

**Chapel Hill-Carrboro City
Board of Education**

Financial Statements
For the Fiscal Year Ended
June 30, 2009

**CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
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Norris, Stewart & Ralston, P.A.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Chapel Hill-Carrboro City Board of Education
Chapel Hill, 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 Chapel Hill-Carrboro City Board of Education, as of and for the year ended June 30, 2009, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Chapel Hill-Carrboro City 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 Chapel Hill-Carrboro City Board of Education as of June 30, 2009, and the respective changes in financial position and its cash flows, where applicable, thereof and the respective budgetary comparison for the General and State Public School funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2009 on our consideration of the Chapel Hill-Carrboro City Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Chapel Hill-Carrboro City Board of Education, North Carolina. The individual fund financial 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Rovis, Stewart & Polysten, P. A.

Statesville, North Carolina
November 2, 2009

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

This section of the Chapel Hill-Carrboro City Board of Education's (the "Board") financial report represents our discussion and analysis of the financial performance of the Board for the year ended June 30, 2009. This information should be read in conjunction with the audited financial statements included in this report.

Financial Highlights

- The Board of Education adopted a written 403b plan document to ensure the district's compliance with new federal regulations for supplemental, tax-deferred retirement plans. The district engaged the services of a Third Party Administrator to assist in with the operation of the plan. The next phase of work on the district's 403b plan is a product analysis to streamline the current vendor choice and to improve the product offerings to district employees.
- The district engaged in a bid process to provide improved optional health benefits for employees and, as a result of the process, selected a new optional benefit broker company. New dental, vision, life insurance, and cafeteria plan vendors were selected to begin in the 2009-10 school year. More affordable premium rates were offered to employees.
- Financial reporting awards from Association of School Business Officials International and the Government Finance Officers Association were received for the fifth consecutive year.

Overview of the Financial Statements

The audited financial statements of the Chapel Hill-Carrboro City Board of Education consist of four components. They are as follows:

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

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

The fund financial statements focus on the Board's most significant funds. Because a different basis of accounting is used in the government-wide statements, reconciliation from the governmental fund financial statements to the government-wide statements is required. The government-wide statements provide information about the Board as an economic unit while the fund financial statements provide information on each of the financial resources of each of the Board's major funds.

CHAPEL HILL-CARRBORO CITY 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.

Chapel Hill-Carrboro City Board of Education has three types of funds:

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

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

**CHAPEL HILL-CARRBORO CITY 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 Chapel Hill-Carrboro City Board of Education has two proprietary funds - both enterprise funds – the School Food Service Fund and the Child Care Fund.

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

Fiduciary Funds: Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Chapel Hill-Carrboro City Board of Education has two fiduciary funds – an Administrative Fund and an Agency Fund. The Administrative Fund is a scholarship fund under the control of the administrative unit. This is accounted for as a private purpose trust fund. The Agency Fund is used to account for moneys held for the Employee Flexible Spending Account which accounts for monies voluntarily withheld from employees' wages to pay for child care and medical expenses not covered under the employees' medical insurance.

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

Financial Analysis of the Board as a Whole

Net assets are an indicator of the fiscal health of the Board. Assets exceeded liabilities by \$168.0 million as of June 30, 2009 as compared to \$164.6 million as of June 30, 2008, an increase of \$3.4 million. The largest component of net assets is invested in capital assets, net of related debt of \$167.0 million, which comprises 99.4% of the total net assets. Following is a summary of the Statement of Net Assets:

**Table 1
Condensed Statement of Net Assets
As of June 30, 2009 and 2008**

	Governmental Activities		Business-type Activities		Total Primary Government	
	6/30/09	6/30/08	6/30/09	6/30/08	6/30/09	6/30/08
Current assets	\$ 13,143,538	\$ 13,200,168	\$ 953,240	\$ 944,052	\$ 14,096,778	\$ 14,144,220
Capital assets	<u>167,969,825</u>	<u>164,711,315</u>	<u>17,486</u>	<u>12,058</u>	<u>167,987,311</u>	<u>164,723,823</u>
Total assets	<u>181,113,363</u>	<u>177,911,483</u>	<u>970,726</u>	<u>956,560</u>	<u>182,084,089</u>	<u>178,868,043</u>
Current liabilities	9,062,286	9,821,232	779,146	729,759	9,841,432	10,550,991
Long-term liabilities	<u>4,126,586</u>	<u>3,563,718</u>	<u>77,467</u>	<u>173,010</u>	<u>4,204,053</u>	<u>3,736,728</u>
Total liabilities	<u>13,188,872</u>	<u>13,384,950</u>	<u>856,613</u>	<u>902,769</u>	<u>14,045,485</u>	<u>14,287,719</u>
Invested in capital assets, net of related debt	166,983,429	163,483,300	17,486	12,508	167,000,915	163,495,808
Restricted net assets	899,663	880,818	-	-	899,663	880,818
Unrestricted net assets	<u>41,399</u>	<u>162,415</u>	<u>96,627</u>	<u>41,283</u>	<u>138,026</u>	<u>203,698</u>
Total net assets	<u>\$167,924,491</u>	<u>\$164,526,533</u>	<u>\$ 114,113</u>	<u>\$ 53,791</u>	<u>\$168,038,604</u>	<u>\$164,580,324</u>

The net assets of the Board's governmental activities increased \$3.4 million during the year from \$164.5 million at June 30, 2008 to \$167.9 million at June 30, 2009, indicating an improvement in the financial condition of the Board. This improvement is primarily attributable to an increase of \$3.5 million in net assets invested in capital assets, net of related debt.

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

The net assets of the Board's business-type activities increased \$60,000 from \$54,000 at June 30, 2008 to \$114,000 at June 30, 2009. This increase of \$60,000 is the amount of 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 Revenues, Expenses, and Changes in Net Assets
For the Fiscal Years Ended June 30, 2009 and 2008**

	Governmental Activities		Business-type Activities		Total Primary Government	
	6/30/09	6/30/08	6/30/09	6/30/08	6/30/09	6/30/08
Revenues:						
Program revenues:						
Charges for services	\$ 3,224,006	\$ 2,983,772	\$ 3,833,212	\$ 3,678,297	\$ 7,057,218	\$ 6,662,069
Operating grants and contributions	66,801,812	64,936,322	1,595,932	1,386,389	68,397,744	66,322,711
Capital grants and contributions	290,592	425,185	-	-	290,592	425,185
General revenues:						
Other revenues	67,195,007	78,811,470	5,079	25,555	67,200,086	78,837,025
Total revenues	137,511,417	147,156,749	5,434,223	5,090,241	142,945,640	152,246,990
Expenses:						
Governmental activities:						
Instructional services	107,177,216	100,952,549	-	-	107,177,216	100,952,549
System-wide support services	22,067,945	21,027,599	-	-	22,067,945	21,027,599
Ancillary services	3,826	50,456	-	-	3,826	50,456
Nonprogrammed charges	416,950	463,074	-	-	416,950	463,074
Interest on long-term debt	39,912	51,977	-	-	39,912	51,977
Depreciation	4,000,727	3,914,010	-	-	4,000,727	3,914,010
Business-type activities:						
School food service	-	-	4,076,671	3,874,327	4,076,671	3,874,327
Child care	-	-	1,704,113	1,704,503	1,704,113	1,704,503
Total expenses	133,706,576	126,459,665	5,780,784	5,578,830	139,487,360	132,038,495
Transfers in (out)	(406,883)	(386,177)	406,883	386,177	-	-
Increase (decrease) in net assets	3,397,958	20,310,907	60,322	(102,412)	3,458,280	20,208,495
Beginning net assets	164,526,533	144,215,626	53,791	156,203	164,580,324	144,371,829
Ending net assets	\$ 167,924,491	\$ 164,526,533	\$ 114,113	\$ 53,791	\$ 168,038,604	\$ 164,580,324

Total governmental activities generated revenues of \$137.5 million while expenses in this category totaled \$133.7 million for the year ended June 30, 2009, resulting in the aforementioned increase in net assets of \$3.4 million (including net transfers to business-type activities of \$407,000). Comparatively, revenues were \$147.2 million, expenses totaled \$126.5 million and transfers out were \$386,000 for the year ended June 30, 2008, resulting in an increase in net assets of \$20.3 million. In comparing the two years, there was a decrease in revenues of \$9.6 million, while expenses increased over the prior year by \$7.2 million. The decrease in revenues was primarily comprised of an \$11.6 million decrease in other revenues. This decrease in other revenues is mostly attributable to a \$16.5 million decrease in local bond revenues from Orange County for school construction and renovation projects. Also included in other revenues is a \$3.0 increase in funding from Orange County for the Board's local operating budget. The overall \$7.2 million increase in expenses is due to \$6.2 million and \$1.0 million increases in instructional and system-wide support services, respectively. The majority of these increased expenses were used for salaries and related benefits.

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

The Board's primary sources of revenues were funding from the State of North Carolina, Orange County, Chapel Hill and Carrboro townships and the United States Government, which respectively comprised 44.3%, 34.2%, 13.7% and 4.2% of our total revenues. As would be expected, the major component of our expenditures was instructional services which accounted for 80.2% of our total expenditures during the most recent fiscal year. Of the remaining 19.8% of our total expenditures, 16.5% was attributable to system-wide support services.

