scholarship fund under the control of the administrative unit. This is accounted for as a private purpose trust fund. The agency funds are used to account for moneys held for the Triangle Leadership Academy and the Central Carolina Regional Educational Service Alliance (RESA). The Board is the fiscal agent for each of these entities.

The fiduciary fund statements are shown as Exhibits 10 and 11.

Financial Analysis of the Board as a Whole

Net assets are an indicator of the fiscal health of the Board. Assets exceeded liabilities by \$79.9 million as of June 30, 2012 as compared to \$78.9 million as of June 30, 2011, an increase of \$1.0 million. The largest component of net assets is invested in capital assets, net of related debt of \$71.3 million, which comprises 89.3% of the total net assets.

Following is a summary of the Statement of Net Assets as of June 30, 2012 and 2011:

**Table 1
Condensed Statement of Net Assets
As of June 30, 2012 and 2011**

	Governmental Activities		Business-type Activities		Total Primary Government	
	6/30/12	6/30/11	6/30/12	6/30/11	6/30/12	6/30/11
Current assets	\$ 15,037,901	\$ 10,191,079	\$ 861,643	\$ 791,720	\$ 15,899,544	\$ 10,982,799
Capital assets	73,864,393	75,104,807	138,486	167,227	74,002,879	75,272,034
Total assets	<u>88,902,294</u>	<u>85,295,886</u>	<u>1,000,129</u>	<u>958,947</u>	<u>89,902,423</u>	<u>86,254,833</u>
Current liabilities	5,524,141	4,977,103	89,506	91,185	5,613,647	5,068,288
Long-term liabilities	4,349,847	2,266,287	46,044	36,687	4,395,891	2,302,974
Total liabilities	<u>9,873,988</u>	<u>7,243,390</u>	<u>135,550</u>	<u>127,872</u>	<u>10,009,538</u>	<u>7,371,262</u>
Invested in capital assets, net of related debt	73,785,904	74,947,828	138,486	167,227	73,924,390	75,115,055
Restricted net assets	2,007,015	1,700,356	-	-	2,007,015	1,700,356
Unrestricted net assets	3,235,387	1,404,312	726,093	663,848	3,961,480	2,068,160
Total net assets	<u>\$ 79,028,306</u>	<u>\$ 78,052,496</u>	<u>\$ 864,579</u>	<u>\$ 831,075</u>	<u>\$ 79,892,885</u>	<u>\$ 78,883,571</u>

The net assets of the Board's governmental activities increased \$976,000 during the year from \$78.1 million at June 30, 2011 to \$79.0 million at June 30, 2012, indicating an improvement in the financial condition of the Board. For the year, net assets invested in capital assets, net of related debt decreased by \$1.2 million while restricted net assets increased by \$307,000 and unrestricted net assets increased by \$1.8 million.

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

The net assets of the Board's business-type activities increased \$34,000 from \$831,000 at June 30, 2011 to \$865,000 at June 30, 2012. This increase of \$34,000 is the amount of combined net profit (including transfers) generated by the Board's School Food Service and Child Care programs during the year.

The following table shows the revenues and expenses for the Board for the current and prior fiscal years:

**Table 2
Condensed Statement of Activities
For the Fiscal Years Ended June 30, 2012 and 2011**

	Governmental Activities		Business-type Activities		Total Primary Government	
	6/30/12	6/30/11	6/30/12	6/30/11	6/30/12	6/30/11
Revenues:						
Program revenues:						
Charges for services	\$ 1,992,467	\$ 1,792,815	\$ 1,643,731	\$ 1,776,004	\$ 3,636,198	\$ 3,568,819
Operating grants and contributions	45,314,449	44,783,968	1,669,311	1,624,484	46,983,760	46,408,452
Capital grants and contributions	345,628	287,215	-	-	345,628	287,215
General revenues:						
Other revenues	29,514,581	28,193,050	7,579	1,749	29,522,160	28,194,799
Total revenues	<u>77,167,125</u>	<u>75,057,048</u>	<u>3,320,621</u>	<u>3,402,237</u>	<u>80,487,746</u>	<u>78,459,285</u>
Expenses:						
Governmental activities:						
Instructional services	54,110,911	53,932,281	-	-	54,110,911	53,932,281
System-wide support services	17,913,987	17,819,443	-	-	17,913,987	17,819,443
Ancillary services	29,398	41,314	-	-	29,398	41,314
Non-programmed charges	987,746	813,166	-	-	987,746	813,166
Interest on long-term debt	-	-	-	-	-	-
Unallocated depreciation	3,069,809	3,155,047	-	-	3,069,809	3,155,047
Business-type activities:						
School food service	-	-	2,602,152	2,495,332	2,602,152	2,495,332
Child care	-	-	764,429	715,907	764,429	715,907
Total expenses	<u>76,111,851</u>	<u>75,761,251</u>	<u>3,366,581</u>	<u>3,211,239</u>	<u>79,478,432</u>	<u>78,972,490</u>
Transfers in (out)	<u>(79,464)</u>	<u>(79,464)</u>	<u>79,464</u>	<u>79,464</u>	<u>-</u>	<u>-</u>
Increase(decrease) in net assets	975,810	(783,667)	33,504	270,462	1,009,314	(513,205)
Beginning net assets	<u>78,052,496</u>	<u>78,836,163</u>	<u>831,075</u>	<u>560,613</u>	<u>78,883,571</u>	<u>79,396,776</u>
Ending net assets	<u>\$ 79,028,306</u>	<u>\$ 78,052,496</u>	<u>\$ 864,579</u>	<u>\$ 831,075</u>	<u>\$ 79,892,885</u>	<u>\$ 78,883,571</u>

Total governmental activities generated revenues of \$77.2 million while expenses in this category totaled \$76.1 million for the year ended June 30, 2012, resulting in the aforementioned increase in net assets of \$976,000 (including transfers to business-type activities of \$79,000). Comparatively, revenues were \$75.1 million, expenses totaled \$75.8 million and transfers out were \$79,000 for the year ended June 30, 2011, resulting in a decrease in net assets of \$784,000. In comparing the two years, there was an increase in revenues of \$2.1 million, while expenses increased over the prior year by \$351,000. The

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

increase in revenues was attributable in large part to \$850,000 of increased revenues from Orange County in the Capital Outlay Fund.

The Board's primary sources of revenues were funding from the State of North Carolina, Orange County, and the United States Government, which respectively comprised 50.7%, 36.1% and 7.2% of our total revenues. As would be expected, the major component of our expenditures was instructional services which accounted for 71.1% of our total expenditures during the most recent fiscal year. Of the remaining 28.9% of our total expenditures, 23.5% was attributable to system-wide support services.

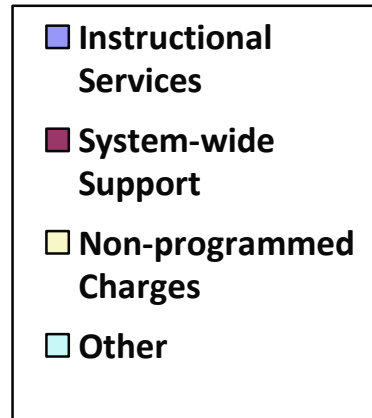
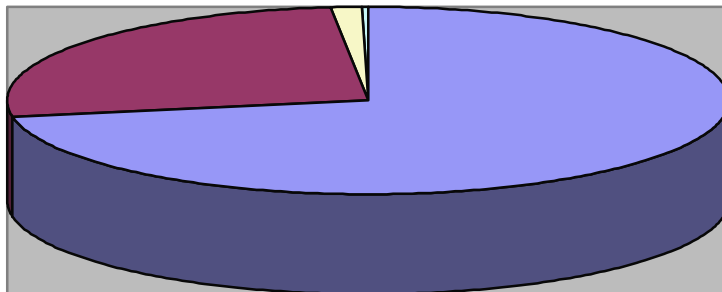
Our business-type activities generated revenues of \$3.3 million, expenses of \$3.4 million and transfers in from governmental activities of \$79,000 for the year ended June 30, 2012. For the year, net assets increased by \$34,000. Comparatively, revenues were \$3.4 million, expenses were \$3.2 million and transfers in from governmental activities totaled \$79,000 for the year ended June 30, 2011, resulting in an increase in net assets of \$270,000. In comparing the two periods, the year-over-year decline is primarily due to a decrease in food sales and an increase in salaries and benefits expenses.

Financial Analysis of the Board's Funds

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

The Board's governmental funds reported a combined fund balance of \$9.1 million at June 30, 2012, an increase of \$2.4 million over the \$6.7 million reported at June 30, 2011. The Board's General, Capital Outlay, Other Special Revenue and Individual Schools funds each reported increases in fund balance for the year. Total governmental funds revenues increased by \$2.1 million over the prior year while expenditures increased by \$1.5 million.

Categorization of Expenditures for Governmental Funds



Expenditures presented on modified accrual basis of accounting.

Proprietary Funds: The Board's business-type funds, the School Food Service Fund and the Child Care Fund, generated a combined increase in net assets of \$34,000 for the current year compared to a \$270,000 increase for the year ended June 30, 2011. As previously discussed, the year-over-year decline in operating results is primarily due to a decrease in food sales and an increase in salaries and benefits expenses.

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

General Fund Budgetary Highlights

The General Fund reported ending fund balance of \$7.1 million at June 30, 2012, an increase of \$2.0 million over the prior year. Revenues in the General Fund were \$34,000 over budget while expenditures were \$2.1 million under budget. No budget amendments were made during the year that increased total budgeted revenues or expenditures in the General Fund.

Capital Assets

Total primary government capital assets were \$74.0 million at June 30, 2012 compared to \$75.3 million at June 30, 2011, a decrease of 1.7%. This decrease was due to an excess of depreciation expense over capital additions for the year. More detailed information about the Board's capital assets is contained in Note 2 to the financial statements.

