

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

Financial Statements

For the Fiscal Year Ended June 30, 2008

**CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
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DIXON HUGHES PLLC

Certified Public Accountants and Advisors

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 (BOE), as of and for the year ended June 30, 2008, which collectively comprise the BOE's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the BOE'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 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. An audit also includes assessing the accounting principles used and significant the 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 BOE as of June 30, 2008, 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 the Governmental Accounting Standards Board. 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 this information and express no opinion thereon.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2008, on our consideration of the BOE's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 an opinion on the financial statements that collectively comprise the basic financial statements of the BOE. The individual and combining fund 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.

Dixon Hughes PLLC

Raleigh, North Carolina
October 31, 2008

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

This section of the Chapel Hill-Carrboro City Board of Education (the "Board") financial report represents our discussion and analysis of the financial performance of the Board for the year ended June 30, 2008. This information should be read in conjunction with the audited financial statements included in this report.

Financial Highlights

- The new state Chart of Accounts was successfully implemented.
- The new copier management program with Toshiba was successfully implemented saving the district \$200,000.
- A new district initiative began to provide all teachers in the district with a personal computer for teaching purposes. The district used fund balance in the general fund to begin the initiative.
- A new Procurement Card Program was successfully implemented to assist schools and administrative offices make small purchases.
- The State's ORBIT program was successfully implemented.
- Began planning to become compliant with new federal regulations regarding 403B plan administration by January 1, 2009.
- Financial reporting awards from Association of School Business Officers International and the Government Finance Officer's Association were received for the fourth 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)*
- *General Purpose Financial Statements*
- *Required supplemental section that presents combining and budgetary statements for nonmajor governmental funds and budgetary statements for enterprise funds.*

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

The second set of statements included in the basic financial statements is the *Fund Financial Statements*, which are presented for the Board's governmental funds, proprietary funds, and fiduciary 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 and fiduciary funds are presented on the full accrual basis of accounting. The fund financial statements focus on the Board's most significant funds. Because a different basis of accounting is used in the government-wide statements, reconciliation from the governmental fund financial statements to the government-wide statements is required. The government-wide statements provide information about the Board as an economic unit while the fund financial statements provide information on each of the financial resources of each of the Board's major funds.

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 City'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 and city 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 and community schools, which accounts for the summer, after school, school property rental and other services, are 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 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 Exhibit 3 and at Exhibit 5, in the form of reconciliations, 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 which are both enterprise funds. They are the School Food Service Fund and the Community Schools 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 fund types: the Administrative Fund, which is a scholarship fund under the control of the administrative unit and the Agency Fund, which maintains 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 funds 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 \$164.6 million as of June 30, 2008. The largest component of net assets is invested in capital assets, net of related debt, in the amount of \$163.5 million. Total assets increased \$16.9 million while total liabilities decreased \$3.2 million.

Following is a summary of the Statement of Net Assets:

**Table 1
Condensed Statements of Net Assets
As of June 30, 2008 and 2007**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>6/30/08</u>	<u>6/30/07</u>	<u>6/30/08</u>	<u>6/30/07</u>	<u>6/30/08</u>	<u>6/30/07</u>
Current assets	\$ 13,200,168	\$ 16,527,404	\$ 944,052	\$ 886,027	\$ 14,144,220	\$ 17,367,920
Capital assets	<u>164,711,315</u>	<u>144,482,327</u>	<u>12,058</u>	<u>47,546</u>	<u>164,723,823</u>	<u>144,529,873</u>
Total assets	<u>177,911,483</u>	<u>161,009,731</u>	<u>956,560</u>	<u>888,062</u>	<u>178,868,043</u>	<u>161,897,793</u>
Current liabilities	9,821,232	13,471,586	729,759	602,634	10,550,991	14,074,220
Long-term liabilities	<u>3,563,718</u>	<u>3,322,519</u>	<u>173,010</u>	<u>129,225</u>	<u>3,736,728</u>	<u>3,451,744</u>
Total liabilities	<u>13,384,950</u>	<u>16,794,105</u>	<u>902,769</u>	<u>731,859</u>	<u>14,287,719</u>	<u>17,525,964</u>
Invested in capital assets, net of related debt	163,483,300	143,000,072	12,508	47,546	163,495,808	143,047,618
Restricted net assets	880,818	828,491	-	-	880,818	828,491
Unrestricted net assets	<u>162,415</u>	<u>387,063</u>	<u>41,283</u>	<u>108,657</u>	<u>203,698</u>	<u>495,720</u>
Total net assets	<u>\$164,526,533</u>	<u>\$144,215,626</u>	<u>\$ 53,791</u>	<u>\$ 156,203</u>	<u>\$164,580,324</u>	<u>\$144,371,829</u>

The net assets of the Board's governmental activities increased from \$144.4 million at June 30, 2007 to \$164.5 million at June 30, 2008. This increase of \$20.3 million resulted primarily from an increase in capital assets, net of depreciation, of \$20.2 million and a decrease in current assets of \$3.3 million, offset by a decrease in total liabilities of \$3.4 million.

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

The net assets of our business-type activities decreased from \$156,203 at June 30, 2007 to \$53,791 at June 30, 2008. This decrease of \$102,412 was primarily due to the net loss by our school food service operations.

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

**Table 2
Condensed Statements of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Years Ended June 30, 2008 and 2007**

	Governmental Activities		Business-type Activities		Total Primary Government	
	6/30/08	6/30/07	6/30/08	6/30/07	6/30/08	6/30/07
Revenues:						
Program revenues:						
Charges for services	\$ 286,819	\$ 2,802,216	\$ 3,678,297	\$ 3,694,553	\$ 3,965,116	\$ 6,496,769
Operating grants and contributions	67,633,275	60,147,394	1,737,831	1,539,327	69,371,106	61,686,721
Capital grants and Contributions	425,185	370,572	-	-	1,007,861	370,572
General revenues:						
Other revenues	78,811,470	73,724,139	25,555	33,415	79,144,305	73,724,139
Total revenues	147,156,749	137,044,321	5,441,683	5,267,295	153,488,388	142,311,616
Expenses:						
Governmental activities:						
Instructional services	100,952,549	-	-	-	100,952,549	-
Instructional programs	-	86,739,513	-	-	-	86,739,513
System-wide support services	21,027,599	-	-	-	21,610,275	-
Support services	-	27,399,783	-	-	-	27,399,783
Ancillary services	50,456	-	-	-	50,456	-
Community services	-	622,045	-	-	-	622,045
Non-programmed charges	463,074	418,143	-	-	770,897	418,143
Interest on long-term debt	51,977	4,349	-	-	51,977	4,349
Depreciation-unallocated	3,914,010	3,792,816	-	-	3,914,010	3,792,816
Business-type activities:						
School food service	-	-	4,225,226	3,870,536	4,225,226	3,870,536
Child care	-	-	1,704,503	1,718,892	1,704,503	1,718,892
Total expenses	126,459,665	118,976,649	5,929,729	5,589,428	133,279,893	124,566,077
Revenues over (under) expenditures before transfers	20,697,084	18,072,021	(488,046)	(322,133)	20,208,495	1,745,539
Transfers from (to) Other funds	(386,177)	(122,000)	386,177	122,000	-	-
Increase (decrease) in net assets	20,310,907	17,945,672	(102,412)	(200,133)	20,208,495	1,745,539
Beginning net assets	144,215,626	126,269,954	156,203	356,336	144,371,829	126,626,290
Ending net assets	\$164,526,533	\$144,215,626	\$ 53,791	\$ 156,203	\$164,580,324	\$144,371,829

During the year ended June 30, 2008, our governmental activities generated revenues of \$147.7 million compared with the aggregate of total expenses and transfers out in the amount of \$127.4 million, resulting in the aforementioned increase in our net assets for these activities of approximately \$20.3 million. Our

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

primary sources of revenue were funding from the State of North Carolina, the County of Orange, the United States government, and other revenues which comprised 40%, 41%, 4%, and 15% of our revenues, respectively. Other revenues include supplemental school taxes and fines and forfeitures which pass through the County. As would be expected, the major component of our expenses was instructional programs, which accounted for 68% of our total expenses during the most recent fiscal year. Of the remaining 32% of our total expenses, 13% of the total expenses were attributable to supporting services.