Our business-type activities generated revenues of \$5.4 million, while expenses in this category totaled \$5.8 million and net transfers in from governmental activities totaled \$407,000 for the year ended June 30, 2009. For the year, net assets increased by \$60,000. Comparatively, revenues were \$5.1 million, expenses were \$5.6 million and transfers in from governmental activities totaled \$386,000 for the year ended June 30, 2008, resulting in a decrease in net assets of \$102,000. In comparing the two periods, the year-over-year improvement of \$162,000 is primarily due to an increase of \$160,000 in revenues from charges for services in the Child Care Fund.

Financial Analysis of the Board's Funds

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

The Board's governmental funds reported a combined fund balance of \$7.3 million at June 30, 2009, an increase of \$400,000 over the \$6.9 million reported at June 30, 2008. The Board's General and Individual Schools funds reported increases in fund balance for the year of \$1.2 million and \$19,000, respectively, while the Board's Capital Outlay fund reported a decrease in fund balance of \$805,000. Instructional services expenditures increased \$1.9 million which accounted for the majority of the overall increase in expenditures. Overall, total revenues decreased by \$9.6 million, or 6.6%, from the prior year, while expenditures decreased by \$10.7 million, or 7.2%, from the prior year. These decreases are primarily due to a reduction in construction and renovation activity in the district compared to the prior year. For the year, the Board reported a decrease of \$17.2 million in revenues and related expenditures from Orange County bonds used for school capital improvements.

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 \$60,000 for the year compared to a \$102,000 decrease for the year ended June 30, 2008. As previously discussed, the year-over-year improvement of \$162,000 in operating results is primarily due to an increase of \$160,000 in revenues in the Child Care Fund. While revenues increased \$160,000, the Board was able to maintain expenditures in the Child Care Fund at the same level as the prior year. This improvement in operating results allowed the Child Care Fund to transfer \$107,000 to the General Fund. The School Food Service Fund reported losses before transfers from the General Fund of \$466,000 and \$461,000 for the years ended June 30, 2009 and 2008, respectively. Transfers in from the General Fund to cover these operating losses totaled \$505,000 and \$386,000 for each respective year.

General Fund Budgetary Highlights

Over the course of the year, the Board revised the budget several times to account for changes in revenue expectations and program allocations. The effect of these revisions was to increase the original budget by \$1.5 million during the year. Since several revenue sources are either unknown or uncertain at the beginning of the fiscal year when the original budget is adopted, budget revisions are necessary throughout the year to recognize these adjustments.

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

For the year, the Board's General Fund reported an increase in fund balance of \$1.2 million. Revenues from Orange County for the local operating budget increased \$3.0 million over the prior year. In addition, supplemental school tax revenues from the Chapel Hill and Carrboro townships increased \$2.4 million. Overall, total General Fund revenues increased by \$5.5 million, or 10.0%, over the prior year, while expenditures increased \$4.6 million, or 8.4%. Of the \$4.6 million increase in expenditures, \$4.3 million was for instructional services, primarily salaries and benefits.

Capital Assets

Total primary government capital assets were \$168.0 million at June 30, 2009 compared to \$164.7 million at June 30, 2008, an increase of 2.0%. This increase was due to an excess of capital additions over depreciation expense for the year. The following is a summary of the Board's capital assets, net of depreciation, at June 30, 2009 and 2008. More detailed information about the Board's capital assets is contained in the notes to the financial statements.

**Table 3
Summary of Capital Assets
As of June 30, 2009 and 2008**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>6/30/09</u>	<u>6/30/08</u>	<u>6/30/09</u>	<u>6/30/08</u>	<u>6/30/09</u>	<u>6/30/08</u>
Land	\$ 6,485,407	\$ 6,485,407	\$ -	\$ -	\$ 6,485,407	\$ 6,485,407
Construction in Progress	1,501,487	56,769,868	-	-	1,501,487	56,769,868
Buildings and improvements	155,336,576	97,565,405	-	-	155,336,576	97,565,405
Land improvements	1,529,284	1,600,528	-	-	1,529,284	1,600,528
Equipment and furniture	1,216,635	804,076	17,486	12,508	1,234,121	816,584
Vehicles	<u>1,900,436</u>	<u>1,486,031</u>	-	-	<u>1,900,436</u>	<u>1,486,031</u>
Total	<u>\$167,969,825</u>	<u>\$ 164,711,315</u>	<u>\$ 17,486</u>	<u>\$ 12,508</u>	<u>\$167,987,311</u>	<u>\$ 164,723,823</u>

Debt Outstanding

During the year, the Board's long-term debt decreased by \$242,000 from \$1.2 million at June 30, 2008 to \$986,000 at June 30, 2009. Borrowings from installment purchases totaled \$388,000 while repayments totaled \$630,000. 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 notes to the financial statements.

Economic Factors

- Student enrollment increased by 323 students over the average daily membership of the prior fiscal year.
- The State budget crisis in North Carolina caused mandated reversions of the district's State funding in the amount of \$780,000. In addition, the State imposed a hiring and spending freeze that restricted the use of remaining allotments.
- The State imposed a pay furlough for all State employees that the Board of Education extended to all employees of our district to avoid the issue of pay inequity.

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

- Diesel fuel costs continued to increase beyond the State allotted budget. Chapel Hill – Carrboro City Schools, together with Orange County Schools, had to again use non-State resources to purchase fuel to get through the end of the school year.
- Morris Grove Elementary School was completed and opened for the start of school in August 2008; the 10th elementary school in our district.
- Some district capital projects were delayed due to the holding of capital funding revenues by the state because of the state budget crisis.
- Planning for our district's 11th elementary school is still in progress. The projected year of opening has been moved to 2012-2013.

Requests for Information

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

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

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
STATEMENT OF NET ASSETS
June 30, 2009

Exhibit 1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 8,992,972	\$ 635,572	\$ 9,628,544
Due from other governments	3,204,034	65,363	3,269,397
Receivables	258,448	44,757	303,205
Inventories	-	207,548	207,548
Prepaid expenses	688,084	-	688,084
Capital assets:			
Land and construction in progress	7,986,894	-	7,986,894
Other capital assets, net of depreciation	159,982,931	17,486	160,000,417
Total capital assets	<u>167,969,825</u>	<u>17,486</u>	<u>167,987,311</u>
 Total assets	 <u>181,113,363</u>	 <u>970,726</u>	 <u>182,084,089</u>
Liabilities			
Accounts payable and accrued expenses	1,165,574	448,682	1,614,256
Accrued salaries and wages payable	3,549,840	-	3,549,840
Unearned revenue	1,111,362	242,746	1,354,108
Long-term liabilities:			
Due within one year	3,235,510	87,718	3,323,228
Due in more than one year	4,126,586	77,467	4,204,053
 Total liabilities	 <u>13,188,872</u>	 <u>856,613</u>	 <u>14,045,485</u>
Net assets			
Invested in capital assets, net of related debt	166,983,429	17,486	167,000,915
Restricted for:			
Individual schools activities	899,663	-	899,663
Unrestricted	41,399	96,627	138,026
 Total net assets	 <u>\$ 167,924,491</u>	 <u>\$ 114,113</u>	 <u>\$ 168,038,604</u>

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

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
 STATEMENT OF ACTIVITIES
 For the Fiscal Year Ended June 30, 2009

Exhibit 2

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	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	\$ 63,576,887	\$ -	\$ 43,487,528	\$ -	\$ (20,089,359)	\$ -	\$ (20,089,359)
Special populations	17,402,983	-	9,106,387	-	(8,296,576)	-	(8,296,576)
Alternative programs	6,454,024	-	3,057,572	-	(3,396,452)	-	(3,396,452)
School leadership	6,218,931	-	3,339,194	-	(2,879,737)	-	(2,879,737)
Co-curricular	4,812,768	2,739,392	-	-	(2,073,376)	-	(2,073,376)
School-based support	8,711,643	-	3,229,384	-	(5,482,259)	-	(5,482,259)
System-wide support services:							
Support and development	1,228,788	-	400,912	-	(827,876)	-	(827,876)
Special population support and development	399,558	-	226,133	-	(173,425)	-	(173,425)
Alternative programs and services support and development	130,719	-	56,348	-	(74,371)	-	(74,371)
Technology support	1,438,552	-	62,911	-	(1,375,641)	-	(1,375,641)
Operational support	14,042,683	-	3,161,911	290,592	(10,590,180)	-	(10,590,180)
Financial and human resource services	1,857,263	484,614	166,887	-	(1,205,962)	-	(1,205,962)
Accountability	395,803	-	-	-	(395,803)	-	(395,803)
System-wide pupil support	-	-	-	-	-	-	-
Policy, leadership and public relations	2,574,579	-	401,389	-	(2,173,210)	-	(2,173,210)
Ancillary services	3,826	-	3,826	-	-	-	-
Non-programmed charges	416,950	-	101,650	-	(315,300)	-	(315,300)
Interest on long-term debt	39,912	-	-	-	(39,912)	-	(39,912)
Unallocated depreciation expense**	4,000,727	-	-	-	(4,000,727)	-	(4,000,727)
Total governmental activities	133,706,576	3,224,006	66,801,812	290,592	(63,390,166)	-	(63,390,166)
Business-type activities:							
School food service	4,076,671	2,012,281	1,595,932	-	-	(468,458)	(468,458)
Child care	1,704,113	1,820,931	-	-	-	116,818	116,818
Total business-type activities	5,780,784	3,833,212	1,595,932	-	-	(351,640)	(351,640)
Total primary government	\$ 139,487,360	\$ 7,057,218	\$ 68,397,744	\$ 290,592	(63,390,166)	(351,640)	(63,741,806)
General revenues:							
Unrestricted county and city appropriations - operating					56,849,123	-	56,849,123
Unrestricted county appropriations - capital					9,171,128	-	9,171,128
Investment earnings, unrestricted					248,970	5,079	254,049
Miscellaneous, unrestricted					925,786	-	925,786
Transfers					(406,883)	406,883	-
Total general revenues					66,788,124	411,962	67,200,086
Change in net assets					3,397,958	60,322	3,458,280
Net assets - beginning					164,526,533	53,791	164,580,324
Net assets - ending					\$ 167,924,491	\$ 114,113	\$ 168,038,604