The following is a summary of the Board's capital assets, net of depreciation, at June 30, 2012 and 2011:

**Table 3
Summary of Capital Assets
As of June 30, 2012 and 2011**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>6/30/12</u>	<u>6/30/11</u>	<u>6/30/12</u>	<u>6/30/11</u>	<u>6/30/12</u>	<u>6/30/11</u>
Land	\$ 2,844,650	\$ 2,844,650	\$ -	\$ -	\$ 2,844,650	\$ 2,844,650
Construction in progress	-	776,771	-	-	-	776,771
Buildings and improvements	69,865,472	69,750,892	14,110	17,340	69,879,582	69,768,232
Equipment and furniture	627,354	878,879	124,376	149,887	751,730	1,028,766
Vehicles	526,917	853,615	-	-	526,917	853,615
Total	<u>\$ 73,864,393</u>	<u>\$ 75,104,807</u>	<u>\$ 138,486</u>	<u>\$ 167,227</u>	<u>\$ 74,002,879</u>	<u>\$ 75,272,034</u>

Debt Outstanding

During the year, the Board's long-term debt increased by \$2.5 million from \$157,000 at June 30, 2011 to \$2.7 million at June 30, 2012. Borrowings from an installment purchase for computers totaled \$2.6 million while repayments totaled \$78,000. The Board is limited by North Carolina General Statutes with regards to the types of debt it can issue and for what purpose that debt can be used. More detailed information about the Board's outstanding debt is contained in the Note 2 to the financial statements.

Economic Factors

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

- The County enjoys a consistently low unemployment rate. The unemployment rate estimated by the North Carolina Employment Security Commission for June 2011 was 7.4% and 7.1 % for June 2012, one of the lowest in the state. The state average for June 2011 was 10.9% and 9.9% for June 2012.
- The County's economy is characterized by a high degree of institutional and public sector activity, plus office, commercial and service-oriented business. Manufacturing and agriculture make up a smaller portion of the County's economy.

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

- The economy of the area is stabilized by the presence of State and Local government employment markets. The University of North Carolina at Chapel Hill and University Hospitals in the Town of Chapel Hill and their associated service, teaching and research programs have a reputation of excellence in the educational and medical fields. The County is also the place of residence for many technical and professional workers and executives who work in the Research Triangle Park and neighboring cities of Durham, Raleigh and Burlington.

Requests for Information

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

Donna Brinkley, Finance Officer
Orange County Board of Education
200 East King Street
Hillsborough, NC 27278

ORANGE COUNTY BOARD OF EDUCATION
STATEMENT OF NET ASSETS
June 30, 2012

Exhibit 1

	Primary Government		Total
	Governmental Activities	Business-type Activities	
Assets			
Cash and cash equivalents	\$ 10,441,828	\$ 765,353	\$ 11,207,181
Restricted cash	2,600,000	-	2,600,000
Due from other governments	1,922,935	40,018	1,962,953
Receivables	73,138	9,640	82,778
Inventories	-	46,632	46,632
Capital assets:			
Land	2,844,650	-	2,844,650
Other capital assets, net of depreciation	71,019,743	138,486	71,158,229
Total capital assets	<u>73,864,393</u>	<u>138,486</u>	<u>74,002,879</u>
Total assets	<u>88,902,294</u>	<u>1,000,129</u>	<u>89,902,423</u>
Liabilities			
Accounts payable and accrued expenses	828,437	4,734	833,171
Accrued salaries and wages payable	1,940,363	-	1,940,363
Due to other governments	559,009	-	559,009
Unearned revenue	-	41,904	41,904
Long-term liabilities:			
Due within one year	2,196,332	42,868	2,239,200
Due in more than one year	<u>4,349,847</u>	<u>46,044</u>	<u>4,395,891</u>
Total liabilities	<u>9,873,988</u>	<u>135,550</u>	<u>10,009,538</u>
Net assets			
Invested in capital assets, net of related debt	73,785,904	138,486	73,924,390
Restricted for:			
Stabilization by State statute	121,167	-	121,167
School capital outlay	1,243,983	-	1,243,983
Instructional services	165,448	-	165,448
Individual schools activities	476,417	-	476,417
Unrestricted	<u>3,235,387</u>	<u>726,093</u>	<u>3,961,480</u>
Total net assets	<u>\$ 79,028,306</u>	<u>\$ 864,579</u>	<u>\$ 79,892,885</u>

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

**ORANGE COUNTY BOARD OF EDUCATION
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2012**

Exhibit 2

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
Instructional services:							
Regular instructional	\$ 32,438,224	\$ -	\$ 25,873,300	\$ -	\$ (6,564,924)	\$ -	\$ (6,564,924)
Special populations	8,105,101	-	6,937,072	-	(1,168,029)	-	(1,168,029)
Alternative programs	2,734,646	-	2,483,912	-	(250,734)	-	(250,734)
School leadership	3,453,247	-	2,334,452	-	(1,118,795)	-	(1,118,795)
Co-curricular	2,775,358	1,887,805	11,000	267,138	(609,415)	-	(609,415)
School-based support	4,604,335	-	1,622,615	-	(2,981,720)	-	(2,981,720)
System-wide support services:							
Support and development	1,529,910	-	90,432	-	(1,439,478)	-	(1,439,478)
Special population support and development	263,212	-	136,946	-	(126,266)	-	(126,266)
Alternative programs and services support and development	227,431	-	195,938	-	(31,493)	-	(31,493)
Technology support	543,941	-	111,106	-	(432,835)	-	(432,835)
Operational support	12,693,000	54,614	4,318,783	78,490	(8,241,113)	-	(8,241,113)
Financial and human resource services	1,338,413	50,048	594,411	-	(693,954)	-	(693,954)
Accountability	186,589	-	40,528	-	(146,061)	-	(146,061)
System-wide pupil support	13,557	-	-	-	(13,557)	-	(13,557)
Policy, leadership and public relations	1,117,934	-	452,136	-	(665,798)	-	(665,798)
Ancillary services	29,398	-	12,653	-	(16,745)	-	(16,745)
Payments to other governments	987,746	-	99,165	-	(888,581)	-	(888,581)
Unallocated depreciation expense**	3,069,809	-	-	-	(3,069,809)	-	(3,069,809)
Total governmental activities	76,111,851	1,992,467	45,314,449	345,628	(28,459,307)	-	(28,459,307)
Business-type activities:							
School food service	2,602,152	911,964	1,669,311	-	-	(20,877)	(20,877)
Child care	764,429	731,767	-	-	-	(32,662)	(32,662)
Total business-type activities	3,366,581	1,643,731	1,669,311	-	-	(53,539)	(53,539)
Total primary government	\$ 79,478,432	\$ 3,636,198	\$ 46,983,760	\$ 345,628	(28,459,307)	(53,539)	(28,512,846)
General revenues:							
Unrestricted county appropriations - operating					23,563,574	-	23,563,574
Unrestricted county appropriations - capital					5,550,725	-	5,550,725
Investment earnings, unrestricted					72,750	-	72,750
Miscellaneous, unrestricted					327,532	7,579	335,111
Transfers					(79,464)	79,464	-
Total general revenues and transfers					29,435,117	87,043	29,522,160
Change in net assets					975,810	33,504	1,009,314
Net assets - beginning					78,052,496	831,075	78,883,571
Net assets - ending					\$ 79,028,306	\$ 864,579	\$ 79,892,885

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

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

**ORANGE COUNTY BOARD OF EDUCATION
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012**

Exhibit 3

	Major Funds				Non-major Funds	Total Governmental Funds
	General	State Public School	Federal Grants	Capital Outlay	Special Revenue	
Assets						
Cash and cash equivalents	\$ 8,600,236	\$ 5,986	\$ -	\$ 1,110,824	\$ 724,782	\$ 10,441,828
Restricted cash	-	-	-	2,600,000	-	2,600,000
Due from other governments	14,442	1,491,242	191,896	191,768	33,587	1,922,935
Accounts receivable	12,843	-	-	-	60,295	73,138
Total assets	\$ 8,627,521	\$ 1,497,228	\$ 191,896	\$ 3,902,592	\$ 818,664	\$ 15,037,901
Liabilities and fund balances						
Liabilities:						
Accounts payable and accrued liabilities	\$ 767,786	\$ -	\$ -	\$ 58,609	\$ 2,042	\$ 828,437
Accrued salaries and wages payable	221,122	1,491,242	191,896	-	36,103	1,940,363
Due to other governments	553,023	5,986	-	-	-	559,009
Deferred revenue	-	-	-	2,600,000	-	2,600,000
Total liabilities	1,541,931	1,497,228	191,896	2,658,609	38,145	5,927,809
Fund balances:						
Restricted:						
Stabilization by State statute	27,285	-	-	-	93,882	121,167
School capital outlay	-	-	-	1,243,983	-	1,243,983
Instructional services	888	-	-	-	164,560	165,448
Individual schools	-	-	-	-	476,417	476,417
Assigned:						
Subsequent year's expenditures	2,850,000	-	-	-	-	2,850,000
Special revenues	-	-	-	-	45,660	45,660
Unassigned	4,207,417	-	-	-	-	4,207,417
Total fund balances	7,085,590	-	-	1,243,983	780,519	9,110,092
Total liabilities and fund balances	\$ 8,627,521	\$ 1,497,228	\$ 191,896	\$ 3,902,592	\$ 818,664	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	73,864,393
Deferred revenue attributable to proceeds from an installment purchase agreement. Amount is reported as a long-term liability for governmental activities.	2,600,000
Some liabilities, including those for compensated absences and installment purchases, are not due and payable in the current period and therefore are not reported in the funds.	<u>(6,546,179)</u>
Net assets of governmental activities	<u>\$ 79,028,306</u>