Our business-type activities generated revenue of \$5.8 million (including transfers from governmental activities) and had expenses of \$5.9 million, a decrease in net assets of \$102,412.

The increase in the net assets of our governmental activities during the fiscal year ended June 30, 2008 of \$20.3 million represented an increase in comparison to the \$17.7 million increase experienced during the fiscal year ended June 30, 2007. Our governmental activity revenues increased \$10.1 million during the current year in comparison to the fiscal year ended June 30, 2007. Increases in revenues from the State of North Carolina and other revenue sources were \$6.2 million and were supplemented by increases in Orange County of \$3.36 million which primarily resulted from increases in capital outlay funding in the Capital Outlay Fund during the year. All categories of expenses for our governmental activities increased during the current year with instructional services showing the largest increase of \$15.3 million in the 2008 fiscal year.

The decrease in the net assets of our business-type activities during the fiscal year ended June 30, 2008 of \$102,412 represented a decrease of income in comparison to the \$200,133 decrease experienced during the fiscal year ended June 30, 2007. This decrease in income was due to income losses for the School Food Service and Child Care programs.

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 \$6.9 million, a \$787,894 decrease compared to last year. All of the Board's governmental funds had revenues that exceeded expenditures, except for capital outlay fund. The General Fund, State Public School Fund and Capital Outlay Fund revenues individually increased by 7%, 7% and 6%, respectively, when compared to the prior year. The non major fund revenues also increased by 15% when compared to the prior year. Our total expenditures increased by \$11.1 million, or 8%, during the year. The General Fund, State Public School Fund, and the Capital Outlay Fund expenditures individually increased by 10%, 7% and 4%, respectively. The non major fund expenditures decreased by 15%.

Proprietary Funds: The Board's business type funds reported a combined decrease in net assets of \$102,412 for the fiscal year ended June 30, 2008, as compared with a decrease in net assets of \$200,000 for the same period in 2007. The decrease in net assets resulted from income and losses from both the school food service and child care operations. Revenues and non-operating revenues increased by \$476,249 while our operating expenses increased by \$295,705. Adding to the overall decrease in operations was a decrease in transfers from the general fund in the amount of \$39,177.

General Fund Budgetary Highlights

Over the course of the year, the Board revised the budget several times to account for increases in revenue and expenditure expectations. The major amendments to the original budget for the General Fund are the inclusion of the federal HeadStart (\$1.43 million), and other state grant (\$299,595) revenues and expenditures as required by the North Carolina General Statutes. For the year, the Board reported expenditures and transfers to other funds in excess of revenues of \$1.27 million.

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

Capital Assets

Capital assets increased by \$38.4 million or 30.1% compared to the previous year. The increase was primarily due to construction projects under way during the current fiscal year. The following is a summary of the capital assets, net of depreciation, at year-end. Additional information regarding our capital assets can be found in Note 3 to the basic financial statements.

**Table 3
Summary of Capital Assets
As of June 30, 2008 and 2007**

	Governmental Activities		Business-type Activities		Total Primary Government	
	6/30/08	6/30/07	6/30/08	6/30/07	6/30/08	6/30/07
Land	\$ 6,485,407	\$ 6,485,407	\$ -	\$ -	\$ 6,485,407	\$ 6,485,407
Construction in progress	56,769,868	35,347,742	-	-	56,769,868	35,347,742
Buildings and improvements	97,565,405	99,246,015	-	-	97,565,405	99,246,015
Land improvements	1,600,528	965,793	-	-	1,600,528	965,793
Equipment and furniture	804,076	807,789	12,508	47,546	816,584	855,335
Vehicles	1,486,031	1,629,581	-	-	1,486,031	1,629,581
Total	\$164,711,315	\$144,482,327	\$ 12,508	\$ 47,546	\$164,723,823	\$144,529,873

Debt Outstanding

During the year, the Board's outstanding debt decreased from \$8.08 million at June 30, 2007 to \$7.27 million at June 30, 2008, a decrease of \$813,515. The change in the outstanding debt during the fiscal year ended June 30, 2008 did not change significantly in comparison to the fiscal year ended June 30, 2007. Additional information regarding our debt can be found in Note 3 to the basic financial statements.

Economic Factors

- Student enrollment increased by 231 students; 23 students more than the state projection.
- Carrboro High School was completed and opened on time in August 2007.
- Diesel fuel costs continued to increase beyond the State allotted budget. Chapel Hill – Carrboro City Schools, together with Orange County Schools, had to cover a very significant deficit for student transportation.
- Morris Grove Elementary was under construction and scheduled to open August 2008.
- The district received approval to begin planning the construction of a new elementary school to open in school year 2011-2012.

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, 2008

Exhibit 1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 9,153,115	\$ 628,984	\$ 9,782,099
Due from other governments	3,475,731	53,832	3,529,563
Receivables	2,840	96,616	99,456
Inventories	-	164,620	164,620
Prepaid expenses	568,482	-	568,482
Capital assets (Note 3):			
Land, improvements, and construction in progress	63,255,275	-	63,255,275
Other capital assets, net of depreciation	101,456,040	12,508	101,468,548
Total capital assets	<u>164,711,315</u>	<u>12,508</u>	<u>164,723,823</u>
 Total assets	 <u>177,911,483</u>	 <u>956,560</u>	 <u>178,868,043</u>
Liabilities			
Accounts payable and accrued expenses	920,549	494,686	1,415,235
Accrued salaries and wages payable	3,829,389	-	3,829,389
Due to other governments	393,407	-	393,407
Unearned revenue	1,139,667	235,073	1,374,740
Accrued interest payable	4,538	-	4,538
Long-term liabilities:			
Due within one year	3,533,682	91,574	3,625,256
Due in more than one year	<u>3,563,718</u>	<u>81,436</u>	<u>3,645,154</u>
 Total liabilities	 <u>13,384,950</u>	 <u>902,769</u>	 <u>14,287,719</u>
Net Assets			
Invested in capital assets, net of related debt	163,483,300	12,508	163,495,808
Restricted for:			
Individual schools activities	880,818	-	880,818
Unrestricted	<u>162,415</u>	<u>41,283</u>	<u>203,698</u>
 Total net assets	 <u>\$ 164,526,533</u>	 <u>\$ 53,791</u>	 <u>\$ 164,580,324</u>

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2008

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	Primary Government	
				Governmental Activities	Business-type Activities	Total
Primary government:						
Governmental activities:						
Instructional services:						
Regular instructional	\$ 60,437,909	\$ -	\$ 42,930,321	\$ -	\$ (17,507,588)	\$ (17,507,588)
Special populations	15,717,120	-	8,099,274	-	(7,617,846)	(7,617,846)
Alternative programs	5,549,599	-	3,196,589	-	(2,353,010)	(2,353,010)
School leadership	8,445,826	-	3,543,283	-	(4,902,543)	(4,902,543)
Co-curricular	1,949,206	-	-	-	(1,949,206)	(1,949,206)
School-based support	8,852,889	-	3,148,025	-	(5,704,864)	(5,704,864)
System-wide supporting services:						
System-wide pupil support	9,407	-	-	-	(9,407)	(9,407)
Support and development	1,198,068	-	358,151	-	(839,917)	(839,917)
Special population support and development	209,550	-	164,076	-	(45,474)	(45,474)
Alternative programs and services support and	156,166	-	2,696,953	41,528	2,582,315	2,582,315
Technology support	1,419,335	-	130,245	-	(1,289,090)	(1,289,090)
Operation support	13,372,418	286,819	2,533,835	383,657	(10,168,107)	(10,168,107)
Financial and human resource	1,881,959	-	239,598	-	(1,642,361)	(1,642,361)
Accountability	419,940	-	2,174	-	(417,766)	(417,766)
Policy, leadership and public relations	2,360,756	-	429,049	-	(1,931,707)	(1,931,707)
Ancillary services	50,456	-	39,243	-	(11,213)	(11,213)
Non-programmed charges	463,074	-	122,459	-	(340,615)	(340,615)
Interest on long-term debt	51,977	-	-	-	(51,977)	(51,977)
Unallocated depreciation expense**	3,914,010	-	-	-	(3,914,010)	(3,914,010)
Total governmental activities	<u>126,459,665</u>	<u>286,819</u>	<u>67,633,275</u>	<u>425,185</u>	<u>(58,114,386)</u>	<u>(58,114,386)</u>
Business-type activities:						
School food service	4,225,769	2,017,352	1,737,831	-	(470,586)	(470,586)
Child care	1,704,503	1,660,945	-	-	(43,558)	(43,558)
Total business-type activities	<u>5,930,272</u>	<u>3,678,297</u>	<u>1,737,831</u>	<u>-</u>	<u>(514,144)</u>	<u>(514,144)</u>
Total primary government	<u>\$ 132,389,937</u>	<u>\$ 3,965,116</u>	<u>\$ 69,371,106</u>	<u>\$ 425,185</u>	<u>(58,114,386)</u>	<u>(58,628,530)</u>
General revenues:						
Unrestricted county appropriations - operating					34,935,883	34,935,883
Unrestricted county appropriations - capital					25,561,903	25,561,903
Investment earnings, unrestricted					450,995	476,550
Miscellaneous, unrestricted					17,862,689	17,862,689
Transfers					(386,177)	-
Total general revenues and transfers					<u>78,425,293</u>	<u>411,732</u>
Change in net assets					20,310,907	(102,412)
Net assets, beginning					<u>144,215,626</u>	<u>156,203</u>
Net assets, ending					<u>\$ 164,526,533</u>	<u>\$ 53,791</u>