**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.

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 June 30, 2009

Exhibit 3

	Major Funds			Non-major Funds	Total Governmental Funds
	General	State Public School	Capital Outlay	Special Revenue Funds	
Assets					
Cash and cash equivalents	\$ 7,260,521	\$ 15,529	\$ 817,259	\$ 899,663	\$ 8,992,972
Due from other governments	458,753	2,153,589	483,020	108,672	3,204,034
Accounts receivable	258,448	-	-	-	258,448
Prepaid expenditures	688,084	-	-	-	688,084
Total assets	\$ 8,665,806	\$ 2,169,118	\$ 1,300,279	\$ 1,008,335	\$ 13,143,538
Liabilities and fund balances					
Liabilities:					
Accounts payable and accrued liabilities	\$ 647,707	\$ -	\$ 517,867	\$ -	\$ 1,165,574
Accrued salaries and wages payable	1,287,579	2,153,589	-	108,672	3,549,840
Deferred revenue	-	15,529	1,095,833	-	1,111,362
Total liabilities	1,935,286	2,169,118	1,613,700	108,672	5,826,776
Fund balances:					
Reserved for:					
Encumbrances	164,467	-	122,796	-	287,263
Prepaid expenditures	688,084	-	-	-	688,084
State statute	717,201	-	483,020	-	1,200,221
Unreserved:					
Designated for subsequent year's expenditures	1,020,000	-	-	-	1,020,000
Undesignated (deficit), reported in:					
General Fund	4,140,768	-	-	-	4,140,768
Special Revenue Funds	-	-	-	899,663	899,663
Capital Projects Fund	-	-	(919,237)	-	(919,237)
Total fund balances (deficit)	6,730,520	-	(313,421)	899,663	7,316,762
Total liabilities and fund balances	\$ 8,665,806	\$ 2,169,118	\$ 1,300,279	\$ 1,008,335	

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.	167,969,825
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>(7,362,096)</u>
Net assets of governmental activities	<u>\$ 167,924,491</u>

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

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2009

Exhibit 4

	Major Funds			Non-major Funds	Total Governmental Funds
	General	State Public School	Capital Outlay	Special Revenue Funds	
Revenues:					
State of North Carolina	\$ 457,734	\$ 60,174,243	\$ 290,592	\$ -	\$ 60,922,569
Orange County	37,950,049	-	9,086,928	-	47,036,977
U.S. Government	1,387,946	-	-	4,338,368	5,726,314
Other	21,032,289	-	187,615	2,739,392	23,959,296
Total revenues	60,828,018	60,174,243	9,565,135	7,077,760	137,645,156
Expenditures:					
Current:					
Instructional services:					
Regular instructional	21,681,415	41,278,671	185,804	363,177	63,509,067
Special populations	8,670,875	6,208,961	-	2,453,905	17,333,741
Alternative programs	3,370,780	1,971,333	-	1,086,239	6,428,352
School leadership	2,855,001	3,339,194	-	-	6,194,195
Co-curricular	2,073,078	-	-	2,720,547	4,793,625
School-based support	5,447,607	3,180,338	-	49,046	8,676,991
System-wide support services:					
Support and development	822,988	400,912	-	-	1,223,900
Special population support and development	171,836	74,603	-	151,530	397,969
Alternative programs and services support and development	73,851	-	-	56,348	130,199
Technology support	1,368,707	37,375	304,820	25,536	1,736,438
Operational support	7,989,085	3,114,800	400,982	47,111	11,551,978
Financial and human resource services	1,683,189	166,687	-	-	1,849,876
Accountability	394,229	-	-	-	394,229
Policy, leadership and public relations	2,162,969	401,369	-	-	2,564,338
Ancillary services	-	-	42,199	3,826	46,025
Non-programmed charges	477,566	-	-	101,650	579,216
Debt service:					
Principal retirement	-	-	629,600	-	629,600
Interest and fees	-	-	44,450	-	44,450
Capital outlay	-	-	9,150,703	-	9,150,703
Total expenditures	59,243,176	60,174,243	10,758,558	7,058,915	137,234,892
Revenues over (under) expenditures	1,584,842	-	(1,193,423)	18,845	410,264
Other financing sources (uses):					
Transfers from other funds	106,522	-	-	-	106,522
Transfers to other funds	(505,161)	-	-	-	(505,161)
Installment purchase obligations issued	-	-	387,981	-	387,981
Total other financing sources (uses)	(398,639)	-	387,981	-	(10,658)
Net change in fund balance	1,186,203	-	(805,442)	18,845	399,606
Fund balances:					
Beginning of year	5,544,317	-	492,021	880,818	6,917,156
End of year	\$ 6,730,520	\$ -	\$ (313,421)	\$ 899,663	\$ 7,316,762

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

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2009

Exhibit 5

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

Net changes in fund balances - total governmental funds	\$ 399,606
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 capital outlays exceeded depreciation in the current period.	3,258,510
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.	241,619
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.	
Difference in accrued interest payable and interest expensed on fund statements	4,538
Compensated absences	<u>(506,315)</u>
Total changes in net assets of governmental activities	<u>\$ 3,397,958</u>

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

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 GENERAL FUND AND ANNUALLY BUDGETED MAJOR SPECIAL REVENUE FUND
 For the Fiscal Year Ended June 30, 2009

Exhibit 6

	General Fund				State Public School Fund			
	Original Budget	Final Budget	Actual	Variance with final budget positive (negative)	Original Budget	Final Budget	Actual	Variance with final budget positive (negative)
Revenues:								
State of North Carolina	\$ 447,834	\$ 457,817	\$ 457,734	\$ (83)	\$ 57,184,283	\$ 62,492,995	\$ 60,174,243	\$ (2,318,752)
Orange County	37,950,007	37,950,007	37,950,049	42	-	-	-	-
U.S. Government	1,234,281	1,802,452	1,387,946	(414,506)	-	-	-	-
Other	20,568,467	20,815,949	21,032,289	216,340	-	-	-	-
Total revenues	60,200,589	61,026,225	60,828,018	(198,207)	57,184,283	62,492,995	60,174,243	(2,318,752)
Expenditures:								
Current:								
Instructional services								
Regular instructional	22,334,862	22,187,962	21,681,415	506,547	39,526,569	42,775,925	41,278,671	1,497,254
Special populations	8,565,420	8,679,732	8,670,875	8,857	5,521,395	6,280,563	6,208,961	71,602
Alternative programs	3,246,694	3,831,780	3,370,780	461,000	1,942,929	2,380,240	1,971,333	408,907
School leadership	2,195,807	2,951,183	2,855,001	96,182	3,377,236	3,448,083	3,339,194	108,889
Co-curricular	1,700,444	2,147,332	2,073,078	74,254	-	-	-	-
School-based support	4,671,243	5,876,625	5,447,607	429,018	2,973,654	3,290,304	3,180,338	109,966
Total instructional services	42,714,470	45,674,614	44,098,756	1,575,858	53,341,783	58,175,115	55,978,497	2,196,618
System-wide support services								
Support and development	867,842	828,573	822,988	5,585	338,792	402,129	400,912	1,217
Special population support and development	114,146	197,437	171,836	25,601	74,690	92,938	74,603	18,335
Alternative programs and services support and development	74,710	143,672	73,851	69,821	-	-	-	-
Technology support	1,044,889	1,370,948	1,368,707	2,241	-	76,543	37,375	39,168
Operational support	11,517,129	8,644,082	7,989,085	654,997	2,789,691	3,162,377	3,114,800	47,577
Financial and human resource services	1,531,211	1,816,321	1,683,189	133,132	238,249	173,949	168,687	7,262
Accountability	309,004	404,700	394,229	10,471	-	-	-	-
Policy, leadership and public relations	2,307,858	2,552,254	2,162,989	389,285	401,078	409,944	401,369	8,575
Total system-wide support services	17,766,789	15,957,987	14,666,854	1,291,133	3,842,500	4,317,880	4,195,746	122,134
Non-programmed charges	529,680	546,441	477,566	68,875	-	-	-	-
Total expenditures	61,010,939	62,179,042	59,243,176	2,935,866	57,184,283	62,492,995	60,174,243	2,318,752
Revenues over (under) expenditures	(810,350)	(1,152,817)	1,584,842	2,737,659	-	-	-	-
Other financing sources (uses):								
Transfers from other funds	-	106,522	106,522	-	-	-	-	-
Transfers to other funds	(209,650)	(505,161)	(505,161)	-	-	-	-	-
Total other financing sources (uses)	(209,650)	(398,639)	(398,639)	-	-	-	-	-
Fund balance appropriated	1,020,000	1,551,456	-	(1,551,456)	-	-	-	-
Net change in fund balance	\$ -	\$ -	1,186,203	\$ 1,186,203	\$ -	\$ -	-	\$ -
Fund balances:								
Beginning of year			5,544,317					
End of year			6,730,520				-	