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

ORANGE COUNTY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2012

Exhibit 4

	Major Funds				Non-major Funds	Total Governmental Funds
	General	State Public School	Federal Grants	Capital Outlay	Special Revenue	
Revenues:						
State of North Carolina	\$ -	\$ 39,075,500	\$ -	\$ 78,490	\$ 18,300	\$ 39,172,290
Orange County	23,563,574	-	-	4,303,446	-	27,867,020
U.S. Government	-	-	5,109,258	-	437,128	5,546,386
Contributions and donations	-	-	-	267,138	-	267,138
Other	289,606	-	-	1,258,150	2,876,485	4,424,241
Total revenues	23,853,180	39,075,500	5,109,258	5,907,224	3,331,913	77,277,075
Expenditures:						
Current:						
Instructional services:						
Regular instructional	6,420,576	23,893,203	1,721,680	93,419	303,138	32,432,016
Special populations	1,143,208	4,659,452	2,277,620	-	-	8,080,280
Alternative programs	744,153	917,287	706,351	-	358,480	2,726,271
School leadership	1,108,220	2,334,452	-	-	-	3,442,672
Co-curricular	889,663	-	-	48,658	1,828,538	2,766,859
School-based support	1,974,020	1,523,840	98,775	796,365	197,234	4,590,234
System-wide support services:						
Support and development	1,434,793	53,693	36,739	-	-	1,525,225
Special population support and development	125,460	132,142	4,804	-	-	262,406
Alternative programs and services support and development	22	51,676	144,262	-	30,775	226,735
Technology support	431,169	111,106	-	-	-	542,275
Operational support	5,043,833	4,236,865	11,042	4,794,334	298,714	14,384,788
Financial and human resource services	702,998	594,411	-	26,664	10,241	1,334,314
Accountability	145,490	40,528	-	-	-	186,018
System-wide pupil support	13,515	-	-	-	-	13,515
Policy, leadership and public relations	662,374	452,136	-	-	-	1,114,510
Ancillary services	14,080	3,833	8,820	2,665	-	29,398
Non-programmed charges	987,746	-	99,165	-	10,785	1,097,696
Debt service:						
Principal retirement	-	-	-	78,490	-	78,490
Total expenditures	21,841,320	39,004,624	5,109,258	5,840,595	3,037,905	74,833,702
Revenues over expenditures	2,011,860	70,876	-	66,629	294,008	2,443,373
Other financing uses:						
Transfers to other funds	(8,588)	(70,876)	-	-	-	(79,464)
Net change in fund balance	2,003,272	-	-	66,629	294,008	2,363,909
Fund balances:						
Beginning of year	5,082,318	-	-	1,177,354	486,511	6,746,183
End of year	\$ 7,085,590	\$ -	\$ -	\$ 1,243,983	\$ 780,519	\$ 9,110,092

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

ORANGE COUNTY BOARD OF EDUCATION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2012

Exhibit 5

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

Net changes in fund balances - total governmental funds	\$ 2,363,909
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(1,240,414)
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 assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	78,490
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Compensated absences	<u>(226,175)</u>
Total changes in net assets of governmental activities	<u>\$ 975,810</u>

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

ORANGE COUNTY BOARD OF EDUCATION **Exhibit 6**
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND AND ANNUALLY BUDGETED MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2012

	General Fund			Variance with final budget positive (negative)
	Original Budget	Final Budget	Actual	
Revenues:				
State of North Carolina	\$ -	\$ -	\$ -	\$ -
Orange County	23,563,574	23,563,574	23,563,574	-
U.S. Government	-	-	-	-
Other	<u>255,699</u>	<u>255,699</u>	<u>289,606</u>	<u>33,907</u>
Total revenues	<u>23,819,273</u>	<u>23,819,273</u>	<u>23,853,180</u>	<u>33,907</u>
Expenditures:				
Current:				
Instructional services:				
Regular instructional	7,525,567	7,501,291	6,420,576	1,080,715
Special populations	962,129	1,206,564	1,143,208	63,356
Alternative programs	702,344	749,174	744,153	5,021
School leadership	1,651,026	1,550,026	1,108,220	441,806
Co-curricular	896,335	930,984	889,663	41,321
School-based support	<u>1,144,220</u>	<u>1,975,210</u>	<u>1,974,020</u>	<u>1,190</u>
Total instructional services	<u>12,881,621</u>	<u>13,913,249</u>	<u>12,279,840</u>	<u>1,633,409</u>
System-wide support services:				
Support and development	1,508,348	1,461,589	1,434,793	26,796
Special population support and development	95,728	130,590	125,460	5,130
Alternative programs and services support and development	14	39	22	17
Technology support	404,387	434,388	431,169	3,219
Operational support	6,665,442	5,475,835	5,043,833	432,002
Financial and human resource services	728,015	727,850	702,998	24,852
Accountability	113,357	148,357	145,490	2,867
System-wide pupil support	14,101	14,101	13,515	586
Policy, leadership and public relations	<u>702,798</u>	<u>667,798</u>	<u>662,374</u>	<u>5,424</u>
Total system-wide support services	<u>10,232,190</u>	<u>9,060,547</u>	<u>8,559,654</u>	<u>500,893</u>
Ancillary services:				
Community	11,661	11,676	11,667	9
Nutrition	<u>5,795</u>	<u>5,795</u>	<u>2,413</u>	<u>3,382</u>
Total ancillary services	<u>17,456</u>	<u>17,471</u>	<u>14,080</u>	<u>3,391</u>
Nonprogrammed charges	<u>850,000</u>	<u>990,000</u>	<u>987,746</u>	<u>2,254</u>
Total expenditures	<u>23,981,267</u>	<u>23,981,267</u>	<u>21,841,320</u>	<u>2,139,947</u>
Revenues over (under) expenditures	<u>(161,994)</u>	<u>(161,994)</u>	<u>2,011,860</u>	<u>2,173,854</u>
Other financing sources (uses):				
Transfers to other funds	(8,588)	(8,588)	(8,588)	-
Fund balance appropriated	<u>170,582</u>	<u>170,582</u>	<u>-</u>	<u>(170,582)</u>
Total other financing sources (uses)	<u>161,994</u>	<u>161,994</u>	<u>(8,588)</u>	<u>(170,582)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>2,003,272</u>	<u>\$ 2,003,272</u>
Fund balances:				
Beginning of year			<u>5,082,318</u>	
End of year			<u>\$ 7,085,590</u>	

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

ORANGE COUNTY BOARD OF EDUCATION **Exhibit 6 (continued)**
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND AND ANNUALLY BUDGETED MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2012

	State Public School Fund			
	Original Budget	Final Budget	Actual	Variance with final budget positive (negative)
Revenues:				
State of North Carolina	\$ 38,518,909	\$ 40,307,168	\$ 39,075,500	\$ (1,231,668)
Orange County	-	-	-	-
U.S. Government	-	-	-	-
Other	-	-	-	-
Total revenues	<u>38,518,909</u>	<u>40,307,168</u>	<u>39,075,500</u>	<u>(1,231,668)</u>
Expenditures:				
Current:				
Instructional services:				
Regular instructional	24,301,134	24,771,846	23,893,203	878,643
Special populations	4,550,064	4,660,453	4,659,452	1,001
Alternative programs	1,222,387	1,109,186	917,287	191,899
School leadership	2,324,950	2,375,076	2,334,452	40,624
Co-curricular	-	-	-	-
School-based support	2,239,574	1,538,419	1,523,840	14,579
Total instructional services	<u>34,638,109</u>	<u>34,454,980</u>	<u>33,328,234</u>	<u>1,126,746</u>
System-wide support services:				
Support and development	100,999	56,896	53,693	3,203
Special population support and development	92,972	132,142	132,142	-
Alternative programs and services support and development	47,140	51,974	51,676	298
Technology support	129,858	153,970	111,106	42,864
Operational support	2,254,300	4,239,542	4,236,865	2,677
Financial and human resource services	760,978	613,199	594,411	18,788
Accountability	68,492	69,134	40,528	28,606
System-wide pupil support	-	-	-	-
Policy, leadership and public relations	352,987	460,042	452,136	7,906
Total system-wide support services	<u>3,807,726</u>	<u>5,776,899</u>	<u>5,672,557</u>	<u>104,342</u>
Ancillary services:				
Community	-	-	-	-
Nutrition	2,198	4,413	3,833	580
Total ancillary services	<u>2,198</u>	<u>4,413</u>	<u>3,833</u>	<u>580</u>
Nonprogrammed charges	-	-	-	-
Total expenditures	<u>38,448,033</u>	<u>40,236,292</u>	<u>39,004,624</u>	<u>1,231,668</u>
Revenues over (under) expenditures	<u>70,876</u>	<u>70,876</u>	<u>70,876</u>	<u>-</u>
Other financing sources (uses):				
Transfers to other funds	(70,876)	(70,876)	(70,876)	-
Fund balance appropriated	-	-	-	-
Total other financing sources (uses)	<u>(70,876)</u>	<u>(70,876)</u>	<u>(70,876)</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balances:				
Beginning of year			-	
End of year			<u>\$ -</u>	

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

ORANGE COUNTY BOARD OF EDUCATION **Exhibit 6 (continued)**
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND AND ANNUALLY BUDGETED MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2012

	Federal Grants Fund			
	Original Budget	Final Budget	Actual	Variance with final budget positive (negative)
Revenues:				
State of North Carolina	\$ -	\$ -	\$ -	\$ -
Orange County	-	-	-	-
U.S. Government	5,724,772	6,020,634	5,109,258	(911,376)
Other	-	-	-	-
Total revenues	<u>5,724,772</u>	<u>6,020,634</u>	<u>5,109,258</u>	<u>(911,376)</u>
Expenditures:				
Current:				
Instructional services:				
Regular instructional	1,623,395	1,735,399	1,721,680	13,719
Special populations	2,291,226	2,321,222	2,277,620	43,602
Alternative programs	850,337	796,940	706,351	90,589
School leadership	-	-	-	-
Co-curricular	-	-	-	-
School-based support	140,706	162,470	98,775	63,695
Total instructional services	<u>4,905,664</u>	<u>5,016,031</u>	<u>4,804,426</u>	<u>211,605</u>
System-wide support services:				
Support and development	16,233	44,213	36,739	7,474
Special population support and development	42,223	32,223	4,804	27,419
Alternative programs and services support and development	105,432	145,063	144,262	801
Technology support	-	-	-	-
Operational support	42,929	41,150	11,042	30,108
Financial and human resource services	-	-	-	-
Accountability	-	-	-	-
System-wide pupil support	-	-	-	-
Policy, leadership and public relations	-	-	-	-
Total system-wide support services	<u>206,817</u>	<u>262,649</u>	<u>196,847</u>	<u>65,802</u>
Ancillary services:				
Community	-	-	-	-
Nutrition	2,079	20,787	8,820	11,967
Total ancillary services	<u>2,079</u>	<u>20,787</u>	<u>8,820</u>	<u>11,967</u>
Nonprogrammed charges	<u>610,212</u>	<u>721,167</u>	<u>99,165</u>	<u>622,002</u>
Total expenditures	<u>5,724,772</u>	<u>6,020,634</u>	<u>5,109,258</u>	<u>911,376</u>
Revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources (uses):				
Transfers to other funds	-	-	-	-
Fund balance appropriated	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balances:				
Beginning of year			-	
End of year			<u>\$ -</u>	