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

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008

Exhibit 3

	Major Funds			Non-major Funds	Total Governmental Funds
	General	State Public School	Capital Outlay		
Assets					
Cash and cash equivalents	\$ 6,566,773	\$ -	\$ 1,705,524	\$ 880,818	\$ 9,153,115
Due from other governments	394,274	2,170,900	757,097	153,460	3,475,731
Accounts receivable	2,840	-	-	-	2,840
Prepaid expenditures	568,482	-	-	-	568,482
Total assets	\$ 7,532,369	\$ 2,170,900	\$ 2,462,621	\$ 1,034,278	\$ 13,200,168
Liabilities and fund balances					
Liabilities:					
Accounts payable and accrued liabilities	\$ 334,560	\$ -	\$ 585,989	\$ -	\$ 920,549
Accrued salaries and wages payable	1,505,029	2,170,900	-	153,460	3,829,389
Due to other governments	148,463	-	244,944	-	393,407
Unearned revenue	-	-	1,139,667	-	1,139,667
Total liabilities	1,988,052	2,170,900	1,970,600	153,460	6,283,012
Fund balances (deficit):					
Reserved for:					
Encumbrances	244,903	-	2,890,166	-	3,135,069
State statute	397,114	-	757,097	-	1,154,211
Prepaid expenditures	568,482	-	-	-	568,482
Unreserved, General Fund:					
Designated for subsequent year's expenditures					
Designated for subsequent year's expenditures	1,020,000	-	-	-	1,020,000
Undesignated	3,313,818	-	-	-	3,313,818
Unreserved (Deficit), reported in:					
Special Revenue Funds	-	-	-	880,818	880,818
Capital Projects Fund	-	-	(3,167,944)	-	(3,167,944)
Total fund balances (deficit)	5,544,317	-	479,319	880,818	6,904,454
Total liabilities and fund balances	\$ 7,532,369	\$ 2,170,900	\$ 2,449,919	\$ 1,034,278	

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.	164,711,315
Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds.	(7,101,938)
Net assets of governmental activities	\$ 164,513,831

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, 2008

Exhibit 4

	Major Funds			Non-major Funds	Total Governmental Funds
	General	State Public School	Capital Outlay		
Revenues:					
State of North Carolina	\$ 320,285	\$ 59,268,958	\$ 41,528	\$ -	\$ 59,630,771
Orange County	34,935,883	-	25,561,903	-	60,497,786
U.S. Government	1,120,225	-	-	4,172,788	5,293,013
Other	18,930,619	-	235,928	2,696,953	21,863,500
Total revenues	55,307,012	59,268,958	25,839,359	6,869,741	147,285,070
Expenditures:					
Current:					
Instructional services:					
Regular instructional	19,690,858	40,725,283	-	326,805	60,742,946
Special populations	7,697,171	5,856,613	-	2,242,661	15,796,445
Alternative programs	2,381,019	1,995,276	-	1,201,313	5,577,608
School leadership	2,300,544	3,543,283	-	2,644,626	8,488,453
Co-curricular	1,959,044	-	-	-	1,959,044
School-based support	5,749,546	3,102,677	-	45,348	8,897,571
System-wide support services:					
Support and development	844,319	358,149	-	-	1,202,468
Special population support and development	132,800	76,656	-	-	209,456
Alternative programs and services	58,991	-	-	87,420	146,411
Technology support	1,210,392	51,560	-	78,685	1,340,637
Operation support	8,053,425	2,862,936	-	2,174	10,918,535
Financial and human resource	1,594,698	239,039	-	54,558	1,888,295
Accountability	401,690	-	-	559	402,249
Policy, leadership and public relations	2,090,103	429,049	-	-	2,519,152
Ancillary services	11,213	28,437	-	10,806	50,456
Non-programmed charges	468,936	-	-	122,459	591,395
Debt service:					
Principal	-	-	463,568	-	463,568
Interest	-	-	52,378	-	52,378
Capital outlay:					
Land, buildings, and site improvement	-	-	2,904,511	-	2,904,511
Furnishings and equipment	-	-	23,464,073	-	23,464,073
Vehicles and other	-	-	280,465	-	280,465
Total expenditures	54,644,749	59,268,958	27,164,995	6,817,414	147,896,116
Revenues over (under) expenditures	662,263	-	(1,325,636)	52,327	(611,046)
Other financing sources (uses):					
Transfers from (to) other funds	(1,932,435)	-	1,546,258	-	(386,177)
Installment purchase obligations issued	-	-	209,328	-	209,328
Total other financing sources (uses)	(1,932,435)	-	1,755,586	-	(176,849)
Net change in fund balance	(1,270,172)	-	429,950	52,327	(787,895)
Fund balances:					
Beginning of year	6,814,489	-	49,369	828,491	7,692,349
End of year	\$ 5,544,317	\$ -	\$ 479,319	\$ 880,818	\$ 6,904,454

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, 2008

Exhibit 5

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

Net changes in fund balances - total governmental funds	\$ (787,895)
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.	20,228,988
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Adjustment for change in inventory methods	12,113
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.	254,240
Difference in accrued interest payable and interest expensed on fund statements	401
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Compensated absences	<u>603,060</u>
Total changes in net assets of governmental activities	<u>\$ 20,310,907</u>

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
GENERAL FUND AND ANNUALLY BUDGETED MAJOR SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2008