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

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
 STATEMENT OF NET ASSETS
 PROPRIETARY FUND TYPES
 June 30, 2009

Exhibit 7

	Enterprise		Totals
	Major Fund School Food Service	Non-major Fund Child Care	
Assets			
Current assets:			
Cash and cash equivalents	\$ 196,887	\$ 438,685	\$ 635,572
Due from other governments	65,363	-	65,363
Accounts receivable	41,753	3,004	44,757
Inventories	207,548	-	207,548
Total current assets	<u>511,551</u>	<u>441,689</u>	<u>953,240</u>
Noncurrent assets:			
Capital assets:			
Furniture and office equipment, net	<u>17,486</u>	<u>-</u>	<u>17,486</u>
Total assets	<u>529,037</u>	<u>441,689</u>	<u>970,726</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	448,354	328	448,682
Compensated absences	49,261	38,457	87,718
Unearned revenue	<u>57,787</u>	<u>184,959</u>	<u>242,746</u>
Total current liabilities	<u>555,402</u>	<u>223,744</u>	<u>779,146</u>
Noncurrent liabilities:			
Compensated absences	<u>52,074</u>	<u>25,393</u>	<u>77,467</u>
Total liabilities	<u>607,476</u>	<u>249,137</u>	<u>856,613</u>
Net assets			
Invested in capital assets	17,486	-	17,486
Unrestricted (deficit)	<u>(95,925)</u>	<u>192,552</u>	<u>96,627</u>
Total net assets (deficit)	<u>\$ (78,439)</u>	<u>\$ 192,552</u>	<u>\$ 114,113</u>

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

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND TYPES
For the Fiscal Year Ended June 30, 2009

Exhibit 8

	Enterprise		Totals
	Major Fund School Food Service	Non-major Fund Child Care	
Operating revenues:			
Food sales	\$ 2,012,281	\$ -	\$ 2,012,281
Child care fees	-	1,597,804	1,597,804
Rental of school property	-	223,127	223,127
Total operating revenues	2,012,281	1,820,931	3,833,212
Operating expenses:			
Food cost:			
Purchase of food	1,405,776	137,967	1,543,743
Donated commodities	193,434	-	193,434
Salaries and benefits	1,519,284	1,484,450	3,003,734
Indirect costs	166,249	-	166,249
Materials and supplies	210,493	45,788	256,281
Repairs and maintenance	40,669	-	40,669
Depreciation	3,266	-	3,266
Non-capitalized equipment	-	15,239	15,239
Sodexo management fees	699,652	-	699,652
Sodexo contract reimbursements	(5,000)	-	(5,000)
Contracted services	-	4,954	4,954
Other	9,097	15,715	24,812
Total operating expenses	4,242,920	1,704,113	5,947,033
Operating income (loss)	(2,230,639)	116,818	(2,113,821)
Nonoperating revenues:			
Federal reimbursements	1,402,498	-	1,402,498
Federal commodities	193,434	-	193,434
Indirect costs not paid	166,249	-	166,249
Interest earned	2,125	2,954	5,079
Total nonoperating revenues	1,764,306	2,954	1,767,260
Income (loss) before contributions and transfers	(466,333)	119,772	(346,561)
Capital contributions	8,244	-	8,244
Transfers to other funds	-	(106,522)	(106,522)
Transfers from other funds	505,161	-	505,161
Change in net assets	47,072	13,250	60,322
Net assets (deficit), beginning of year	(125,511)	179,302	53,791
Net assets (deficit), end of year	\$ (78,439)	\$ 192,552	\$ 114,113

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

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPES
For the Fiscal Year Ended June 30, 2009

Exhibit 9

	Enterprise		Totals
	Major Fund School Food Service	Non-major Fund Child Care	
Cash flows from operating activities:			
Cash received from customers	\$ 2,017,542	\$ 1,823,343	\$ 3,840,885
Cash paid for goods and services	(2,385,060)	(232,363)	(2,617,423)
Cash paid to employees for services	(1,510,710)	(1,500,849)	(3,011,559)
Net cash provided (used) by operating activities	(1,878,228)	90,131	(1,788,097)
Cash flows from noncapital financing activities:			
Transfers from (to) other funds	505,161	(106,522)	398,639
Federal reimbursements	1,390,967	-	1,390,967
Net cash provided (used) by noncapital financing activities	1,896,128	(106,522)	1,789,606
Cash flows from investing activities:			
Interest earned on investments	2,125	2,954	5,079
Net increase (decrease) in cash and cash equivalents	20,025	(13,437)	6,588
Cash and cash equivalents, beginning of year	176,862	452,122	628,984
Cash and cash equivalents, end of year	\$ 196,887	\$ 438,685	\$ 635,572
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (2,230,639)	\$ 116,818	\$ (2,113,821)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	3,266	-	3,266
Donated commodities	193,434	-	193,434
Indirect costs not paid	166,249	-	166,249
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	50,532	1,327	51,859
(Increase) decrease in inventories	(42,928)	-	(42,928)
Increase (decrease) in accounts payable and accrued liabilities	(31,977)	(14,027)	(46,004)
Increase (decrease) in unearned revenue	5,261	2,412	7,673
Increase (decrease) in compensated absences payable	8,574	(16,399)	(7,825)
Total adjustments	352,411	(26,687)	325,724
Net cash provided (used) by operating activities	\$ (1,878,228)	\$ 90,131	\$ (1,788,097)

NONCASH OPERATING AND NONCAPITAL FINANCING ACTIVITIES:

The School Food Service Fund received donated commodities with a value of \$193,434 during the fiscal year. The receipt of these commodities is reflected as a nonoperating revenue on Exhibit 8. The consumption of these commodities is recorded as an operating expense.

Indirect costs of \$166,249 that would be due to the General Fund were not paid. These unpaid costs are reflected as a nonoperating revenue and an operating expense on Exhibit 8.

Assets with a value of \$8,244 were donated from the Capital Outlay Fund and are presented as capital contributions on Exhibit 8.

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

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2009

Exhibit 10

	<u>Administrative Fund</u>	<u>Employee Flexible Spending Account</u>
Assets		
Cash	\$ 386,580	\$ 93,648
Liabilities		
Accounts payable and accrued liabilities	<u>17,413</u>	<u>93,648</u>
Net Assets		
Assets held in trust for private purpose	\$ <u>369,167</u>	\$ <u>-</u>

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

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
For the Fiscal Year Ended June 30, 2009

Exhibit 11

	<u>Administrative Fund</u>
Additions:	
Contributions and other revenue	\$ 358,583
Deductions:	
Instructional costs and other expenditures	<u>475,148</u>
Change in net assets	(116,565)
Beginning net assets	<u>485,732</u>
Ending net assets	<u>\$ 369,167</u>

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

**CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2009**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Chapel Hill-Carrboro City Board of Education conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

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

B. Basis of Presentation

Government-wide Statements: The statement of net 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 funds. 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 funds are 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 required to be accounted for in another fund. This fund is the "Local Current Expense Fund," which is mandated by State law [G.S. 115C-426].

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

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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 Chapel Hill-Carrboro City 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 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 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.

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

C. Measurement Focus and Basis of Accounting

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

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Board considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. These could include federal, State, and county grants, and some charges for services. Expenditures are recorded when the related fund liability is incurred, except for claims and judgments and compensated 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.

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D. Budgetary Data

The Board's budgets are adopted as required by the North Carolina General Statutes. Annual budgets are adopted for all funds, except for the individual schools special revenue funds, as required by the North Carolina General Statutes. No budget is required by State law for individual school funds. All appropriations lapse at the fiscal year-end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds. The Board has authorized the Superintendent to move moneys (up to \$5,000) between functions within a fund. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$5,000. All amendments must be approved by the Board of Education.

During the year, several amendments to the original budget were necessary. The net effects are as follows:

<u>Fund</u>	<u>Net increase in original budget</u>
General Fund	\$ 1,463,614
State Public School Fund	5,308,712
Federal Grants Fund	2,368,763
Capital Outlay Fund	9,403,636
School Food Service Fund	170,511
Child Care Fund	181,842

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.