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

**ORANGE COUNTY BOARD OF EDUCATION
STATEMENT OF NET ASSETS
PROPRIETARY FUND TYPES
June 30, 2012**

Exhibit 7

	Enterprise		Totals
	Major Fund School Food Service	Non-major Fund Child Care	
Assets			
Current assets:			
Cash and cash equivalents	\$ 561,771	\$ 203,582	\$ 765,353
Due from other governments	40,018	-	40,018
Receivables	6,859	2,781	9,640
Inventories	46,632	-	46,632
Total current assets	<u>655,280</u>	<u>206,363</u>	<u>861,643</u>
Noncurrent assets:			
Capital assets:			
Furniture and equipment, net	<u>107,417</u>	<u>31,069</u>	<u>138,486</u>
Total assets	<u>762,697</u>	<u>237,432</u>	<u>1,000,129</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	442	4,292	4,734
Compensated absences	29,852	13,016	42,868
Unearned revenue	<u>30,490</u>	<u>11,414</u>	<u>41,904</u>
Total current liabilities	<u>60,784</u>	<u>28,722</u>	<u>89,506</u>
Noncurrent liabilities:			
Compensated absences	<u>29,848</u>	<u>16,196</u>	<u>46,044</u>
Total liabilities	<u>90,632</u>	<u>44,918</u>	<u>135,550</u>
Net assets			
Invested in capital assets	107,417	31,069	138,486
Unrestricted	<u>564,648</u>	<u>161,445</u>	<u>726,093</u>
Total net assets	<u>\$ 672,065</u>	<u>\$ 192,514</u>	<u>\$ 864,579</u>

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

ORANGE COUNTY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND TYPES
For the Fiscal Year Ended June 30, 2012

Exhibit 8

	Enterprise		Totals
	Major Fund School Food Service	Non-major Fund Child Care	
Operating revenues:			
Food sales	\$ 911,964	\$ -	\$ 911,964
Child care fees	-	731,767	731,767
Total operating revenues	<u>911,964</u>	<u>731,767</u>	<u>1,643,731</u>
Operating expenses:			
Food cost:			
Purchase of food	866,514	23,500	890,014
Donated commodities	135,088	-	135,088
Salaries and benefits	1,441,648	680,222	2,121,870
Indirect costs	171,425	-	171,425
Materials and supplies	96,459	17,605	114,064
Repairs and maintenance	-	609	609
Depreciation	26,197	7,787	33,984
Non-capitalized equipment	8,512	1,774	10,286
Contracted services	-	7,957	7,957
Other	27,734	24,975	52,709
Total operating expenses	<u>2,773,577</u>	<u>764,429</u>	<u>3,538,006</u>
Operating loss	<u>(1,861,613)</u>	<u>(32,662)</u>	<u>(1,894,275)</u>
Nonoperating revenues:			
Federal reimbursements and grants	1,530,130	-	1,530,130
Federal commodities	135,088	-	135,088
State reimbursements	4,093	-	4,093
Indirect costs not paid	171,425	-	171,425
Other	7,579	-	7,579
Total nonoperating revenues	<u>1,848,315</u>	<u>-</u>	<u>1,848,315</u>
Loss before transfers	(13,298)	(32,662)	(45,960)
Transfers from other funds	<u>79,464</u>	<u>-</u>	<u>79,464</u>
Change in net assets	66,166	(32,662)	33,504
Net assets, beginning of year	<u>605,899</u>	<u>225,176</u>	<u>831,075</u>
Net assets, end of year	<u>\$ 672,065</u>	<u>\$ 192,514</u>	<u>\$ 864,579</u>

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

ORANGE COUNTY BOARD OF EDUCATION
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPES
For the Fiscal Year Ended June 30, 2012

Exhibit 9

	Enterprise		Totals
	Major Fund School Food Service	Non-major Fund Child Care	
Cash flows from operating activities:			
Cash received from customers	\$ 903,941	\$ 724,953	\$ 1,628,894
Cash paid for goods and services	(958,487)	(75,116)	(1,033,603)
Cash paid to employees for services	(1,352,064)	(678,567)	(2,030,631)
Net cash used by operating activities	<u>(1,406,610)</u>	<u>(28,730)</u>	<u>(1,435,340)</u>
Cash flows from noncapital financing activities:			
Federal and State reimbursements and grants	1,550,356	-	1,550,356
Other	7,579	-	7,579
Net cash provided by noncapital financing activities	<u>1,557,935</u>	<u>-</u>	<u>1,557,935</u>
Cash flows from capital and related financing activities:			
Purchase of capital assets	(5,243)	-	(5,243)
Net increase (decrease) in cash and cash equivalents	146,082	(28,730)	117,352
Cash and cash equivalents, beginning of year	<u>415,689</u>	<u>232,312</u>	<u>648,001</u>
Cash and cash equivalents, end of year	<u>\$ 561,771</u>	<u>\$ 203,582</u>	<u>\$ 765,353</u>
Reconciliation of operating loss to net cash used by operating activities:			
Operating loss	\$ (1,861,613)	\$ (32,662)	\$ (1,894,275)
Adjustments to reconcile operating loss to net cash used by operating activities:			
Depreciation	26,197	7,787	33,984
Donated commodities	135,088	-	135,088
Salaries paid by other funds	79,464	-	79,464
Indirect costs not paid	171,425	-	171,425
Changes in assets and liabilities:			
Increase in accounts receivable	(6,859)	(2,584)	(9,443)
Decrease in inventories	40,739	-	40,739
Increase (decrease) in accounts payable and accrued liabilities	(7)	1,304	1,297
Decrease in unearned revenue	(1,164)	(4,230)	(5,394)
Increase in compensated absences payable	10,120	1,655	11,775
Total adjustments	<u>455,003</u>	<u>3,932</u>	<u>458,935</u>
Net cash used by operating activities	<u>\$ (1,406,610)</u>	<u>\$ (28,730)</u>	<u>\$ (1,435,340)</u>

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

NONCASH OPERATING AND NONCAPITAL FINANCING ACTIVITIES:

The School Food Service Fund received donated commodities with a value of \$135,088 during the fiscal year. The receipt of these commodities is reflected as a nonoperating revenue on Exhibit 8. The consumption of these commodities is recorded as an operating expense.

The State Public School Fund and the General Fund paid salaries and benefits of \$70,876 and \$8,588, respectively, to administrative personnel of the School Food Service Fund during the fiscal year. These payments are reflected as an operating transfer in and an operating expense on Exhibit 8.

Indirect costs of \$171,425 that would be due to the Other Special Revenue Fund were not paid. These unpaid costs are reflected as a nonoperating revenue and an operating expense on Exhibit 8.

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

**ORANGE COUNTY BOARD OF EDUCATION
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2012**

Exhibit 10

	<u>Administrative Fund</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$ 115,349	\$ 374,028
Accounts receivable	-	83
Total assets	<u>\$ 115,349</u>	<u>\$ 374,111</u>
Liabilities		
Due to RESA	<u>-</u>	<u>374,111</u>
Net Assets		
Assets held in trust for private purpose	<u>\$ 115,349</u>	<u>\$ -</u>

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

**ORANGE COUNTY BOARD OF EDUCATION
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
For the Fiscal Year Ended June 30, 2012**

Exhibit 11

	<u>Administrative Fund</u>
Additions:	
Contributions and other revenue	\$ 254
Deductions:	
Instructional costs and other expenditures	<u>1,100</u>
Change in net assets	(846)
Beginning net assets	<u>116,195</u>
Ending net assets	<u>\$ 115,349</u>

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

**ORANGE COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

B. Basis of Presentation

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

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

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

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

The Board reports the following major governmental funds:

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

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

**ORANGE COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012**

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

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

The Board reports the following nonmajor governmental funds:

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

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

The Board reports the following major enterprise fund:

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

The Board reports the following nonmajor enterprise fund:

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

The Board reports the following fiduciary funds:

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

Triangle Leadership Academy Agency Fund. This fund is used to account for moneys held for the Triangle Leadership Academy for which the Board is the fiscal agent.

Central Carolina Regional Educational Service Alliance (RESA) Agency Fund. This fund is used to account for moneys held for the Central Carolina Regional Educational Service Alliance for which the Board is the fiscal agent.

C. Measurement Focus and Basis of Accounting

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

ORANGE COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

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 assets 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.

All governmental and business-type activities and enterprise funds of the Board follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

D. Budgetary Data

The Board's budgets are adopted as required by the North Carolina General Statutes. Annual budgets are adopted for all funds, except for the fiduciary funds and the individual schools special revenue funds, as required by the North Carolina General Statutes. No budget is required by State law for individual school funds. All appropriations lapse at the fiscal year-end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds. The Board has authorized the Superintendent to transfer appropriations between sub-functions, objects of expenditures within a function and amounts not to exceed \$1,000 between functions, without limitation, with a report to the Board being required at its next regular meeting. The Superintendent is not authorized to transfer any amounts between funds nor from any contingency appropriation within a fund. Amendments are required for any revisions that alter total expenditures of any fund. All amendments must be approved by the Board of Education. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. Assets, Liabilities, 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

**ORANGE COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012**

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 NCCMT Cash Portfolio's securities are valued at fair value, which is the NCCMT's share price. The STIF securities are reported at cost and maintain a constant \$1 per share value. Under the authority of G.S. 147-69.3, no unrealized gains or losses of the STIF are distributed to external participants of the fund.

2. Cash and Cash Equivalents

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

The Board entered into an installment purchase agreement during the 2011-2012 year for the purchase of laptop computers for students. The \$2,600,000 of cash to be used to purchase the computers was deposited into an escrow account in the Board's name prior to June 30, 2012 by the bank providing the financing. The funds were expended for the purchase of computers during the 2012-2013 year. These funds are reported as restricted cash at June 30, 2012.