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	\$ -	\$ 299,595	\$ 320,285	\$ 20,690	\$ 53,644,936	61,373,333	\$ 59,268,958	\$ (2,104,375)
Orange County	34,935,383	34,935,383	34,935,883	500	-	-	-	-
U.S. Government	-	1,428,414	1,120,225	(308,189)	-	-	-	-
Other	18,372,668	18,675,636	18,930,619	254,983	-	-	-	-
Total revenues	53,308,051	55,339,028	55,307,012	(32,016)	53,644,936	61,373,333	59,268,958	(2,104,375)
Expenditures:								
Current:								
Instructional services:								
Regular instructional	20,647,287	20,157,307	19,690,858	466,449	37,768,929	42,344,752	40,725,283	1,619,469
Special populations	7,849,515	7,859,869	7,697,171	162,698	5,043,818	5,908,242	5,856,613	51,629
Alternative programs	1,149,740	2,888,237	2,381,019	507,218	1,233,704	2,211,299	1,995,276	216,023
School leadership	2,726,621	2,368,355	2,300,544	67,811	3,196,028	3,571,231	3,543,283	27,948
Co-curricular	1,609,791	1,997,586	1,959,044	38,542	-	-	-	-
School-based support	3,385,857	6,103,462	5,749,546	353,916	3,178,500	3,216,678	3,102,677	114,001
System-wide support services								
Support and development	1,008,106	883,340	844,319	39,021	-	361,341	358,149	3,192
Special population support and development	110,729	152,155	132,800	19,355	-	76,658	76,656	2
Alternative programs and services support and development	10,000	119,748	58,991	60,757	-	-	-	-
Technology support	365,620	1,218,604	1,210,392	8,212	-	51,631	51,560	71
Operation support	11,160,738	8,644,117	8,053,425	590,692	2,368,977	2,934,354	2,862,936	71,418
Financial and human resource	1,304,642	1,716,465	1,594,698	121,767	213,009	239,039	239,039	-
Accountability	237,114	402,465	401,690	775	-	-	-	-
Policy, leadership and public relations	2,233,511	2,186,896	2,090,103	96,793	641,971	429,054	429,049	5
Ancillary services	11,600	11,300	11,213	87	-	29,054	28,437	617
Nonprogrammed charges	529,680	588,647	468,936	119,711	-	-	-	-
Total expenditures	54,340,551	57,298,553	54,644,749	2,653,804	53,644,936	61,373,333	59,268,958	2,104,375
Revenues over (under) expenditures	(1,032,500)	(1,959,525)	662,263	(2,621,788)	-	-	-	-
Other financing uses:								
Transfers to other funds	-	(1,932,435)	(1,932,435)	-	-	-	-	-
Fund balance appropriated	1,032,500	3,891,960	-	3,891,960	-	-	-	-
Net change in fund balances	\$ -	\$ -	(1,270,172)	\$ (1,270,172)	\$ -	\$ -	-	\$ -
Fund balances:								
Beginning of year			6,814,489				-	
End of year			\$ 5,544,317				\$ -	

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2008

Exhibit 7

	Enterprise Funds		Total
	Major Fund	Non-major Fund	
	School Food Service	Child Care	
Assets			
Current assets:			
Cash and cash equivalents	\$ 176,862	\$ 452,122	\$ 628,984
Due from other governments	53,832	-	53,832
Accounts receivable	92,285	4,331	96,616
Inventories	164,620	-	164,620
Total current assets	<u>487,599</u>	<u>456,453</u>	<u>944,052</u>
Noncurrent assets:			
Capital assets:			
Furniture and office equipment, net	<u>12,508</u>	<u>-</u>	<u>12,508</u>
Total assets	<u>500,107</u>	<u>456,453</u>	<u>956,560</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	480,331	14,355	494,686
Unearned revenue	52,526	182,547	235,073
Compensated absences	50,000	41,574	91,574
Total current liabilities	<u>582,857</u>	<u>238,476</u>	<u>821,333</u>
Noncurrent liabilities:			
Compensated absences	<u>42,761</u>	<u>38,675</u>	<u>81,436</u>
Total liabilities	<u>625,618</u>	<u>277,151</u>	<u>902,769</u>
Net Assets			
Invested in capital assets	12,508	-	12,508
Unrestricted (deficit)	<u>(138,019)</u>	<u>179,302</u>	<u>41,283</u>
Total net assets (deficit)	<u>\$ (125,511)</u>	<u>\$ 179,302</u>	<u>\$ 53,791</u>

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2008

Exhibit 8

	Enterprise Funds		Total
	Major Fund School Food Service	Non-major Fund Child Care	
Operating revenues:			
Food sales	\$ 2,017,352	\$ -	\$ 2,017,352
Child care fees	-	1,447,689	1,447,689
Rental of school property	-	213,256	213,256
Total operating revenues	<u>2,017,352</u>	<u>1,660,945</u>	<u>3,678,297</u>
Operating expenses:			
Business support services:			
Purchase of food	1,466,999	135,086	1,602,085
Salaries and benefits	1,528,029	1,487,377	3,015,406
Indirect costs	351,442	-	351,442
Materials and supplies	234,596	40,311	274,907
Depreciation	2,441	-	2,441
Sodexho management fees	589,711	-	589,711
Sodexho contract reimbursements	-	-	-
Other	52,551	41,729	94,280
Total operating expenses	<u>4,225,769</u>	<u>1,704,503</u>	<u>5,930,272</u>
Operating loss	<u>(2,208,417)</u>	<u>(43,558)</u>	<u>(2,251,975)</u>
Nonoperating revenues:			
Federal reimbursements	1,215,885	-	1,215,885
Federal commodities	170,504	-	170,504
Indirect costs not paid	351,442	-	351,442
Interest on investments	9,130	16,425	25,555
Miscellaneous	-	-	-
Total nonoperating revenues	<u>1,746,961</u>	<u>16,425</u>	<u>1,763,386</u>
Loss before transfers	<u>(461,456)</u>	<u>(27,133)</u>	<u>(488,589)</u>
Transfers from other funds	<u>386,177</u>	<u>-</u>	<u>386,177</u>
Change in net assets	<u>(75,279)</u>	<u>(27,133)</u>	<u>(102,412)</u>
Net assets (deficit), beginning of year	<u>(50,232)</u>	<u>206,435</u>	<u>156,203</u>
Net assets (deficit), end of year	<u>\$ (125,511)</u>	<u>\$ 179,302</u>	<u>\$ 53,791</u>

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

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CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2008

Exhibit 9

	Enterprise Funds		Total
	Major Fund School Food Service	Non-major Fund Child Care	
Cash flows from operating activities:			
Cash received from customers	\$ 1,988,756	\$ 1,685,705	\$ 3,674,461
Cash paid for goods and services	(2,034,863)	(203,995)	(2,238,858)
Cash paid to employees for services	(1,490,485)	(1,481,136)	(2,971,621)
Net cash provided (used) by operating activities	<u>(1,536,592)</u>	<u>574</u>	<u>(1,536,018)</u>
Cash flows from non capital financing activities:			
Transfers from other funds	39,177	-	39,177
District subsidy	301,861	-	301,861
Federal reimbursements	1,215,885	-	1,215,885
Net cash provided (used) by no capital activities	<u>1,556,923</u>	<u>-</u>	<u>1,556,923</u>
Cash flows from investing activities:			
Interest earned on investments	<u>9,130</u>	<u>16,425</u>	<u>25,555</u>
Net increase (decrease) in cash and cash equivalents	29,462	16,999	46,460
Cash and cash equivalents, beginning of year	<u>147,400</u>	<u>435,123</u>	<u>582,523</u>
Cash and cash equivalents, end of year	<u>\$ 176,862</u>	<u>\$ 452,122</u>	<u>\$ 628,983</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (2,208,417)	\$ (43,558)	\$ (2,251,975)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	2,441	-	2,441
Donated commodities	170,504	-	170,504
Loss on disposal of fixed assets	32,596	-	32,596
Indirect costs not paid	351,442	-	351,442
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(41,621)	(3,125)	(44,746)
(Increase) decrease in due from other funds	(216)	-	(216)
(Increase) decrease in inventories	(12,113)	-	(12,113)
Increase (decrease) in accounts payable and accrued liabilities	72,868	13,131	85,999
Increase (decrease) in accrued salaries and	-	-	-
Increase (decrease) in due to other funds	-	-	-
Increase (decrease) in deferred revenue	13,241	27,885	41,126
Increase (decrease) in compensated absences payable	37,544	6,241	43,785
Total adjustments	<u>626,686</u>	<u>44,132</u>	<u>670,818</u>
Net cash provided (used) by operating activities	<u>\$ (1,581,731)</u>	<u>\$ 574</u>	<u>\$ (1,581,157)</u>

NONCASH OPERATING AND NONCAPITAL FINANCING ACTIVITIES:

Indirect costs of \$351,442 that would be due to the General Fund were not paid. These unpaid costs are reported as a nonoperating revenue and an operating expense on Exhibit 8.

The School Food Service Fund received donated commodities with a value of \$170,504 during the fiscal year. The receipt of these commodities is reflected as a nonoperating revenue on Exhibit 8.