Encumbrance accounting is employed in all governmental funds except the Individual School Fund. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

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 consists of an

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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.

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 and maintenance that do not add to the value of the asset or materially extend asset lives is not capitalized.

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

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

Depreciation for assets that serve multiple purposes cannot be allocated ratably and is therefore reported as "unallocated depreciation" on the Statement of Activities. Land and construction in progress are not depreciated.

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.

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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, 2009 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 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.

In the governmental fund financial statements, reservations or restrictions of fund balance represent amounts that are not appropriable, are legally segregated for a specific purpose, or are restricted by the grant agreement. Designations of fund balance represent tentative management plans that are subject to change.

State law [G.S. 115C-425(a)] restricts the appropriation of fund balance or fund equity to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

The governmental fund types classify fund balances as follows:

Reserved:

Reserved for encumbrances - portion of fund balance available to pay for any commitments related to purchase orders and contracts that remain unperformed at year-end.

Reserved for prepaid expenditures - portion of fund balance not available for appropriation because it represents the year-end balance of prepaid expenditures which are not expendable, available resources.

Reserved by State statute - portion of fund balance, in addition to reserves for encumbrances and reserves for prepaid expenditures, which is not available for appropriation under State law. This amount is usually comprised of accounts receivable and interfund receivables which are not offset by deferred revenues.

Unreserved:

Designated for subsequent year's expenditures - portion of total fund balance available for appropriation which has been designated for the adopted 2009-2010 budget ordinance.

Undesignated - portion of total fund balance available for appropriation which is uncommitted at year-end.

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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 \$160,607,729 consists of several elements as follows:

<u>Description</u>	<u>Amount</u>
Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column)	\$ 229,312,078
Less accumulated depreciation	<u>(61,342,253)</u>
Net capital assets	167,969,825
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	(986,396)
Compensated absences	<u>(6,375,700)</u>
Total adjustment	<u>\$ 160,607,729</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 \$2,998,352 as follows:

<u>Description</u>	<u>Amount</u>
Capital outlay expenditures recorded in the fund statements but capitalized as assets in the statement of activities	\$ 7,534,798
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	(4,276,288)
New debt issued during the year is recorded as a source of funds on the fund statements; it has not effect on the statement of activities	(387,981)
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	629,600
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:	
Difference in interest expense between fund statements (modified accrual) and government-wide statements (full accrual)	4,538
Compensated absences are accrued in the government-wide statements but not in the fund statements because they do not use current resources	<u>(506,315)</u>
Total adjustment	<u>\$ 2,998,352</u>

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NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Deficit Fund Balance and Net Assets of Individual Funds

As of June 30, 2009, the Capital Outlay Fund reflects a deficit fund balance of \$313,421 and the School Food Service Fund reflects a deficit in net assets of \$78,439, which violates State law. The Board plans to fund the deficit in the Capital Outlay Fund through the regular, annual appropriation it receives from Orange County during the fiscal year ended June 30, 2010. The Board plans to fund the deficit balance in the School Food Service Fund through a transfer from the General Fund during the fiscal year ended June 30, 2010.

Excess of Fund Balance Appropriated over Fund Balance Available for Appropriation

For the fiscal year ended June 30, 2009 the Board appropriated \$688,100 of fund balance in the Capital Outlay Fund which violated State law [G.S. 115C-425(a)] because the Board did not have any fund balance available for appropriation. Management will immediately begin reviewing calculations of fund balance available for appropriation as part of its routine process of adopting the annual budget and making budget amendments to ensure that this type of violation does not occur in the future.

NOTE 3 - DETAIL NOTES ON ALL FUNDS

A. Assets

1. Deposits

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

At June 30, 2009, the Board had deposits with banks and savings and loans with a carrying amount of \$4,004,699 and with the State Treasurer of \$15,529. The bank balances with the financial institutions and the State Treasurer were \$4,708,642 and \$2,636,658, respectively. Of these balances, \$1,153,873 was covered by federal depository insurance and \$6,191,427 was covered by collateral held by authorized escrow agents in the name of the State Treasurer.

2. Investments

At June 30 2009, the Board had \$6,088,544 invested with the State Treasurer in the Short Term Investment Fund (STIF). The STIF is unrated and had a weighted average maturity of 1.8 years at June 30, 2009. The Board has no policy for managing interest rate risk or credit risk.

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3. Accounts Receivable

Receivables at the government-wide level at June 30, 2009, were as follows:

	Due from other governments	Other	Total
Governmental activities:			
General Fund	\$ 458,753	\$ 258,448	\$ 717,201
Other governmental activities	<u>2,745,281</u>	<u>-</u>	<u>2,745,281</u>
Total governmental activities	<u>\$ 3,204,034</u>	<u>\$ 258,448</u>	<u>\$ 3,462,482</u>
Business-type activities:			
School Food Service Fund	\$ 65,363	\$ 41,753	\$ 107,116
Child Care Fund	<u>-</u>	<u>3,004</u>	<u>3,004</u>
Total business-type activities	<u>\$ 65,363</u>	<u>\$ 44,757</u>	<u>\$ 110,120</u>

Due from other governments consists of the following:

Governmental activities:		
General Fund	\$ 458,753	Amounts due from State and County funds Operating funds from DPI Amounts due from County Federal grant funds
State Public School Fund	2,153,589	
Capital Outlay Fund	483,020	
Federal Grants Fund	<u>108,672</u>	
Total	<u>\$ 3,204,034</u>	
Business-type activities:		
School Food Service Fund	<u>\$ 65,363</u>	Federal funds

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4. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balances</u>
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 6,485,407	\$ -	\$ -	\$ -	\$ 6,485,407
Construction in progress	<u>56,769,868</u>	<u>5,273,500</u>	<u>-</u>	<u>(60,541,881)</u>	<u>1,501,487</u>
Total capital assets not being depreciated	<u>63,255,275</u>	<u>5,273,500</u>	<u>-</u>	<u>(60,541,881)</u>	<u>7,986,894</u>
Capital assets being depreciated:					
Buildings and improvements	148,310,869	686,932	-	60,541,881	209,539,682
Land improvements	4,388,800	141,921	-	-	4,530,721
Equipment and furniture	2,100,020	742,479	-	-	2,842,499
Vehicles	<u>3,722,316</u>	<u>689,966</u>	<u>-</u>	<u>-</u>	<u>4,412,282</u>
Total capital assets being depreciated	<u>158,522,005</u>	<u>2,261,298</u>	<u>-</u>	<u>60,541,881</u>	<u>221,325,184</u>
Less accumulated depreciation for:					
Buildings and improvements	50,745,464	3,457,642	-	-	54,203,106
Land improvements	2,788,272	213,165	-	-	3,001,437
Equipment and furniture	1,295,944	329,920	-	-	1,625,864
Vehicles	<u>2,236,285</u>	<u>275,561</u>	<u>-</u>	<u>-</u>	<u>2,511,846</u>
Total accumulated depreciation	<u>57,065,965</u>	<u>4,276,288</u>	<u>-</u>	<u>-</u>	<u>61,342,253</u>
Total capital assets being depreciated, net	<u>101,456,040</u>				<u>159,982,931</u>
Governmental activity capital assets, net	<u>\$164,711,315</u>				<u>\$ 167,969,825</u>
Business-type activities:					
School Food Service Fund:					
Capital assets being depreciated:					
Equipment and furniture	\$ 547,243	\$ 8,244	\$ -	\$ -	\$ 555,487
Less accumulated depreciation for:					
Equipment and furniture	<u>534,735</u>	<u>3,266</u>	<u>-</u>	<u>-</u>	<u>538,001</u>
School Food Service capital assets, net	<u>12,508</u>				<u>17,486</u>
Child Care Fund:					
Capital assets being depreciated:					
Equipment and furniture	37,339	-	-	-	37,339
Less accumulated depreciation for:					
Equipment and furniture	<u>37,339</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,339</u>
Child Care capital assets, net	<u>-</u>				<u>-</u>
Business-type activities capital assets, net	<u>\$ 12,508</u>				<u>\$ 17,486</u>

Depreciation was charged to governmental functions as follows:

Operational support services	\$ 275,561
Unallocated depreciation	<u>4,000,727</u>
Total	<u>\$ 4,276,288</u>

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5. Construction and Other Significant Commitments

As of June 30, 2009, the Board has various construction, renovation and repair projects in progress. The projects include construction of an elementary school and various renovations and repairs throughout the district. At year-end, the Board's commitments with contractors for these projects are as follows:

<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Construction, renovations and repairs	\$ 4,097,143	\$ 997,246

B. Liabilities

1. Pension Plan and Other Postemployment Obligations

a. Teachers' and State Employees' Retirement System

Plan Description. Chapel Hill-Carrboro City 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 3.36% of annual covered payroll. The contribution requirements of plan members and Chapel Hill-Carrboro City 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, 2009, 2008, and 2007 were \$2,805,187, \$2,425,191, and \$2,028,705, respectively, equal to the required contributions for each year.

b. Other Postemployment Benefits

1. Healthcare Benefits

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

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

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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, 2009, 2008, and 2007, the School Board paid all annual required contributions to the Plan for postemployment healthcare benefits of \$3,422,996, \$3,260,093, and \$2,898,150, respectively. These contributions represented 4.10%, 4.10%, and 3.80% of covered payroll, respectively.