3. Inventories

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

4. Capital Assets

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, 1990 are recorded at an estimated original historical cost. The total of these estimates is not considered large enough that any errors would be material when capital assets are considered as a whole.

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

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

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

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

**ORANGE COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012**

5. 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.

6. Compensated Absences

The Board follows the State's policy for vacation and sick leave. Employees may accumulate up to thirty (30) days earned vacation leave with such leave being fully vested when earned. For the Board, the current portion of the accumulated vacation pay is not considered to be material. The Board's liability for accumulated earned vacation and the salary-related payments as of June 30, 2012 is recorded in the government-wide and proprietary fund financial statements on a FIFO basis. An estimate has been made based on prior years' records of the current portion of compensated absences.

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

7. Net Assets/Fund Balances

Net Assets

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

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

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

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

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

**ORANGE COUNTY BOARD OF EDUCATION
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Assigned fund balance – portion of fund balance that the Board of Education intends to use for specific purposes.

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

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

The Board of Education has a management policy for revenue spending 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.

8. Reconciliation of Government-wide and Fund Financial Statements

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

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. The net adjustment of \$69,918,214 consists of several elements as follows:

<u>Description</u>	<u>Amount</u>
Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds (total capital assets on the government-wide statement in the governmental activities column)	\$129,036,157
Less accumulated depreciation	<u>(55,171,764)</u>
Net capital assets	73,864,393
Deferred revenue attributable to proceeds from an installment purchase agreement. Amount is reported as a long-term liability for governmental activities.	2,600,000
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not recorded in the fund statements:	
Installment purchases	(2,678,489)
Compensated absences	<u>(3,867,690)</u>
Total adjustment	<u>\$ 69,918,214</u>

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. There are several elements of that total adjustment of (\$1,388,099) as follows:

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<u>Description</u>	<u>Amount</u>
Capital outlay expenditures recorded in the fund statements but capitalized as assets in the statement of activities	\$ 2,156,093
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	(3,396,507)
Principal payments on debt owed are recorded as a use of funds on the fund statements but again affect only the statement of net assets in the government-wide statements	78,490
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:	
Compensated absences are accrued in the government-wide statements but not in the fund statements because they do not use current resources	<u>(226,175)</u>
Total adjustment	<u>\$ (1,388,099)</u>

NOTE 2 - DETAIL NOTES ON ALL FUNDS

A. Assets

1. Deposits

All of the Board's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the Board's agents in the unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State 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, 2012, the Board had deposits with banks and savings and loans with a carrying amount of \$9,253,953 and with the State Treasurer of \$5,986. The bank balances with the financial institutions and the State Treasurer were \$9,837,843 and \$1,460,804, respectively. Of these balances, \$1,121,722 was covered by federal depository insurance and \$10,176,925 was covered by collateral held by authorized escrow agents in the name of the State Treasurer.

2. Investments

At June 30, 2012, the Board of Education had \$2,600,000 invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Board had \$2,436,619 invested with the State Treasurer in the Short Term Investment Fund (STIF). The

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STIF is unrated and had a weighted average maturity of 1.5 years at June 30, 2012. The Board has no policy for managing interest rate risk or credit risk.

3. Accounts Receivable

Receivables at the government-wide level at June 30, 2012 are as follows:

	Due from other governments	Other	Total
Governmental activities:			
General Fund	\$ 14,442	\$ 12,843	\$ 27,285
Other governmental activities	<u>1,908,493</u>	<u>60,295</u>	<u>1,968,788</u>
Total governmental activities	<u>\$ 1,922,935</u>	<u>\$ 73,138</u>	<u>\$ 1,996,073</u>
Business-type activities:			
School Food Service Fund	\$ 40,018	\$ 6,859	\$ 46,877
Child Care Fund	<u>-</u>	<u>2,781</u>	<u>2,781</u>
Total business-type activities	<u>\$ 40,018</u>	<u>\$ 9,640</u>	<u>\$ 49,658</u>

Due from other governments consists of the following:

Governmental activities:		
General Fund	\$ 14,442	Amounts due from the County
State Public School Fund	1,491,242	Operating funds from DPI
Federal Grants Fund	191,896	Federal grant funds
Capital Outlay Fund	191,768	Amounts due from the County
Other Special Revenue Fund	<u>33,587</u>	Federal grant funds
Total	<u>\$ 1,922,935</u>	
Business-type activities:		
School Food Service Fund	<u>\$ 40,018</u>	Federal funds

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4. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning Balances	Increases	Decreases	Transfers	Ending Balances
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 2,844,650	\$ -	\$ -	\$ -	\$ 2,844,650
Construction in progress	776,771	1,595,274	-	(2,372,045)	-
Total capital assets not being depreciated	<u>3,621,421</u>	<u>1,595,274</u>	<u>-</u>	<u>(2,372,045)</u>	<u>2,844,650</u>
Capital assets being depreciated:					
Buildings and improvements	110,754,252	509,183	-	2,372,045	113,635,480
Equipment and furniture	5,173,333	51,636	25,980	-	5,198,989
Vehicles	7,437,827	-	80,789	-	7,357,038
Total capital assets being depreciated	<u>123,365,412</u>	<u>560,819</u>	<u>106,769</u>	<u>2,372,045</u>	<u>126,191,507</u>
Less accumulated depreciation for:					
Buildings and improvements	41,003,360	2,766,648	-	-	43,770,008
Equipment and furniture	4,294,454	303,161	25,980	-	4,571,635
Vehicles	6,584,212	326,698	80,789	-	6,830,121
Total accumulated depreciation	<u>51,882,026</u>	<u>3,396,507</u>	<u>106,769</u>	<u>-</u>	<u>55,171,764</u>
Total capital assets being depreciated, net	<u>71,483,386</u>				<u>71,019,743</u>
Governmental activity capital assets, net	<u>\$ 75,104,807</u>				<u>\$ 73,864,393</u>
	Beginning Balances	Increases	Decreases	Transfers	Ending Balances
Business-type activities:					
School Food Service Fund:					
Capital assets being depreciated:					
Equipment and furniture	\$ 1,313,805	\$ 5,243	\$ 75,818	\$ -	\$ 1,243,230
Less accumulated depreciation for:					
Equipment and furniture	1,185,434	26,197	75,818	-	1,135,813
School Food Service capital assets, net	<u>128,371</u>				<u>107,417</u>
Child Care Fund:					
Capital assets being depreciated:					
Building improvements	48,448	-	-	-	48,448
Equipment and furniture	158,826	-	45,671	-	113,155
Total capital assets being depreciated	<u>207,274</u>	<u>-</u>	<u>45,671</u>	<u>-</u>	<u>161,603</u>
Less accumulated depreciation for:					
Building improvements	31,108	3,230	-	-	34,338
Equipment and furniture	137,310	4,557	45,671	-	96,196
Total accumulated depreciation	<u>168,418</u>	<u>7,787</u>	<u>45,671</u>	<u>-</u>	<u>130,534</u>
Child Care Fund capital assets, net	<u>38,856</u>				<u>31,069</u>
Business-type activities capital assets, net	<u>\$ 167,227</u>				<u>\$ 138,486</u>

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Depreciation was charged to governmental functions as follows:

Operational support services	\$ 326,698
Unallocated depreciation	<u>3,069,809</u>
Total	<u>\$ 3,396,507</u>

B. Liabilities

1. Pension Plan and Other Postemployment Obligations

a. Teachers' and State Employees' Retirement System

Plan Description. Orange County Board of Education contributes to 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 provides retirement benefits to plan members and beneficiaries. Article 1 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. 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, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute six percent of their annual covered salary and the Board is required to contribute at an actuarially determined rate. The current rate is 7.44% of annual covered payroll. The contribution requirements of plan members and Orange County Board of Education are established and may be amended by the North Carolina General Assembly. The Board's contributions to TSERS for the years ended June 30, 2012, 2011, and 2010 were \$3,227,772, \$2,157,603, and \$1,557,651, respectively, equal to the required contributions for each year.

b. Other Postemployment Benefits

Healthcare Benefits

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

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

ORANGE COUNTY BOARD OF EDUCATION
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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, 2012, 2011, and 2010, the School Board paid all annual required contributions to the Plan for postemployment healthcare benefits of \$2,169,201, \$2,144,473, and \$1,963,426, respectively. These contributions represented 5.00%, 4.90%, and 4.50% of covered payroll, respectively.

Long-term Disability Benefits

Plan Description. Short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan. The DIPNC is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System. Long-term disability benefits are payable as another postemployment benefit from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan accumulates contributions from employers and any earnings on those contributions in the Disability Income Plan Trust Fund. The plan does not provide for automatic post-retirement benefit increases.

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

Funding Policy. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five or more years of contributing membership service in the Teachers' and State Employees' Retirement System of North Carolina, earned within 96 months prior to the end of the short-term disability period or cessation of salary continuation payments, whichever is later; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period or after salary continuation payments cease or after monthly payments for Workers' Compensation cease (excluding monthly payments for permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her usual occupation; (4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; (5) the

ORANGE COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
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employee must not be eligible to receive an unreduced retirement benefit from the Retirement System; and (6) the employee must terminate employment as a permanent, full-time employee. An employee is eligible to receive an unreduced retirement benefit from the Retirement System after (1) reaching the age of 65 and completing five years of creditable service, or (2) reaching the age of 60 and completing 25 years of creditable service, or (3) completing 30 years of creditable service, at any age.

For members with five or more years of membership service as of July 31, 2007, the monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one twelfth of the annual longevity payment to which the participant or beneficiary would be eligible. The monthly benefits are subject to a maximum of \$3,900 per month reduced by any primary Social Security disability benefits and by monthly payments for Workers' Compensation to which the participant or beneficiary may be entitled. The monthly benefit shall be further reduced by the amount of any monthly payments from the Department of Veterans Affairs, any other federal agency or any payments made under the provisions of G.S.127A-108, to which the participant or beneficiary may be entitled on account of the same disability. Provided in any event, the benefits payable shall be no less than \$10 a month. When an employee qualifies for an unreduced service retirement allowance from the Retirement System, the benefits payable from DIPNC will cease, and the employee will commence retirement under the TSERS. For members who obtain five years of membership service on or after August 1, 2007, the monthly long-term disability benefit is reduced by the primary Social Security retirement benefit to which the member might be entitled should the member become age 62 during the first 36 months. After 36 months of long-term disability, there will be no further payments from the DIPNC unless the member is approved for and is in receipt of primary Social Security disability benefits. It is payable so long as the member remains disabled and is in receipt of a primary Social Security disability benefit until eligible for an unreduced service retirement benefit. When an employee qualifies for an unreduced service retirement allowance from the Retirement System, the benefits payable from DIPNC will cease, and the employee will commence retirement under the TSERS.