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2008

Exhibit 10

	<u>Administrative Fund</u>	<u>Employee Flexible Spending Account</u>
Assets		
Cash and cash equivalents	\$ 491,498	\$ 80,641
Accounts receivable, net	<u>24,964</u>	<u>-</u>
Total assets	<u>516,462</u>	<u>80,641</u>
Liabilities		
Accounts payable and accrued liabilities	<u>30,730</u>	<u>80,641</u>
Net Assets		
Assets held in trust for private purposes	<u>485,732</u>	<u>-</u>
Total net assets	<u>\$ 485,732</u>	<u>\$ -</u>

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Fiscal Year Ended June 30, 2008

Exhibit 11

	<u>Administrative Fund</u>
Additions:	
Contributions and other revenue	\$ 368,143
Deductions:	
Instructional costs and other expenditures	309,085
Transfer to other fund	<u>125,421</u>
Total deductions	434,506
Change in net assets	(66,363)
Beginning net assets	<u>552,095</u>
Ending net assets	<u>\$ 485,732</u>

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008

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 does not have any component units, and is not a component unit of any other entity.

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 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. Operating expenses generally result from producing and delivering goods in connection with the fund's principal ongoing operations. Expenses not meeting this definition are reported as nonoperating 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.

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008

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

The Board reports the following major enterprise fund:

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

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.

Additionally, the Board reports the following fund types:

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

Child Care Fund – The Child Care Fund is used to account for the before and after school care offered at various elementary schools within the school system.

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

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

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reported as other financing sources. Under the terms of grant agreements, the Board funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Board's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

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

D. Budgetary Data

The Board's budgets are adopted as required by the North Carolina General Statutes. Annual budgets are adopted for all funds, except for the 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) from one function to another 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 governing board. During the year, several amendments to the original budget were necessary.

The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. Assets, 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 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.

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2. Cash and Cash Equivalents

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

3. Inventories

The inventories of the Board are valued at cost and the Board uses the first-in, first-out (FIFO) flow assumption in determining cost. The inventories of the Board's proprietary fund 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.

It is the policy of the Board to capitalize all capital assets costing more than \$5,000 with an estimated useful life of two or more years. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives is not capitalized.

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

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

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

5. Long-term obligations

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

6. Compensated Absences

The Board follows the State's policy for vacation and sick leave. Employees may accumulate up to thirty (30) days earned vacation leave with such leave being fully vested when earned. For the Board, the current portion of the accumulated vacation pay is not considered to be material. The Board's liability for accumulated earned vacation and the salary-related payments as of June 30, 2008 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.

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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 which remain unperformed at year-end.

Reserved by State statute - portion of fund balance, in addition to reserves for encumbrances and reserves for inventories, 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.

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

Unreserved:

Designated for subsequent year's expenditures – portion of total fund balance available for appropriations which has been designated for the adopted 2008-2009 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 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)	\$221,777,280
Less accumulated depreciation	<u>(57,065,965)</u>
Net capital assets	164,711,315
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:	
Compensated absences	(1,228,015)
Installment purchase obligations	(5,869,385)
Interest payable	<u>(4,538)</u>
Total adjustment	<u>\$157,609,377</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 as follows:

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<u>Description</u>	<u>Amount</u>
Capital outlay expenditures recorded in the fund statements but capitalized as assets in the statement of activities	\$ 24,328,514
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	(4,099,526)
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	463,568
New debt issued during the year is recorded as a source of funds on the fund statement; it has no effect on the statement of activities – it affects only the government-wide statements	(209,328)
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)	401
Compensated absences are accrued in the government-wide statements but not in the fund statements because they do not use current resources	603,060
Revenues reported in the statement of activities that do not provide current resources are not recorded as revenues in the fund statements:	
Adjustment due to the use of the consumption method of recording inventory in the government-wide statements	<u>12,113</u>
Total adjustment	<u>\$ 21,098,802</u>

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Excess of Expenditures Over Appropriations

During the fiscal year ended June 30, 2008, the Board reported expenditures that violated State law [G.S. 115C-441] because they exceeded the amounts appropriated in the budget ordinance for the following funds:

General Fund	
Communication	\$ 460
Printing and copying	\$ 69,660
School Food Service Fund:	
Purchase of food	\$ 96,262
Salaries and benefits	68,007
Sodexo management fees	69,222
Federal Grants Fund:	
Alternative programs and services support	\$ 10,248
Financial and human resource	559

Management will monitor budgets monthly and make necessary amendments to avoid expenditures in excess of appropriations.

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B. Deficit Fund Balance of Individual Fund

As of June 30, 2008, the school food service fund reflects a deficit fund balance of \$125,511, which violates State law. The BOE plans to fund the deficit balance through a transfer from the local expense fund during the fiscal year ended June 30, 2009.

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, 2008, the Board had deposits with banks and savings and loans with a carrying amount of \$5,494,490 and with the State Treasurer of \$4,859,748. The bank balances with the financial institutions and the State Treasurer were \$6,720,391 and \$5,353,039, respectively. Of these balances, \$206,184 was covered by federal depository insurance and \$11,867,155 was covered by collateral held by authorized escrow agents in the name of the State Treasurer.

2. Accounts Receivable

Receivables at the government-wide level at June 30, 2008 were as follows:

	Due from other governments	Other	Total
Governmental activities:			
General Fund	\$ 394,274	\$ 2,840	\$ 397,114
Other governmental activities	<u>3,081,457</u>	<u>-</u>	<u>2,927,997</u>
Total	<u>\$ 3,475,731</u>	<u>\$ 2,840</u>	<u>\$ 3,325,111</u>
Business-type activities:			
School Food Service	\$ 53,832	\$ 92,285	\$ 146,117
Child Care	<u>-</u>	<u>4,331</u>	<u>4,331</u>
Total	<u>\$ 53,832</u>	<u>\$ 96,616</u>	<u>\$ 150,448</u>

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Due from other governments consists of the following:

Governmental activities:			
General Fund	\$ 394,274	State and federal direct grants	
		and county appropriations	
State Public School Fund	2,170,900	Operating funds from DPI	
Capital Outlay Fund	757,097	Amounts due from County	
Federal Grants Fund	<u>153,460</u>	Federal grant funds	
	<u>\$ 3,475,731</u>		
Business-type activities:			
School Food Service	<u>\$ 53,832</u>	USDA reimbursements	

3. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 6,485,407	\$ -	\$ -	\$ 6,485,407
Construction in progress	<u>35,347,742</u>	<u>21,894,897</u>	<u>472,771</u>	<u>56,769,868</u>
Total capital assets not being depreciated	<u>41,833,149</u>	<u>21,894,897</u>	<u>472,771</u>	<u>63,255,275</u>
Capital assets being depreciated:				
Land improvements	3,546,336	842,464	-	4,388,800
Buildings and improvements	146,556,902	1,753,967	-	148,310,869
Equipment and furniture	1,897,429	202,591	-	2,100,020
Vehicles	<u>3,614,950</u>	<u>107,366</u>	-	<u>3,722,316</u>
Total capital assets being depreciated	<u>155,615,617</u>	<u>2,906,388</u>	-	<u>158,522,005</u>
Less accumulated depreciation for:				
Land improvements	2,580,543	207,729	-	2,788,272
Buildings and improvements	47,310,887	3,434,577	-	50,745,464
Equipment and furniture	1,089,640	206,304	-	1,295,944
Vehicles	<u>1,985,369</u>	<u>250,916</u>	-	<u>2,236,285</u>
Total accumulated depreciation	<u>52,966,439</u>	<u>4,099,526</u>	-	<u>57,065,965</u>
Total capital assets being depreciated, net	<u>102,649,178</u>			<u>101,456,040</u>
Governmental activity capital assets, net	<u>\$144,482,327</u>			<u>\$ 164,711,315</u>

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	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
Business-type activities:				
School Food Service Fund:				
Capital assets being depreciated:				
Equipment and furniture	\$ 793,584	\$ -	\$ 246,341	\$ 547,243
Less accumulated depreciation for:				
Equipment and furniture	<u>746,038</u>	<u>2441</u>	<u>213,745</u>	<u>534,734</u>
School Food Service capital assets, net	<u>47,546</u>			<u>12,509</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>37,339</u>
Child Care Fund capital assets, net	<u>-</u>			<u>-</u>
Business-type activities capital assets - net	<u>\$ 47,546</u>			<u>\$ 12,509</u>