2. Long-term Disability Benefits

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

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

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

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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, 2009, 2008, and 2007, the Board paid all annual required contributions to the DIPNC for disability benefits of \$434,136, \$413,475 and \$396,589, respectively. These contributions represented 0.52% of covered payroll for each of the three fiscal years.

3. Accounts Payable

	<u>Vendors</u>	<u>Salaries and benefits</u>	<u>Total</u>
Governmental activities:			
General	\$ 647,707	\$ 1,287,579	\$ 1,935,286
Other governmental	<u>517,867</u>	<u>2,262,261</u>	<u>2,780,128</u>
Total governmental activities	<u>\$ 1,165,574</u>	<u>\$ 3,549,840</u>	<u>\$ 4,715,414</u>
Business-type activities:			
School Food Service Fund	\$ 448,354	\$ -	\$ 448,354
Child Care Fund	<u>328</u>	<u>-</u>	<u>328</u>
Total business-type activities	<u>\$ 448,682</u>	<u>\$ -</u>	<u>\$ 448,682</u>

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2009

4. Unearned Revenues

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

Governmental activities:	
State grant funds not yet earned (State Public School Fund)	\$ 15,529
Prepaid use fee (Capital Outlay Fund – see below)	<u>1,095,833</u>
Total governmental activities	<u>\$ 1,111,362</u>
Business-type activities:	
Prepayments of meals (School Food Service Fund)	\$ 57,787
Prepayments of tuition (Child Care Fund)	<u>184,959</u>
Total business-type activities	<u>\$ 242,746</u>

The Board entered into a lease agreement with the University of North Carolina at Chapel Hill (the "University"), whereby the Board constructed additional space at Smith Middle School which is being leased to the University for a period of thirty years. The agreement required the University to pay a use fee of \$1,315,000 at the beginning of the lease. This fee, which is being recognized as revenue by the Board over the term of the agreement, was included in unearned revenue in the Capital Outlay Fund. At June 30, 2009, the remaining unearned revenue amounted to \$1,095,833.

5. Risk Management

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

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

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2009

In accordance with G.S. 115C-442, the Board's employees who have custody of the Board's monies at any given time are performance bonded through a commercial surety bond. The finance officer is bonded for \$50,000. The remaining employees that have access to funds are bonded under a blanket bond for \$100,000.

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

6. Contingent Liabilities

At June 30, 2009, the Board was a defendant to various lawsuits and claims. The Board's management and the Board's attorney have been unable to determine the amount of loss, if any, the Board will incur as a result of these legal matters.

7. Long-Term Obligations

a. Installment Purchases

The Board is authorized to finance the purchase of school buses under G.S. 115C-528(a). Session law 2003-284, section 7.25 authorized the State Board of Education to allot moneys for the payments on financing contracts entered into pursuant to G.S. 115C-528. The State has accepted the bid to purchase Thomas Built Buses through third party financing arrangements with Suntrust Leasing Co. During the fiscal years ended June 30, 2007 and 2009, the Board entered into such contracts for the purchase of school buses. Outstanding principal balances on the contracts entered into during the fiscal year ended June 30, 2007 was paid in full during the current fiscal year. The contracts entered into during 2009 each require three equal principal-only payments with the first payment due within 10 days of receipt of the buses and the following 2 payments due on the next 2 immediately following November 15th dates.

The Board has also entered into two additional installment purchase contracts for the purchase of computers and computer equipment. The contracts were entered into during the fiscal years ended June 30, 2007 and 2008. The contract for the computer equipment requires payments of principal and interest at 4.75% due monthly through 2012. The contract for the computers requires payments of principal and interest at 5.378% due annually for three years with the final payment due January 15, 2011.

The future minimum payments of the installment purchases as of June 30, 2009 are as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u> <u>Principal</u>
2010	\$ 511,763
2011	461,176
2012	59,497
	<u>1,032,436</u>
Less portion representing interest	<u>(46,040)</u>
Total principal obligation	<u>\$ 986,396</u>

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2009

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, 2009:

	<u>July 1, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2009</u>	<u>Current Portion</u>
Governmental activities:					
Installment purchases	\$ 1,228,015	\$ 387,981	\$ 629,600	\$ 986,396	\$ 480,591
Compensated absences	<u>5,869,385</u>	<u>5,357,351</u>	<u>4,851,036</u>	<u>6,375,700</u>	<u>2,754,919</u>
Total	<u>\$ 7,097,400</u>	<u>\$ 5,745,332</u>	<u>\$ 5,480,636</u>	<u>\$ 7,362,096</u>	<u>\$ 3,235,510</u>
Business-type activities:					
Compensated absences	<u>\$ 173,010</u>	<u>\$ 184,738</u>	<u>\$ 192,563</u>	<u>\$ 165,185</u>	<u>\$ 87,718</u>

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

d. Interfund Balances and Activity

Transfers to/from other funds during the year ended June 30, 2009 consisted of the following:

From the General Fund to the School Food Service Fund for the payment of operating expenses	<u>\$ 505,161</u>
From the Child Care Fund to the General Fund for the payment of operating expenditures	<u>\$ 106,522</u>

NOTE 4 - SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

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

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
GENERAL FUND
For the Fiscal Year Ended June 30, 2009

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
State of North Carolina:			
Smart Start	\$ 42,234	\$ 42,234	\$ -
More at Four Grant	415,583	415,500	(83)
Total State of North Carolina	<u>457,817</u>	<u>457,734</u>	<u>(83)</u>
Orange County:			
County appropriation	\$ 37,950,007	\$ 37,950,049	\$ 42
U.S. Government:			
Head Start	1,465,938	1,072,175	(393,763)
Carol M. White Physical Education Grant	336,514	315,771	(20,743)
Total U.S. Government	<u>1,802,452</u>	<u>1,387,946</u>	<u>(414,506)</u>
Other:			
Fines and forfeitures	400,000	397,982	(2,018)
Supplemental school taxes	18,685,974	18,899,074	213,100
Interest earned on investment	350,000	239,328	(110,672)
Indirect costs allocated	140,000	133,739	(6,261)
Medicaid reimbursement program	-	443,521	443,521
Tuition and fees	503,245	484,614	(18,631)
ABC revenues	60,000	60,000	-
Sales and use tax refund	80,000	74,822	(5,178)
Miscellaneous	596,730	299,209	(297,521)
Total other	<u>20,815,949</u>	<u>21,032,289</u>	<u>216,340</u>
Total revenues	<u>61,026,225</u>	<u>60,828,018</u>	<u>(198,207)</u>
Expenditures:			
Current:			
Instructional services:			
Regular instructional	22,187,962	21,681,415	506,547
Special populations	8,679,732	8,670,875	8,857
Alternative programs	3,831,780	3,370,780	461,000
School leadership	2,951,183	2,855,001	96,182
Co-curricular	2,147,332	2,073,078	74,254
School-based support	5,876,625	5,447,607	429,018
Total instructional services	<u>45,674,614</u>	<u>44,098,756</u>	<u>1,575,858</u>
System-wide support services:			
Support and development	828,573	822,988	5,585
Special population support and development	197,437	171,836	25,601
Alternative programs and services			
support and development	143,672	73,851	69,821
Technology support	1,370,948	1,368,707	2,241
Operational support	8,644,082	7,989,085	654,997
Financial and human resource services	1,816,321	1,683,189	133,132
Accountability	404,700	394,229	10,471
Policy, leadership and public relations	2,552,254	2,162,969	389,285
Total system-wide support services	<u>15,957,987</u>	<u>14,666,854</u>	<u>1,291,133</u>

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (Continued)
GENERAL FUND
For the Fiscal Year Ended June 30, 2009

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures: (Continued)			
Current:			
Non-programmed charges:			
Payments to other governments	<u>546,441</u>	<u>477,566</u>	<u>68,875</u>
Total expenditures	<u>62,179,042</u>	<u>59,243,176</u>	<u>2,935,866</u>
Revenues over (under) expenditures	<u>(1,152,817)</u>	<u>1,584,842</u>	<u>2,737,659</u>
Other financing sources (uses):			
Transfers from other funds	106,522	106,522	-
Transfers to other funds	<u>(505,161)</u>	<u>(505,161)</u>	<u>-</u>
Total other financing sources (uses)	<u>(398,639)</u>	<u>(398,639)</u>	<u>-</u>
Fund balance appropriated	<u>1,551,456</u>	<u>-</u>	<u>(1,551,456)</u>
Net change in fund balance	<u>\$ -</u>	<u>1,186,203</u>	<u>\$ 1,186,203</u>
Fund balance:			
Beginning of year		<u>5,544,317</u>	
End of year		<u>\$ 6,730,520</u>	