The Board's contributions are established in the Appropriations Bill by the General Assembly. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The contributions cannot be separated between the amounts that relate to other postemployment benefits and employment benefits for active employees. Those individuals who are receiving extended short-term disability benefit payments cannot be separated from the number of members currently eligible to receive disability benefits as an other postemployment benefit. For the fiscal years ended June 30, 2012, 2011, and 2010, the Board paid all annual required contributions to the DIPNC for disability benefits of \$225,597, \$227,577, and \$226,885, respectively. These contributions represented 0.52% of covered payroll for each of the three fiscal years.

ORANGE COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

2. Accounts Payable

Accounts payable as of June 30, 2012 are as follows:

	<u>Vendors</u>	<u>Salaries and benefits</u>	<u>Due to Other Governments</u>	<u>Total</u>
Governmental activities:				
General Fund	\$ 767,786	\$ 221,122	\$ 553,023	\$ 1,541,931
Other governmental activities	<u>60,651</u>	<u>1,719,241</u>	<u>5,986</u>	<u>1,785,878</u>
Total governmental activities	<u>\$ 828,437</u>	<u>\$ 1,940,363</u>	<u>\$ 559,009</u>	<u>\$ 3,327,809</u>
Business-type activities:				
School Food Service Fund	\$ 442	\$ -	\$ -	\$ 442
Child Care Fund	<u>4,292</u>	<u>-</u>	<u>-</u>	<u>4,292</u>
Total business-type activities	<u>\$ 4,734</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,734</u>

3. Unearned Revenues

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

Business-type activities:

Prepayments of meals (School Food Service Fund)	\$ 30,490
Prepayments of tuition (Child Care Fund)	<u>11,414</u>
Total business-type activities	<u>\$ 41,904</u>

The Board entered into an installment purchase agreement during the 2011-2012 year for the purchase of laptop computers for students. The \$2,600,000 of cash to be used to purchase the computers was deposited into an escrow account in the Board's name prior to June 30, 2012 by the bank providing the financing. The funds were expended for the purchase of computers during the 2012-2013 year. These funds are reported as deferred revenue in the Capital Outlay Fund at June 30, 2012.

4. Risk Management

The Board is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board participates in the North Carolina School Boards Trust (the Trust), a member funded risk management program administered by the North Carolina School Boards Association. Through the Trust, the Board maintains general liability and errors and omissions coverage of \$1 million per claim. The Trust has an annual aggregate limit for both general liability and errors and omissions of \$3,150,000 each. The Trust is reinsured through commercial companies for losses in excess of \$150,000 per claim for errors and omissions and general liability coverage. Statutory workers' compensation coverage is purchased through a private insurer for employees to the extent they are paid from Federal and local funds. Workers' compensation coverage is provided by the State of North Carolina through a self-insured fund, to the extent employees are paid from State funds. The Board also participates in the Public School Insurance Fund (the Fund), a voluntary, self-insured risk control and risk financing fund administered by the North Carolina Department of Public Instruction. The Fund insures the tangible property assets of the Board. Coverage is provided on an "all risk" perils contract. Buildings and contents are insured on a replacement cost basis. The Fund purchases excess reinsurance to protect the assets of the Fund in the

**ORANGE COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012**

event of a catastrophic event. The Fund maintains a self-insured retention of \$10 million. Excess reinsurance is purchased through commercial insurers. A limit of \$5 million per occurrence is provided on flood, earthquake, business interruption and extra expense. \$10 million per occurrence is provided on increased cost of construction.

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

In accordance with G.S. 115C-442, the Board's employees who have custody of the Board's monies at any given time are performance bonded through a commercial surety bond. The finance officer is bonded for \$50,000. The remaining employees that have access to funds are bonded under a blanket bond for \$10,000.

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

5. Contingent Liabilities

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

6. Long-Term Obligations

a. Installment Purchases

The Board is authorized to finance the purchase of school buses under G.S. 115C-528(a). Session law 2003-284, section 7.25 authorized the State Board of Education to allot moneys for the payments on financing contracts entered into pursuant to G.S. 115C-528. The State has accepted the bid to purchase Thomas Built Buses through special third party financing arrangements. During the fiscal years ended June 30, 2010 and 2011, the Board entered into such contracts for the purchase of school buses. The contracts each require four equal principal-only payments with the first payment due within 10 days of receipt of the buses and the following 3 payments due on the next 3 immediately following November 15th dates.

The Board entered into an installment purchase contract for the purchase of computers during the fiscal year ended June 30, 2012. The contract requires four equal payments of principal and interest at 1.29% due annually through 2016.

ORANGE COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
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The future minimum payments of the installment purchases as of June 30, 2012 are as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u> <u>Principal</u>
2013	\$ 749,586
2014	671,097
2015	671,097
2016	<u>671,096</u>
	2,762,876
Less portion representing interest	<u>(84,387)</u>
Total principal obligation	<u>\$ 2,678,489</u>

b. Long-Term Obligation Activity

The following is a summary of changes in the Board's long-term obligations for the fiscal year ended June 30, 2012:

	<u>July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2012</u>	<u>Current Portion</u>
Governmental activities:					
Installment purchases	\$ 156,979	\$ 2,600,000	\$ 78,490	\$ 2,678,489	\$ 716,046
Compensated absences	<u>3,641,515</u>	<u>2,624,297</u>	<u>2,398,122</u>	<u>3,867,690</u>	<u>1,480,286</u>
Total governmental activities	<u>\$ 3,798,494</u>	<u>\$ 5,224,297</u>	<u>\$ 2,476,612</u>	<u>\$ 6,546,179</u>	<u>\$ 2,196,332</u>
Business-type activities:					
Compensated absences	<u>\$ 77,137</u>	<u>\$ 94,961</u>	<u>\$ 83,186</u>	<u>\$ 88,912</u>	<u>\$ 42,868</u>

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

C. Interfund Balances and Activity

1. Transfers to/from other Funds

Transfers to/from other funds at June 30, 2012 consist of the following:

From the State Public School Fund to the School Food Service Fund for administrative costs	<u>\$ 70,876</u>
From the General Fund to the School Food Service Fund for administrative costs	<u>\$ 8,588</u>

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D. Fund Balance

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

Total fund balance - General Fund	\$ 7,085,590
Less:	
Stabilization by State statute	(27,285)
Instructional services	(888)
Appropriated fund balance in 2012-2013 budget	<u>(2,850,000)</u>
Remaining fund balance	<u>\$ 4,207,417</u>

NOTE 3 - SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

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

ORANGE COUNTY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
GENERAL FUND
For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Orange County:			
County appropriation	\$ 23,563,574	\$ 23,563,574	\$ -
Other:			
Fines and forfeitures	222,399	216,856	(5,543)
Interest earned on investment	33,300	72,750	39,450
Total other	<u>255,699</u>	<u>289,606</u>	<u>33,907</u>
Total revenues	<u>23,819,273</u>	<u>23,853,180</u>	<u>33,907</u>
Expenditures:			
Current:			
Instructional services:			
Regular instructional	7,501,291	6,420,576	1,080,715
Special populations	1,206,564	1,143,208	63,356
Alternative programs	749,174	744,153	5,021
School leadership	1,550,026	1,108,220	441,806
Co-curricular	930,984	889,663	41,321
School-based support	1,975,210	1,974,020	1,190
Total instructional services	<u>13,913,249</u>	<u>12,279,840</u>	<u>1,633,409</u>
System-wide support services:			
Support and development	1,461,589	1,434,793	26,796
Special population support and development	130,590	125,460	5,130
Alternative programs and services support and development	39	22	17
Technology support	434,388	431,169	3,219
Operational support	5,475,835	5,043,833	432,002
Financial and human resource services	727,850	702,998	24,852
Accountability	148,357	145,490	2,867
System-wide pupil support	14,101	13,515	586
Policy, leadership and public relations	667,798	662,374	5,424
Total system-wide support services	<u>9,060,547</u>	<u>8,559,654</u>	<u>500,893</u>
Ancillary services:			
Community	11,676	11,667	9
Nutrition	5,795	2,413	3,382
Total ancillary services	<u>17,471</u>	<u>14,080</u>	<u>3,391</u>

**ORANGE COUNTY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (Continued)
GENERAL FUND
For the Fiscal Year Ended June 30, 2012**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures (Continued):			
Non-programmed charges:			
Payments to other governments	<u>990,000</u>	<u>987,746</u>	<u>2,254</u>
Total expenditures	<u>23,981,267</u>	<u>21,841,320</u>	<u>2,139,947</u>
Revenues over (under) expenditures	<u>(161,994)</u>	<u>2,011,860</u>	<u>2,173,854</u>
Other financing sources (uses):			
Transfers to other funds	(8,588)	(8,588)	-
Fund balance appropriated	<u>170,582</u>	<u>-</u>	<u>(170,582)</u>
Total other financing sources (uses)	<u>161,994</u>	<u>(8,588)</u>	<u>(170,582)</u>
Net change in fund balance	<u>\$ -</u>	2,003,272	<u>\$ 2,003,272</u>
Fund balance:			
Beginning of year		<u>5,082,318</u>	
End of year		<u>\$ 7,085,590</u>	