Depreciation was charged to governmental functions as follows:

Unallocated depreciation	\$ 3,914,010
Operational support services	<u>185,516</u>
Total	<u>\$ 4,099,526</u>

Construction Commitments

The Board has various construction projects as of June 30, 2008. The projects include construction of various schools, additions and renovations. At year-end, commitments with contractors for school construction are as follows:

<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining</u> <u>Commitment</u>
School construction	<u>\$47,193,762</u>	<u>\$ 3,563,460</u>

B. Liabilities

1. Pension Plan 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

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and beneficiaries. Article 1 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Teachers' and State Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for TSERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute six percent of their annual covered salary and the Board is required to contribute at an actuarially determined rate. The current rate is 7.83% 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, 2008, 2007, and 2006 were \$6,225,983, \$5,445,472, and \$4,735,223, respectively, equal to the required contributions for each year.

b. Other Post-Employment Benefits

The post employment healthcare benefits are provided through multiple-employer cost-sharing plans administered by the State. The Board makes monthly contributions to the State for these benefits. Health care benefits are available to retirees of the Teachers' and State Employees' Retirement System (System) who have at least five years of contributing membership in the System. These benefits are provided through the State's Comprehensive Major Medical Plan. Once retirees become eligible for Medicare coverage, they must elect to participate in Part A and Part B coverage to maintain the level of coverage provided prior to 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 State sets monthly contribution rates for post-employment health care benefits, death benefits, and disability benefits, which are the same for all boards of education across the State. For fiscal year ended June 30, 2008, the Board made contributions to the State for post-employment health care benefits of \$3,800,791.62. These contributions represented 4.78% of covered payroll.

2. Other Employment Benefits

In addition to providing pension and post employment healthcare benefits, the Board provides disability benefits and death benefits, in accordance with State statutes, to certain employees. Death benefits are provided through the Benefit Plan for members of the Teachers' and State Employees' Retirement System (Death Benefit Plan), a multiple-employer State-administered cost-sharing plan funded on a one-year term cost basis. Employees who die in active service after one year of contributing membership service in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's highest 12 months salary in a row during the 24 months prior to his/her death, with a minimum benefit of \$25,000 and a maximum of \$50,000.

Short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (Disability Income Plan), a multiple-employer State-administered cost-sharing plan, which also is funded on a one-year term cost basis. Long-term disability benefits are payable from the Disability Income Plan 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. An employee is eligible to receive long-term disability benefits if the following requirements are met: 1) the employee has five years of contributing membership service in the System earned within 96 months prior to the end of the short-term disability period; 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, whichever is

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later; and 3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her occupation; 4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; 5) the employee must terminate employment with the State; and 6) the employee must not be eligible to receive an unreduced retirement benefit from the System. In addition, recipients of the long-term disability benefits are eligible to receive State-paid health insurance coverage. The monthly long-term disability benefit is equal to 65 percent of one-twelfth of an employee's annual base rate of compensation reduced by any social security or workers' compensation to which the recipient may be entitled up to a maximum of \$3,900 per month, plus additional minor adjustments. When an employee qualifies for an unreduced service retirement allowance from the System, the benefits payable from the Disability Income Plan will cease, and the employee will commence retirement under the Teachers' and State Employees' Retirement System. Effective August 1, 2005, employees that have not yet vested in the long-term disability plan (i.e. employees that do not have 5 years of membership service as of August 1, 2005) will have to comply with revised standards to determine long-term disability.

All short-term disability benefit payments are made by various State-administered plans. The Board has no liability beyond payment of monthly contributions except for short-term disability benefits, which are paid by the Board during the first six months of the short-term period. Contributions are determined as a percentage of covered monthly payroll. Annually, the State sets monthly contribution rates for post-employment health care benefits, death benefits, and disability benefits, which are the same for all boards of education across the State. For the fiscal year ended June 30, 2008, the Board made contributions to the State for post-employment health care benefits of \$3,260,093, which represented 4.1% of covered payroll. The Board made contributions to the Disability Income Plan of North Carolina in the amount of \$413,475, which represented 0.52% of covered payroll. The Board made contributions for death benefits in the amount of \$127,223, which represents 0.16% of covered payroll. The contributions for post-employment health care benefits and disability benefits cannot be separated between the postemployment benefit amounts and the other employee benefit amounts. Because the benefit payments are made by the various State-administered plans and not by the Board, the Board does not determine the number of eligible participants.

3. Accounts Payable

Accounts payable as of June 30, 2008 are as follows:

	<u>Vendors</u>	<u>Salaries and benefits</u>	<u>Total</u>
Governmental activities:			
General	\$ 334,560	\$ 1,505,029	\$ 1,839,589
Other governmental	<u>585,989</u>	<u>2,324,360</u>	<u>2,910,349</u>
Total governmental activities	<u>\$ 920,549</u>	<u>\$ 3,829,389</u>	<u>\$ 4,749,938</u>
Business-type activities:			
School Food Service	\$ 480,331	\$ -	\$ 480,331
Child Care	<u>14,355</u>	<u>-</u>	<u>14,355</u>
Total business-type activities	<u>\$ 494,686</u>	<u>\$ -</u>	<u>\$ 494,686</u>

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4. Unearned Revenues

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

	<u>Unearned revenue</u>
Governmental activities:	
Prepaid use fee (Capital Outlay Fund – see below)	\$ 1,139,667
	<u>\$ 1,139,667</u>
Business-type activities:	
Prepayments of meals (School Food Service Fund)	\$ 52,526
Prepayments of tuition (Child Care Fund)	<u>182,547</u>
	<u>\$ 235,073</u>

The Board has entered into a lease agreement with the University of North Carolina at Chapel Hill (the "University"), whereby the Board will construct additional space at Smith Middle School which will be leased to the University for a period of thirty years. The agreement requires that the University pay a use fee of \$1,315,000. This fee, which will be 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, 2008, the remaining unearned revenue amounted to \$1,139,667.

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, and workers' compensation coverage up to the statutory limits for employees to the extent they are paid from Federal and local funds. The State of North Carolina provides workers' compensation for employees to the extent they are paid from State funds. The Trust has an annual aggregate limit for general liability of \$2,000,000, and \$1,400,000 for errors and omissions. The Trust is reinsured through commercial companies for losses in excess of \$100,000 per claim for errors and omissions and general liability coverage, and for losses in excess of \$275,000 per claim for workers' compensation coverage. The Board also participates in the Public School Insurance Fund (the Fund), a voluntary, self-insured risk control and risk financing fund administered by the North Carolina Department of Public Instruction, insuring the tangible property assets of the Board. The Fund provides coverage up to \$10 million per occurrence and \$20 million in aggregate annually. Excess reinsurance is purchased through commercial insurers, who participate in property losses in excess of the Fund's self-insured retention of \$10 million. A total limit of \$100 million per occurrence is purchased for covered catastrophic events, \$400 million maximum per occurrence for any one flood or earthquake.

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

In accordance with G.S. 115C-442, the Board's employees who have custody of the Board's monies at any given time of the Board's funds are performance bonded through a commercial surety bond. The

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008

finance officer is bonded for \$250,000. The remaining employees that have access to funds are bonded under a blanket bond for \$175,000.

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

6. Contingent Liabilities

At June 30, 2008, the Board was a defendant in a lawsuit. In the opinion of the Board's management and the Board's attorney, the ultimate effect of this legal matter will not have a material adverse effect on the Board's financial position.

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 monies for the payments on financing contracts entered into pursuant to G.S. 115C-528. The State has accepted the bid to purchase Thomas Built Buses through a special third party financing arrangement by DaimlerChrysler Services and SunTrust Leasing Corporation with total payments which are less than the purchase price. During 2005 and 2007, the Board entered into financing contracts for the purchase of school buses. The financing contracts require three equal principal-only payments due at the beginning of each contract year. No new financing contracts were entered during 2008.