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 June 30, 2009

	Special Revenue Funds		Totals
	Individual Schools	Federal Grants Fund	
Assets			
Cash and cash equivalents	\$ 899,663	\$ -	\$ 899,663
Due from other governments	-	108,672	108,672
Total assets	<u>\$ 899,663</u>	<u>\$ 108,672</u>	<u>\$ 1,008,335</u>
Liabilities			
Accrued salaries and wages payable	\$ -	\$ 108,672	\$ 108,672
Fund balances			
Unreserved	<u>899,663</u>	<u>-</u>	<u>899,663</u>
Total liabilities and fund balances	<u>\$ 899,663</u>	<u>\$ 108,672</u>	<u>\$ 1,008,335</u>

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2009

	Special Revenue Funds		Totals
	Individual Schools	Federal Grants Fund	
Revenues:			
U.S. Government	\$ -	\$ 4,338,368	\$ 4,338,368
Other	<u>2,739,392</u>	<u>-</u>	<u>2,739,392</u>
Total revenues	<u>2,739,392</u>	<u>4,338,368</u>	<u>7,077,760</u>
Expenditures:			
Current:			
Instructional services:			
Regular instructional	-	363,177	363,177
Special populations	-	2,453,905	2,453,905
Alternative programs	-	1,086,239	1,086,239
Co-curricular	2,720,547	-	2,720,547
School-based support	-	49,046	49,046
Total instructional services	<u>2,720,547</u>	<u>3,952,367</u>	<u>6,672,914</u>
System-wide support services:			
Support and development	-	-	-
Special population support and development	-	151,530	151,530
Alternative programs and services support and development	-	56,348	56,348
Technology support	-	25,536	25,536
Operational support	-	47,111	47,111
Total system-wide support services	<u>-</u>	<u>280,525</u>	<u>280,525</u>
Ancillary services:			
Nutrition services	-	3,826	-
Non-programmed charges	-	101,650	101,650
Total expenditures	<u>2,720,547</u>	<u>4,338,368</u>	<u>7,055,089</u>
Net change in fund balance	18,845	-	22,671
Fund balances:			
Beginning of year	<u>880,818</u>	<u>-</u>	<u>880,818</u>
End of year	<u>\$ 899,663</u>	<u>\$ -</u>	<u>\$ 903,489</u>

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
FEDERAL GRANTS FUND
For the Fiscal Year Ended June 30, 2009

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
U.S. Government	\$ 7,102,401	\$ 4,338,368	\$ (2,764,033)
Expenditures:			
Current:			
Instructional services:			
Regular instructional	484,069	363,177	120,892
Special populations	3,732,112	2,453,905	1,278,207
Alternative programs	1,257,443	1,086,239	171,204
School-based support	<u>79,218</u>	<u>49,046</u>	<u>30,172</u>
Total instructional services	<u>5,552,842</u>	<u>3,952,367</u>	<u>1,600,475</u>
System-wide support services:			
Special population support and development	190,083	151,530	38,553
Alternative programs and services support and development	67,517	56,348	11,169
Technology support	25,548	25,536	12
Operational support	<u>57,218</u>	<u>47,111</u>	<u>10,107</u>
Total system-wide support services	<u>340,366</u>	<u>280,525</u>	<u>59,841</u>
Ancillary services:			
Nutrition services	<u>7,557</u>	<u>3,826</u>	<u>3,731</u>
Non-programmed charges:			
Payments to other governments	130,457	101,650	28,807
Unbudgeted Federal grant funds	<u>1,071,179</u>	<u>-</u>	<u>1,071,179</u>
Total non-programmed charges	<u>1,201,636</u>	<u>101,650</u>	<u>1,099,986</u>
Total expenditures	<u>7,102,401</u>	<u>4,338,368</u>	<u>2,764,033</u>
Net change in fund balance	\$ -	-	\$ -
Fund balance:			
Beginning of year		-	
End of year		<u>\$ -</u>	

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
INDIVIDUAL SCHOOLS FUND
For the Fiscal Year Ended June 30, 2009

	<u>Elementary Schools</u>	<u>Middle Schools</u>	<u>High Schools</u>	<u>Totals</u>
Revenues	\$ 476,583	\$ 596,214	\$ 1,666,595	\$ 2,739,392
Expenditures	<u>476,818</u>	<u>627,103</u>	<u>1,616,626</u>	<u>2,720,547</u>
Net change in fund balance	(235)	(30,889)	49,969	18,845
Fund balances:				
Beginning of year	<u>123,233</u>	<u>209,043</u>	<u>548,542</u>	<u>880,818</u>
End of year	<u>\$ 122,998</u>	<u>\$ 178,154</u>	<u>\$ 598,511</u>	<u>\$ 899,663</u>

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE (DEFICIT) -
 BUDGET AND ACTUAL
 CAPITAL OUTLAY FUND
 For the Fiscal Year Ended June 30, 2009

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
State of North Carolina:			
State appropriations - buses	\$ 317,239	\$ 290,592	\$ (26,647)
Orange County:			
Proceeds from county bonds	12,030,439	7,507,923	(4,522,516)
General county appropriations	1,579,005	1,579,005	-
Total Orange County	<u>13,609,444</u>	<u>9,086,928</u>	<u>(4,522,516)</u>
Other:			
Sales tax refunds	-	84,200	84,200
Insurance proceeds	38,031	49,940	11,909
Interest earned on investments	-	9,642	9,642
Miscellaneous	-	43,833	43,833
Total other	<u>38,031</u>	<u>187,615</u>	<u>149,584</u>
Total revenues	<u>13,964,714</u>	<u>9,565,135</u>	<u>(4,399,579)</u>
Expenditures:			
Debt service:			
Principal retirement	653,199	629,600	23,599
Interest and fees	44,450	44,450	-
Total debt service	<u>697,649</u>	<u>674,050</u>	<u>23,599</u>
Current:			
Instructional services:			
Regular instructional	193,407	185,804	7,603
System-wide support services:			
Technology support	307,822	304,820	3,002
Operational support	404,031	400,982	3,049
Total system-wide support services	<u>711,853</u>	<u>705,802</u>	<u>6,051</u>
Ancillary services:			
Nutrition	44,746	42,199	2,547
Capital outlay	<u>13,393,140</u>	<u>9,150,703</u>	<u>4,242,437</u>
Total expenditures	<u>15,040,795</u>	<u>10,758,558</u>	<u>4,282,237</u>
Revenues over (under) expenditures	(1,076,081)	(1,193,423)	(117,342)

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE (DEFICIT) -
BUDGET AND ACTUAL (Continued)
CAPITAL OUTLAY FUND
For the Fiscal Year Ended June 30, 2009

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Other financing sources:			
Installment purchase obligations issued	387,981	387,981	-
Fund balance appropriated	<u>688,100</u>	<u>-</u>	<u>(688,100)</u>
Net change in fund balance	<u>\$ -</u>	<u>(805,442)</u>	<u>\$ (805,442)</u>
Fund balance (deficit):			
Beginning of year		<u>492,021</u>	
End of year		<u>\$ (313,421)</u>	

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP),
SCHOOL FOOD SERVICE FUND
For the Fiscal Year Ended June 30, 2009

	Final Budget	Actual	Variance Positive (Negative)
Operating revenues - food sales	\$ 2,170,500	\$ 2,012,281	\$ (158,219)
Operating expenditures:			
Business support services:			
Purchase of food	-	1,448,704	-
Donated commodities	-	193,434	-
Salaries and benefits	-	1,510,710	-
Indirect costs	-	166,249	-
Materials and supplies	-	210,493	-
Repairs and maintenance	-	40,669	-
Sodexo management fees	-	699,652	-
Sodexo contract reimbursements	-	(5,000)	-
Other	-	9,097	-
Total operating expenditures	4,285,661	4,274,008	11,653
Operating income (loss)	(2,115,161)	(2,261,727)	(146,566)
Nonoperating revenues:			
Federal reimbursements	1,260,000	1,402,498	142,498
Federal commodities	195,000	193,434	(1,566)
Indirect costs not paid	280,000	166,249	(113,751)
Interest earned	-	2,125	2,125
Total nonoperating revenues	1,735,000	1,764,306	29,306
Excess of revenues over (under) expenditures before other financing sources	(380,161)	(497,421)	(117,260)
Other financing sources:			
Transfers from other funds	380,161	505,161	125,000
Revenues and other sources over expenditures	\$ -	7,740	\$ 7,740
Reconciliation of modified accrual to full accrual basis:			
Reconciling items:			
Depreciation		(3,266)	
Capital contributions		8,244	
(Increase) decrease in compensated absences payable		(8,574)	
Increase (decrease) in inventory		42,928	
Change in net assets (full accrual)		\$ 47,072	

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAA)
CHILD CARE FUND
For the Fiscal Year Ended June 30, 2009