**ORANGE COUNTY BOARD OF EDUCATION
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 June 30, 2012**

	Special Revenue Funds		Totals
	Other Special Revenue	Individual Schools	
Assets			
Cash and cash equivalents	\$ 248,365	\$ 476,417	\$ 724,782
Due from other governments	33,587	-	33,587
Accounts receivable	60,295	-	60,295
Total assets	\$ 342,247	\$ 476,417	\$ 818,664
Liabilities			
Accounts payable and accrued liabilities	\$ 2,042	\$ -	\$ 2,042
Accrued salaries and wages payable	36,103	-	36,103
Total liabilities	38,145	-	38,145
Fund balances			
Restricted:			
Stabilization by State statute	93,882	-	93,882
Instructional services	164,560	-	164,560
Individual schools	-	476,417	476,417
Assigned:			
Special revenues	45,660	-	45,660
Total fund balances	304,102	476,417	780,519
Total liabilities and fund balances	\$ 342,247	\$ 476,417	\$ 818,664

ORANGE COUNTY BOARD OF EDUCATION
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2012

	Special Revenue Funds		Totals
	Other Special Revenue	Individual Schools	
Revenues:			
State of North Carolina	\$ 18,300	\$ -	\$ 18,300
U.S. Government	437,128	-	437,128
Other	988,680	1,887,805	2,876,485
Total revenues	1,444,108	1,887,805	3,331,913
Expenditures:			
Current:			
Instructional services:			
Regular instructional	303,138	-	303,138
Alternative programs	358,480	-	358,480
Co-curricular	17,947	1,810,591	1,828,538
School-based support	197,234	-	197,234
Total instructional services	876,799	1,810,591	2,687,390
System-wide support services:			
Alternative programs and services support and development	30,775	-	30,775
Operational support	298,714	-	298,714
Financial and human resource services	10,241	-	10,241
Total system-wide support services	339,730	-	339,730
Non-programmed charges	10,785	-	10,785
Total expenditures	1,227,314	1,810,591	3,037,905
Net change in fund balance	216,794	77,214	294,008
Fund balances:			
Beginning of year	87,308	399,203	486,511
End of year	\$ 304,102	\$ 476,417	\$ 780,519

**ORANGE COUNTY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
OTHER SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2012**

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
State of North Carolina:			
Teacher on Loan Program	\$ 7,300	\$ 7,300	\$ -
NC Arts Council Grant	11,000	11,000	-
Total State of North Carolina	<u>18,300</u>	<u>18,300</u>	<u>-</u>
U.S. Government:			
Headstart	183,937	186,011	2,074
Foreign Language Grant	306,806	251,117	(55,689)
Total U.S. Government	<u>490,743</u>	<u>437,128</u>	<u>(53,615)</u>
Other:			
Indirect costs allocated	90,000	109,950	19,950
Rental of school property	55,000	54,614	(386)
Refunds and reimbursements	298,644	381,463	82,819
Tuition and fees	71,982	50,048	(21,934)
ABC revenues	30,000	30,000	-
Contracted services	211,253	292,800	81,547
Miscellaneous	27,000	69,805	42,805
Total other	<u>783,879</u>	<u>988,680</u>	<u>204,801</u>
Total revenues	<u>1,292,922</u>	<u>1,444,108</u>	<u>151,186</u>
Expenditures:			
Current:			
Instructional services:			
Regular instructional	305,705	303,138	2,567
Alternative programs	424,771	358,480	66,291
Co-curricular	24,822	17,947	6,875
School-based support	200,457	197,234	3,223
Total instructional services	<u>955,755</u>	<u>876,799</u>	<u>78,956</u>
System-wide support services:			
Alternative programs and services support and development	55,153	30,775	24,378
Operational support	298,969	298,714	255
Financial and human resource services	17,000	10,241	6,759
Total system-wide support services	<u>371,122</u>	<u>339,730</u>	<u>31,392</u>
Non-programmed charges:			
Payments to other governments	10,785	10,785	-
Total expenditures	<u>1,337,662</u>	<u>1,227,314</u>	<u>110,348</u>
Revenues over (under) expenditures	(44,740)	216,794	261,534
Other financing sources:			
Fund balance appropriated	44,740	-	(44,740)
Net change in fund balance	<u>\$ -</u>	216,794	<u>\$ 216,794</u>
Fund balance:			
Beginning of year		87,308	
End of year		<u>\$ 304,102</u>	

ORANGE COUNTY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
INDIVIDUAL SCHOOLS FUND
For the Fiscal Year Ended June 30, 2012

	Revenues	Expenditures	Net change in fund balance	Fund balances 6/30/2011	Fund balances 6/30/2012
Orange High	\$ 563,893	\$ 533,188	\$ 30,705	\$ 75,317	\$ 106,022
Cedar Ridge High	419,565	394,004	25,561	138,766	164,327
C.W. Stanford Middle	151,659	144,923	6,736	35,832	42,568
Gravelly Hill Middle	126,454	125,891	563	20,833	21,396
A.L. Stanback Middle	119,144	108,506	10,638	28,963	39,601
Efland-Cheeks Elementary	35,241	33,953	1,288	7,177	8,465
Grady A. Brown Elementary	52,758	55,442	(2,684)	25,709	23,025
Central Elementary	37,241	45,662	(8,421)	13,677	5,256
Cameron Park Elementary	125,611	130,835	(5,224)	20,792	15,568
New Hope Elementary	97,066	93,678	3,388	12,757	16,145
Hillsborough Elementary	76,963	73,159	3,804	7,778	11,582
Pathways Elementary	80,781	69,842	10,939	10,392	21,331
Partnership Academy Alternative	<u>1,429</u>	<u>1,508</u>	<u>(79)</u>	<u>1,210</u>	<u>1,131</u>
Totals	<u>\$ 1,887,805</u>	<u>\$ 1,810,591</u>	<u>\$ 77,214</u>	<u>\$ 399,203</u>	<u>\$ 476,417</u>

**ORANGE COUNTY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
CAPITAL OUTLAY FUND
For the Fiscal Year Ended June 30, 2012**

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
State of North Carolina:			
State appropriations - buses	\$ -	\$ 78,490	\$ 78,490
Orange County:			
Qualified School Construction Bonds	3,629,654	2,438,517	(1,191,137)
General county appropriations	2,698,988	1,864,929	(834,059)
Total Orange County	6,328,642	4,303,446	(2,025,196)
Contributions and donations	267,138	267,138	-
Other:			
Local sales tax	2,027,672	1,247,279	(780,393)
Miscellaneous	-	10,871	10,871
Total other	2,027,672	1,258,150	(769,522)
Total revenues	8,623,452	5,907,224	(2,716,228)
Expenditures:			
Current:			
Instructional services:			
Regular instructional	106,495	93,419	13,076
Co-curricular	59,086	48,658	10,428
School-based support	901,049	796,365	104,684
Total instructional services	1,066,630	938,442	128,188
System-wide support services:			
Operational support	7,431,332	4,794,334	2,636,998
Financial and human resource	40,000	26,664	13,336
Total system-wide support services	7,471,332	4,820,998	2,650,334
Ancillary services:			
Nutrition	7,000	2,665	4,335
Debt service:			
Principal retirement	78,490	78,490	-
Total expenditures	8,623,452	5,840,595	2,782,857
Net change in fund balance	\$ -	66,629	\$ 66,629
Fund balance:			
Beginning of year		1,177,354	
End of year		\$ 1,243,983	

ORANGE COUNTY BOARD OF EDUCATION
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
SCHOOL FOOD SERVICE FUND
For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
Operating revenues - food sales	\$ 959,121	\$ 911,964	\$ (47,157)
Operating expenditures:			
Business support services:			
Purchase of food	-	825,775	-
Donated commodities	-	135,088	-
Salaries and benefits	-	1,431,528	-
Materials and supplies	-	96,459	-
Non-capitalized equipment	-	8,512	-
Other	-	27,734	-
Capital outlay	-	5,243	-
Total operating expenditures	<u>2,608,086</u>	<u>2,530,339</u>	<u>77,747</u>
Operating loss	<u>(1,648,965)</u>	<u>(1,618,375)</u>	<u>30,590</u>
Nonoperating revenues:			
Federal reimbursements and grants	1,413,000	1,530,130	117,130
Federal commodities	150,000	135,088	(14,912)
State reimbursements	5,300	4,093	(1,207)
Interest earned	1,000	-	(1,000)
Other	200	7,579	7,379
Total nonoperating revenues	<u>1,569,500</u>	<u>1,676,890</u>	<u>107,390</u>
Excess of revenues over expenditures before other financing sources	(79,465)	58,515	137,980
Other financing sources:			
Transfers from other funds	79,465	79,464	(1)
Net change in fund balance	<u>\$ -</u>	<u>137,979</u>	<u>\$ 137,979</u>
Reconciliation of modified accrual to full accrual basis:			
Reconciling items:			
Depreciation		(26,197)	
Equipment purchases		5,243	
Indirect costs		(171,425)	
Indirect costs not paid		171,425	
Increase in compensated absences payable		(10,120)	
Decrease in inventories		<u>(40,739)</u>	
Change in net assets (full accrual)		<u>\$ 66,166</u>	

**ORANGE COUNTY BOARD OF EDUCATION
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
CHILD CARE FUND
For the Fiscal Year Ended June 30, 2012**

	Final Budget	Actual	Variance Positive (Negative)
Operating revenues:			
Child care fees	\$ 815,575	\$ 731,767	\$ (83,808)
Operating expenditures:			
Regular community services:			
Purchase of food	-	23,500	-
Salaries and benefits	-	678,567	-
Materials and supplies	-	17,605	-
Repairs and maintenance	-	609	-
Non-capitalized equipment	-	1,774	-
Contracted services	-	7,957	-
Other	-	24,975	-
Total operating expenditures	<u>856,240</u>	<u>754,987</u>	<u>101,253</u>
Revenues under expenditures before other financing sources	(40,665)	(23,220)	17,445
Other financing sources:			
Fund balance appropriated	<u>40,665</u>	<u>-</u>	<u>(40,665)</u>
Net change in fund balance	<u>\$ -</u>	(23,220)	<u>\$ (23,220)</u>
Reconciliation of modified accrual to full accrual basis:			
Reconciling items:			
Depreciation		(7,787)	
Increase in compensated absences payable		<u>(1,655)</u>	
Change in net assets (full accrual)		<u>\$ (32,662)</u>	

ORANGE COUNTY BOARD OF EDUCATION
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
For the Fiscal Year Ended June 30, 2012