On June 1, 2008, the Board entered into an additional installment purchase contract in the amount of \$209,328 to purchase computer equipment through Government Capital Corporation on June 1, 2008. Total Payments of principal and 5.378% interest are due annually for three years. The contract expires January 15, 2011.

The future minimum payments of these installment purchases as of June 30, 2008 are as follows:

Year Ending June 30:	<u>Governmental Activities Principal</u>
2009	\$ 584,621
2010	382,436
2011	<u>351,446</u>
	<u>1,318,503</u>
Less portion representing interest	<u>90,488</u>
Total principal obligation	<u>\$ 1,228,015</u>

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008

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, 2008:

	<u>July 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2008</u>	<u>Current portion</u>
Governmental activities:					
Installment purchases	\$ 1,482,255	\$ 209,328	\$ 463,568	\$ 1,228,015	\$ 494,135
Compensated absences	<u>6,472,445</u>	<u>2,748,791</u>	<u>3,351,851</u>	<u>5,869,385</u>	<u>3,039,547</u>
	<u>\$ 7,954,700</u>	<u>\$ 2,958,119</u>	<u>\$ 3,815,419</u>	<u>\$ 7,097,400</u>	<u>\$ 3,533,682</u>
Business-type activities:					
Compensated absences	<u>\$ 129,225</u>	<u>\$ 141,120</u>	<u>\$ 97,335</u>	<u>\$ 173,010</u>	<u>\$ 130,315</u>

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

c. Interfund Balances and Activity

Transfers to/from other funds:

From the General Fund to the Child Nutrition Fund for the payment of operating expenses	\$ 347,000
From the Capital Outlay Fund to the Child Nutrition Fund For the payment of operating expenses	<u>39,177</u>
Total Transfers	<u>\$ 386,177</u>

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, 2008

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
State of North Carolina:			
Smart Start	\$ 42,234	\$ 42,234	\$ -
More at Four	257,361	278,051	20,690
Total State of North Carolina	<u>299,595</u>	<u>320,285</u>	<u>20,690</u>
Orange County appropriations	<u>34,935,383</u>	<u>34,935,883</u>	<u>500</u>
U.S. Government:			
Head Start	1,428,414	1,120,225	(308,189)
Total U.S. Government	<u>1,428,414</u>	<u>1,120,225</u>	<u>(308,189)</u>
Other:			
Supplemental school taxes	16,400,706	16,533,077	132,371
Tuition and fees	340,000	286,819	(53,181)
Fines and forfeitures	350,000	437,723	87,723
Interest earned on investment	250,000	407,778	157,778
Sales and Use tax	90,000	104,255	14,255
ABC revenues	63,078	63,078	-
Indirect costs allocated	100,000	128,321	28,321
Miscellaneous	1,081,852	969,568	(112,284)
Total other	<u>18,675,636</u>	<u>18,930,619</u>	<u>254,983</u>
Total revenues	<u>55,339,028</u>	<u>55,307,012</u>	<u>(32,016)</u>
Expenditures:			
Instructional services:			
Regular Instructional:			
Regular	19,398,159	19,181,752	216,407
CTE Curricular Services	759,148	509,106	250,042
Total regular instructional	<u>20,157,307</u>	<u>19,690,858</u>	<u>466,449</u>
Special populations:			
Exceptional children	5,969,367	5,902,353	67,014
Gifted and talented	882,461	874,455	8,006
Special program	1,008,041	920,363	87,678
Total special populations	<u>7,859,869</u>	<u>7,697,171</u>	<u>162,698</u>
Alternative programs:			
Alternative instruction	352,057	341,885	10,172
Remedial and supplemental	2,197,205	1,899,181	298,024
Extended day/year instruction	338,975	139,953	199,022
Total alternative programs	<u>2,888,237</u>	<u>2,381,019</u>	<u>507,218</u>

(Continued)

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, 2008

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
School leadership	\$ 2,368,355	\$ 2,300,544	\$ 67,811
Co-curricular:			
Athletics	1,515,374	1,509,396	5,978
Cultural arts	172,595	169,529	3,066
Other	309,617	280,119	29,498
Total co-curricular	<u>1,997,586</u>	<u>1,959,044</u>	<u>38,542</u>
School-based support:	<u>6,103,462</u>	<u>5,749,546</u>	<u>353,916</u>
System-wide supporting services:			
Support and development:			
Regular and development	765,980	727,001	38,979
CTE curricular services	117,360	117,318	42
Total support and development	<u>883,340</u>	<u>844,319</u>	<u>39,021</u>
Special population support and development:	<u>152,155</u>	<u>132,800</u>	<u>19,355</u>
Alternative programs and services support and developm	<u>119,748</u>	<u>58,991</u>	<u>60,757</u>
Technology support:	<u>1,218,604</u>	<u>1,210,392</u>	<u>8,212</u>
Operation support:			
Communication	178,738	179,198	(460)
Printing and copying	292,835	362,495	(69,660)
Public utility and energy	3,599,326	3,095,630	503,696
Custodial/housekeeping	1,668,342	1,652,170	16,172
Transportation	574,548	515,820	58,728
Maintenance	2,330,328	2,248,112	82,216
Total operation support	<u>8,644,117</u>	<u>8,053,425</u>	<u>590,692</u>
Financial and human resources:			
Financial	1,065,897	982,382	83,515
Human resources	650,568	612,316	38,252
Total financial and human resources	<u>1,716,465</u>	<u>1,594,698</u>	<u>121,767</u>
Accountability	<u>402,465</u>	<u>401,690</u>	<u>775</u>
Policy, leadership and public relations:			
Board of education	67,122	65,685	1,437
Legal services	100,000	80,060	19,940
Audit services	53,486	53,486	-
Leadership	1,687,526	1,624,832	62,694
Public relations and marketing	278,762	266,040	12,722
Total policy, leadership and public relations	<u>2,186,896</u>	<u>2,090,103</u>	<u>96,793</u>

(Continued)

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, 2008

	Budget	Actual	Variance Positive (Negative)
Ancillary services	\$ 11,300	\$ 11,213	\$ 87
Nonprogrammed charges	<u>588,647</u>	<u>468,936</u>	<u>119,711</u>
Debt service:			
Principal	-	-	-
Interest	-	-	-
Total det service	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>57,298,553</u>	<u>54,644,749</u>	<u>2,653,804</u>
Revenues over (under) expenditures	(1,959,525)	662,263	2,621,788
Other financing uses:			
Transfers to other funds	(1,932,435)	(1,932,435)	-
Fund balance appropriated	<u>3,891,960</u>	<u>-</u>	<u>(3,891,960)</u>
Net change in fund balance	<u>\$ -</u>	<u>(1,270,172)</u>	<u>\$ (1,270,172)</u>
Fund balance:			
Beginning of year		<u>6,814,489</u>	
End of year		<u>\$ 5,544,317</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, 2008

	Budget	Actual	Variance Positive (Negative)
Revenues:			
State of North Carolina:			
Public School Capital Fund - Lottery	\$ 41,528	\$ 41,528	\$ -
State appropriations - buses	132,487	-	(132,487)
Total State of North Carolina	174,015	41,528	(132,487)
Orange County:			
General county revenues	834,276	834,276	-
Proceeds from county bonds	32,652,902	24,727,627	(7,925,275)
Total Orange County	33,487,178	25,561,903	(7,925,275)
Other			
Interest earned on investments	-	43,217	43,217
Miscellaneous revenue	-	192,711	192,711
Total other	-	235,928	235,928
Total revenues	33,661,193	25,839,359	(7,821,834)
Expenditures:			
Capital outlay:			
Real property and buildings:			
Central office	6,213,647	2,715,172	
Phoenix Academy - Lottery	41,528	41,528	
Various schools	362,900	147,811	
Total	6,618,075	2,904,511	3,713,564
Furnishings and equipment:			
Carrboro Elementary	15,559	55,183	
Carrboro High	3,570,625	3,570,625	
Morris Grove Elementary	18,174,619	18,174,619	
Chapel Hill High	31,516	82,174	
McDougle Middle	13,390	71,542	
Seawell Elementary	15,450	52,077	
Estes Hills Elementary	14,232	55,745	
East Chapel Hill High	22,662	109,903	
Glenwood Elementary	15,652	47,098	
Grey Culbreth Middle	13,204	64,519	
Guy B. Phillips Middle	13,059	58,492	
Mary Scroggs Elementary	13,996	64,834	
Mel & Zora Rashkis Elementary	12,607	52,505	
Ephesus Road Elementary	7,526	41,104	
Frank Porter Graham Elementary	7,714	60,869	
McDougle Elementary	8,639	56,405	
Smith Middle	9,778	58,463	
Central office	6,318,752	787,916	
Various schools	1,039	-	
Total	28,280,019	23,464,073	4,815,946