	Final Budget	Actual	Variance Positive (Negative)
Operating revenues:			
Child care fees	\$ 1,565,391	\$ 1,597,804	\$ 32,413
Rental of school property	<u>290,000</u>	<u>223,127</u>	<u>(66,873)</u>
Total operating revenues	<u>1,855,391</u>	<u>1,820,931</u>	<u>(34,460)</u>
Operating expenditures:			
Regular community services:			
Purchase of food	-	137,967	-
Salaries and benefits	-	1,500,849	-
Materials and supplies	-	45,788	-
Non-capitalized equipment	-	15,239	-
Contracted services	-	4,954	-
Other	<u>-</u>	<u>15,715</u>	<u>-</u>
Total operating expenditures	<u>1,942,711</u>	<u>1,720,512</u>	<u>222,199</u>
Operating income	(87,320)	100,419	187,739
Nonoperating revenues:			
Interest earned	<u>12,000</u>	<u>2,954</u>	<u>(9,046)</u>
Excess of revenues over (under) expenditures before other financing uses	(75,320)	103,373	178,693
Other financing uses:			
Transfers to other funds	(106,522)	(106,522)	-
Fund balance appropriated	<u>181,842</u>	<u>-</u>	<u>(181,842)</u>
Excess of revenues and fund balance appropriated over (under) expenditures and other uses	<u>\$ -</u>	<u>(3,149)</u>	<u>\$ (3,149)</u>
Reconciliation of modified accrual to full accrual basis:			
Reconciling items:			
(Increase) decrease in compensated absences payable		<u>16,399</u>	
Change in net assets (full accrual)		<u>\$ 13,250</u>	

**CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 EMPLOYEE FLEXIBLE SPENDING ACCOUNT AGENCY FUND
 For the Fiscal Year Ended June 30, 2009**

	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2009</u>
Assets				
Cash and cash equivalents	<u>\$ 80,641</u>	<u>\$ 361,970</u>	<u>\$ 348,963</u>	<u>\$ 93,648</u>
Liabilities				
Accounts payable and accrued liabilities	<u>\$ 80,641</u>	<u>\$ 361,970</u>	<u>\$ 348,963</u>	<u>\$ 93,648</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 Chapel Hill-Carrboro City Board of Education
Chapel Hill, 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 Chapel Hill-Carrboro City Board of Education, North Carolina, as of and for the year ended June 30, 2009, which collectively comprise the Chapel Hill-Carrboro City Board of Education, North Carolina's basic financial statements and have issued our report thereon dated November 2, 2009. 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

In planning and performing our audit, we considered the Chapel Hill-Carrboro City 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Board's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the Board's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Board's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 Chapel Hill-Carrboro City Board of Education's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Board in a separate letter dated November 2, 2009.

This report is intended solely for the information and use of management, others within the organization, 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.

Morris Stewart Halston, P.A.

Statesville, North Carolina
November 2, 2009

**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 Chapel Hill-Carrboro City Board of Education
Chapel Hill, North Carolina

Compliance

We have audited the compliance of the Chapel Hill-Carrboro City Board of Education, North Carolina, 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 are applicable to its major federal programs for the year ended June 30, 2009. The Chapel Hill-Carrboro City Board of Education's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the Chapel Hill-Carrboro City Board of Education, North Carolina's management. Our responsibility is to express an opinion on the Chapel Hill-Carrboro City 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 Chapel Hill-Carrboro City Board of Education's compliance with those requirements and performing such other procedures as we consider 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 Chapel Hill-Carrboro City Board of Education's compliance with those requirements.

In our opinion, the Chapel Hill-Carrboro City Board of Education complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the Chapel Hill-Carrboro City 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 Chapel Hill-Carrboro City Board of Education's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Chapel Hill-Carrboro City Board of Education's internal control over compliance.

A *control deficiency* in a Board's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Board's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Board's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Board's internal control.

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

This report is intended solely for the information and use of management, others within the organization, 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.

Harris, Stewart & Ralston, P.A.

Statesville, North Carolina
November 2, 2009

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 Chapel Hill-Carrboro City Board of Education
Chapel Hill, North Carolina

Compliance

We have audited the compliance of the Chapel Hill-Carrboro City Board of Education, North Carolina, with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to its major state program for the year ended June 30, 2009. The Chapel Hill-Carrboro City Board of Education's major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major State programs are the responsibility of the Chapel Hill-Carrboro City Board of Education, North Carolina's management. Our responsibility is to express an opinion on the Chapel Hill-Carrboro City 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 Chapel Hill-Carrboro City Board of Education's compliance with those requirements and performing such other procedures as we consider 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 Chapel Hill-Carrboro City Board of Education's compliance with those requirements.

In our opinion, the Chapel Hill-Carrboro City Board of Education complied, in all material respects, with the requirements referred to above that are applicable to its major State programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the Chapel Hill-Carrboro City 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 Chapel Hill-Carrboro City Board of Education's internal control over compliance with the requirements that could have a direct and material effect on a major State program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Chapel Hill-Carrboro City Board of Education's internal control over compliance.

A *control deficiency* in a Board's internal control over compliance 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 noncompliance with a type of compliance requirement of a State program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Board's ability to administer a State program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a State program that is more than inconsequential will not be prevented or detected by the Board's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a State program will not be prevented or detected by the Board's internal control.

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

This report is intended solely for the information and use of management, others within the organization, 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.

Harris, Stewart & Ralston, P. A.

Statesville, North Carolina
November 2, 2009

**CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2009**

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 *No*

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 *No*

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
84.010	Title I, Educationally Deprived Children
93.600	Head Start
84.215F	Carol M. White Physical Education Grant

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

Auditee qualified as low-risk auditee? *Yes*

**CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2009**

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 *No*

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
Vocational Education – Program Support Funds
More at Four
Textbooks

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.

**CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Fiscal Year Ended June 30, 2009**

Finding: 08-01

Status: Corrected.

**CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
 For the Fiscal Year Ended June 30, 2009**

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA 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	\$ <u>193,434</u>
Cash Assistance:		
School Breakfast Program	10.553	230,198
National School Lunch Program	10.555	1,041,666
Summer Food Service Program for Children	10.559	<u>130,634</u>
Cash Assistance Subtotal		<u>1,402,498</u>
Total Child Nutrition Cluster		<u>1,595,932</u>
<u>U.S. Department of Education</u>		
Direct Programs:		
Carol M. White Physical Education Grant	84.215F	315,771
Office of Elementary and Secondary Education		
Passed-through the N.C. Department of Public Instruction:		
Education Consolidation and Improvement Act of 1981		
Improving America School Act of 1994 (IASA)		
Title I, Grants to Local Educational Agencies		
Educationally Deprived Children	84.010	918,023
School Improvement	84.010A	30,477
Title IV, Part A, Safe and Drug Free Schools and Communities		
Improving Teacher Quality	84.186	33,945
Language Acquisition Grant	84.367A	292,755
Educational Technology	84.365A	652,513
Twenty-first Century Community Learning Centers	84.318X	25,536
	84.287	190,016
Office of Special Education and Rehabilitative Services		
Passed-through the N.C. Department of Public Instruction:		
Special Education Cluster:		
Individuals with Disabilities Education Act		
Special Education - Grants to States	84.027	1,769,736
Special Education - Grants to States - ARRA	84.391	243,133
Special Education - Capacity Building /Improvement	84.027A	32,796
Special Education - Preschool Grants	84.173	<u>54,697</u>
Total Special Education Cluster		<u>2,100,362</u>

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Fiscal Year Ended June 30, 2009

<u>Grantor/Pass-through</u> <u>Grantor/Program Title</u>	<u>Federal</u> <u>CFDA</u> <u>Number</u>	<u>Expenditures</u>
Office of Vocational and Adult Education Passed-through the N.C. Department of Public Instruction: Carl D. Perkins Vocational and Applied Technology Education Act Amendments of 1990 Basic Grants to States Program Development	84.048	<u>86,967</u>
Total U.S. Department of Education		<u>4,646,365</u>
<u>U.S. Department of Health and Human Services</u> Health Resources and Services Administration Passed-through the N.C. Department of Public Instruction: Abstinence Education	93.235	7,774
Administration for Youth and Families Head Start	93.600	<u>1,072,175</u>
Total U.S. Department of Health and Human Services		<u>1,079,949</u>
Total Federal Assistance		\$ <u>7,322,246</u>

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Fiscal Year Ended June 30, 2009

<u>Grantor/Pass-through</u> <u>Grantor/Program Title</u>	<u>Federal</u> <u>CFDA</u> <u>Number</u>	<u>Expenditures</u>
State Grants:		
<u>N.C. Department of Public Instruction:</u>		
State Public School Fund		\$ 56,234,744
Vocational Education		
State Months of Employment		2,402,739
Program Support Funds		787,267
Driver Training		203,907
School Technology Fund		221,572
State appropriations - buses		290,592
Textbooks (noncash)		<u>324,014</u>
Total NC Department of Public Instruction		<u>60,464,835</u>
<u>N.C. Department of Health and Human Services</u>		
Division of Child Development:		
Smart Start		42,234
More at Four		<u>415,500</u>
Total NC Department of Health and Human Services		<u>457,734</u>
Total State Assistance		<u>60,922,569</u>
Total Federal and State Assistance		<u>\$ 68,244,815</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 Chapel Hill-Carrboro City 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.