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Triangle Leadership Academy				
Assets				
Cash and cash equivalents	\$ 1,520	\$ -	\$ 1,520	\$ -
Liabilities				
Due to Triangle Leadership Academy	\$ 1,520	\$ -	\$ 1,520	\$ -
Central Carolina Regional Educational Service Alliance (RESA)				
Assets				
Cash and cash equivalents	\$ 272,921	\$ 498,343	\$ 397,236	\$ 374,028
Accounts receivable	-	83	-	83
Total assets	<u>\$ 272,921</u>	<u>\$ 498,426</u>	<u>\$ 397,236</u>	<u>\$ 374,111</u>
Liabilities				
Due to RESA	<u>\$ 272,921</u>	<u>\$ 498,426</u>	<u>\$ 397,236</u>	<u>\$ 374,111</u>
Totals - All Agency Funds				
Assets				
Cash and cash equivalents	\$ 274,441	\$ 498,343	\$ 398,756	\$ 374,028
Accounts receivable	-	83	-	83
Total assets	<u>\$ 274,441</u>	<u>\$ 498,426</u>	<u>\$ 398,756</u>	<u>\$ 374,111</u>
Liabilities				
Due to Triangle Leadership Academy	\$ 1,520	\$ -	\$ 1,520	\$ -
Due to RESA	272,921	498,426	397,236	374,111
Total liabilities	<u>\$ 274,441</u>	<u>\$ 498,426</u>	<u>\$ 398,756</u>	<u>\$ 374,111</u>

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

To the Orange County Board of Education
Hillsborough, North Carolina

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Orange County Board of Education, North Carolina, as of and for the year ended June 30, 2012, which collectively comprise the Orange County Board of Education, North Carolina's basic financial statements and have issued our report thereon dated November 2, 2012. 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.

Internal Control Over Financial Reporting

Management of the Orange County Board of Education is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Orange County Board of Education's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Orange County Board of Education's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do

not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, others within the entity, members of the Board, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson Smith & Wike PLLC

*November 2, 2012
Rockingham, North Carolina*

Report On Compliance with Requirements Applicable to Each Major Federal
Program and Internal Control Over Compliance in Accordance with OMB
Circular A-133 and the State Single Audit Implementation Act

To the Orange County Board of Education
Hillsborough, North Carolina

Compliance

We have audited Orange County Board of Education, North Carolina's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Board's major federal programs for the year ended June 30, 2012. The Orange County Board of Education's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the Orange County Board of Education, North Carolina's management. Our responsibility is to express an opinion on the Orange County Board of Education's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Orange County Board of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Orange County Board of Education's compliance with those requirements.

In our opinion, the Orange County Board of Education complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the Orange County Board of Education is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Orange County Board of Education's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the

effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Orange County Board of Education's internal control over compliance.

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

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

This report is intended solely for the information and use of management, others within the entity, members of the Board, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson Smith & Wike PLLC

*November 2, 2012
Rockingham, North Carolina*

Report On Compliance with Requirements Applicable to Each Major State
Program and Internal Control Over Compliance in Accordance with Applicable Sections of
OMB Circular A-133 and the State Single Audit Implementation Act

To the Orange County Board of Education
Hillsborough, North Carolina

Compliance

We have audited Orange County Board of Education, North Carolina's compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission that could have a direct and material effect on the Board's major State program for the year ended June 30, 2012. The Orange County Board of Education's major State programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major State programs is the responsibility of the Orange County Board of Education, North Carolina's management. Our responsibility is to express an opinion on the Orange County Board of Education's compliance based on our audit.

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 OMB Circular A-133, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, applicable sections of OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about the Orange County Board of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Orange County Board of Education's compliance with those requirements.

In our opinion, the Orange County Board of Education complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major State programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the Orange County Board of Education is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered the Orange County Board of Education's internal control over compliance with the requirements that could have a direct and material effect on a major State program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance with

applicable sections of OMB Circular A-133 and the State Single Audit Implementation Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Orange County Board of Education's internal control over compliance.

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

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

This report is intended solely for the information and use of management, others within the entity, members of the Board, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson Smith & Wike PLLC

*November 2, 2012
Rockingham, North Carolina*

**ORANGE COUNTY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2012**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified? *No*
- Significant deficiency(ies) identified that are not considered to be material weaknesses *None Reported*

Noncompliance material to financial statements noted *No*

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? *No*
- Significant deficiency(ies) identified that are not considered to be material weaknesses *None Reported*

Type of auditors' report issued on compliance for major federal programs *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133 *No*

Identification of major federal programs:

CFDA Numbers	Names of Federal Program or Cluster
84.410	Education Jobs Fund - ARRA
84.367	Improving Teacher Quality
	Child Nutrition Cluster:
10.555	National School Lunch Program (Commodities)
10.553	School Breakfast Program
10.555	National School Lunch Program
10.559	Summer Food Service Program for Children

Dollar threshold used to distinguish between Type A and Type B Programs *\$ 300,000*

Auditee qualified as low-risk auditee? *Yes*

**ORANGE COUNTY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2012**

Section I - Summary of Auditors' Results (Continued)

State Awards

Internal control over major State programs:

- Material weakness(es) identified? *No*
- Significant deficiency(ies) identified that are not considered to be material weaknesses *None reported*

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

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

Identification of major State programs:

Program Name
State Public School Fund
Vocational Education – State Months of Employment

Section II - Financial Statement Findings

No findings were noted that are required to be reported under *Government Auditing Standards*.

Section III - Federal Award Findings and Questioned Costs

No findings and questioned costs related to the audit of Federal awards aggregating \$10,000 or more were noted.

Section IV - State Award Findings and Questioned Costs

No findings and questioned costs related to the audit of State awards aggregating \$10,000 or more were noted.

**ORANGE COUNTY BOARD OF EDUCATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Fiscal Year Ended June 30, 2012**

There were no findings reported for the fiscal year ended June 30, 2011.

ORANGE COUNTY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Fiscal Year Ended June 30, 2012

<u>Grantor/Pass-through</u> <u>Grantor/Program Title</u>	<u>Federal</u> <u>CFDA</u> <u>Number</u>	<u>State/</u> <u>Pass-through</u> <u>Grantor's</u> <u>Number</u>	<u>Expenditures</u>
Federal Grants:			
<u>U.S. Department of Agriculture</u>			
Passed-through the N.C. Department of Public Instruction:			
Child Nutrition Cluster:			
Noncash Assistance (Commodities):			
National School Lunch Program	10.555		\$ 135,088
Cash Assistance:			
School Breakfast Program	10.553		321,281
National School Lunch Program	10.555		1,168,708
Summer Food Service Program for Children	10.559		9,428
Cash Assistance Subtotal			<u>1,499,417</u>
Total Child Nutrition Cluster			1,634,505
Fresh Fruit and Vegetable Grant	10.582		<u>30,713</u>
Total U.S. Department of Agriculture			<u>1,665,218</u>
<u>U.S. Department of Education</u>			
Office of Elementary and Secondary Education:			
Direct Program:			
Foreign Languages Assistance Program	84.293		251,117
Passed-through the N.C. Department of Public Instruction:			
Title I Cluster:			
Title I, Grants to Local Educational Agencies	84.010	PRC 050	756,374
Title I, Grants to Local Educational Agencies - ARRA	84.389	PRC 141	<u>18,339</u>
Total Title I Cluster			<u>774,713</u>
Title I - School Improvement	84.010	PRC 105	45,013
Title IV, Part A, Safe and Drug Free Schools and Communities	84.186	PRC 048	270
Improving Teacher Quality	84.367	PRC 103	150,631
Language Acquisition Grant	84.365	PRC 104, 111	63,247
Vocational Education - Tech Prep Education	84.243	PRC 023	16,568
Race to the Top - ARRA	84.395	PRC 156	192,365
Education Jobs Fund - ARRA	84.410	PRC 155	1,406,850
Education Technology Cluster:			
Educational Technology	84.318	PRC 107	57
Educational Technology - ARRA	84.386	PRC 146	<u>1,160</u>
Total Education Technology Cluster			<u>1,217</u>
Twenty-first Century Community Learning Centers	84.287	PRC 110	90,107

**ORANGE COUNTY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Fiscal Year Ended June 30, 2012**

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Expenditures
Special Education Cluster:			
Grants to States - IDEA, part B (611)	84.027	PRC 060	2,173,480
Special Needs Targeted Assistance	84.027	PRC 118	27,962
Special Education - Capacity Building and Improvement	84.027	PRC 044	30,479
Preschool Grants - IDEA, Part B (619)	84.173	PRC 049	56,573
Preschool Targeted Assistance	84.173	PRC 119	9,999
Special Education - Preschool Grants - ARRA	84.392	PRC 145	164
Total Special Education Cluster			<u>2,298,657</u>
 Career and Technical Education - Basic Grants to States Program Development	 84.048	 PRC 017	 <u>69,620</u>
 Total U.S. Department of Education			 <u>5,360,375</u>
<u>U.S. Department of Health and Human Services</u>			
Administration for Youth and Families:			
Direct Program:			
Head Start	93.600		<u>186,011</u>
 Total Federal Assistance			 <u>7,211,604</u>
 State Grants:			
<u>N.C. Department of Public Instruction</u>			
Cash Assistance:			
State Public School Fund			36,708,901
Vocational Education:			
State Months of Employment		PRC 013	1,976,846
Program Support Funds		PRC 014	162,377
Driver Training		PRC 012	144,513
School Technology Fund		PRC 015	40,950
Teacher on Loan Program			7,300
Cash assistance subtotal			<u>39,040,887</u>
Non-Cash Assistance:			
State Buses Appropriation			78,490
Textbooks		PRC 130	<u>41,913</u>
Non-cash assistance subtotal			<u>120,403</u>
 Total NC Department of Public Instruction			 <u>39,161,290</u>

**ORANGE COUNTY BOARD OF EDUCATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
 For the Fiscal Year Ended June 30, 2012**

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Expenditures</u>
<u>N.C. Department of Agriculture</u> State Reduced Breakfast Program			4,093
<u>N.C. Department of Cultural Resources</u> N.C. Arts Council Grant			11,000
Total State Assistance			<u>39,176,383</u>
Total Federal and State Assistance			<u>\$ 46,387,987</u>

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

1. Basis of Presentation

The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of Orange County Board of Education and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.