(Continued)

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, 2008

	Budget	Actual	Variance Positive (Negative)
Buses and motor vehicles:			
Central office	\$ 535,822	280,465	255,357
Debt service:			
Principal	\$ 132,487	\$ 463,568	\$ (331,081)
Interest	52,378	52,378	-
Total	184,865	515,946	(331,081)
Total expenditures	35,618,781	27,164,995	8,453,786
Revenues over (under) expenditures	(1,957,588)	(1,325,636)	631,952
Other financing sources:			
Transfers from (to) other funds	1,546,258	1,546,258	-
Issuance of installment purchase	209,328	209,328	-
Proceeds from sale of fixed asset	-	-	-
Total other financing sources	1,755,586	1,755,586	-
Fund balance appropriated	202,002	-	(202,002)
Net change in fund balance	\$ -	429,950	\$ 429,950
Fund balance:			
Beginning of year		49,369	
End of year		\$ 479,319	

**CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 June 30, 2008**

	<u>Individual Schools</u>	<u>Federal Grants Fund</u>	<u>Totals</u>
Assets			
Cash and cash equivalents	\$ 880,818	\$ -	\$ 880,818
Due from other governments	<u>-</u>	<u>153,460</u>	<u>153,460</u>
Total assets	<u>\$ 880,818</u>	<u>\$ 153,460</u>	<u>\$ 1,034,278</u>
Liabilities			
Accrued salaries and wages payable	<u>\$ -</u>	<u>\$ 153,460</u>	<u>\$ 153,460</u>
Total liabilities	<u>-</u>	<u>153,460</u>	<u>153,460</u>
Fund balances			
Fund balance - undesignated	<u>880,818</u>	<u>-</u>	<u>880,818</u>
Total liabilities and fund balance	<u>\$ 880,818</u>	<u>\$ 153,460</u>	<u>\$ 1,034,278</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, 2008

	Individual Schools	Federal Grants Fund	Totals
Revenues:			
U.S. Government	\$ -	\$ 4,172,788	\$ 4,172,788
Other	2,696,953	-	2,696,953
Total revenues	<u>2,696,953</u>	<u>4,172,788</u>	<u>6,869,741</u>
Expenditures:			
Instructional services:			
Regular instructional	-	326,805	326,805
Special populations	-	2,242,661	2,242,661
Alternative programs	-	1,201,313	1,201,313
School leadership	2,644,626	-	2,644,626
School-based support	-	45,348	45,348
Total instructional programs	<u>2,644,626</u>	<u>3,816,127</u>	<u>6,460,753</u>
System-wide support services:			
Special population support and developer	-	87,420	87,420
Alternative programs and services support :	-	78,685	78,685
Technology support	-	2,174	2,174
Operation support	-	54,558	54,558
Financial and human resource	-	559	559
Total supporting services	<u>-</u>	<u>223,396</u>	<u>223,396</u>
Ancillary services:			
Nutrition services	<u>-</u>	<u>10,806</u>	<u>10,806</u>
Nonprogrammed charges	<u>-</u>	<u>122,459</u>	<u>122,459</u>
Total expenditures	<u>2,644,626</u>	<u>4,172,788</u>	<u>6,817,414</u>
Net change in fund balance	52,327	-	52,327
Fund balances:			
Beginning of year	<u>828,491</u>	<u>-</u>	<u>828,491</u>
End of year	<u>\$ 880,818</u>	<u>\$ -</u>	<u>\$ 880,818</u>

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
INDIVIDUAL SCHOOLS
For the Fiscal Year Ended June 30, 2008

	<u>Elementary Schools</u>	<u>Middle Schools</u>	<u>High Schools</u>	<u>Totals</u>
Revenues	\$ 456,558	\$ 588,752	\$ 1,651,643	\$ 2,696,953
Expenditures	<u>485,183</u>	<u>579,216</u>	<u>1,580,227</u>	<u>2,644,626</u>
Net change in fund balance	(28,625)	9,536	71,416	52,327
Fund balances:				
Beginning of year	<u>151,858</u>	<u>199,507</u>	<u>477,126</u>	<u>828,491</u>
End of year	<u>\$ 123,233</u>	<u>\$ 209,043</u>	<u>\$ 548,542</u>	<u>\$ 880,818</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, 2008

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
U.S. Government	\$ 5,420,220	\$ 4,172,788	\$ (1,247,432)
Expenditures:			
Instructional services:			
Regular instructional	429,129	326,805	102,324
Special populations	2,595,455	2,242,661	352,794
Alternative programs	1,347,738	1,201,313	146,425
School-based support	97,602	45,348	52,254
Total instructional programs	<u>4,469,924</u>	<u>3,816,127</u>	<u>653,797</u>
System-wide support services:			
Special population support and developmen	171,127	87,420	83,707
Alternative programs and services support	68,437	78,685	(10,248)
Technology support	9,313	2,174	7,139
Operation support	64,750	54,558	10,192
Financial and human resource	-	559	(559)
Total system-wide supporting services	<u>313,627</u>	<u>223,396</u>	<u>90,231</u>
Ancillary services			
Nutrition services	23,000	10,806	12,194
Nonprogrammed charges	613,669	122,459	491,210
Total expenditures	<u>5,420,220</u>	<u>4,172,788</u>	<u>1,235,238</u>
Net change in fund balance	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balance:			
Beginning of year		-	
End of year		<u>\$ -</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, 2008

	Budget	Actual	Variance Positive (Negative)
Operating revenues - food sales	\$ 2,209,111	\$ 2,017,352	\$ (191,759)
Operating expenditures:			
Business support services:			
Purchase of food	1,382,850	1,479,112	(96,262)
Salaries and benefits	1,470,761	1,538,768	(68,007)
Materials and supplies	278,188	234,596	43,592
Sodexo management fees	520,489	589,711	(69,222)
Other	14,000	52,551	(38,551)
Total operating expenditures	3,666,288	3,894,738	(228,450)
Operating loss	(1,457,177)	(1,877,386)	(420,209)
Nonoperating revenues:			
Federal reimbursements	1,136,000	1,215,885	79,885
Federal commodities	152,000	170,504	18,504
Miscellaneous	8,000	9,130	1,130
Total nonoperating revenues	1,296,000	1,395,519	99,519
Revenues (under) expenditures before other financing sources	(161,177)	(481,867)	(320,690)
Other financing sources (uses):			
Transfers from other funds	386,177	386,177	-
Revenues and other financing sources (under) expenditures and other financing uses	\$ 225,000	\$ (95,690)	\$ (320,690)
Reconciliation of modified accrual to full accrual basis:			
Revenues and other financing sources over (under) expenditures and other financing uses		\$ (95,690)	
Reconciling items:			
Depreciation		(2,441)	
Indirect costs		(351,442)	
Indirect costs not paid		351,442	
(Increase) decrease in compensated absences payable		10,739	
Increase (decrease) in inventory		12,113	
Change in net assets		\$ (75,279)	

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
CHILD CARE FUND
For the Fiscal Year Ended June 30, 2008

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Operating revenues:			
Child care fees	\$ 1,471,162	\$ 1,447,689	\$ (23,473)
Rental of school property	<u>275,000</u>	<u>213,256</u>	<u>(61,744)</u>
Total operating revenues	<u>1,746,162</u>	<u>1,660,945</u>	<u>(85,217)</u>
Operating expenditures:			
Business support services:			
Purchase of food	143,621	135,086	8,535
Salaries and benefits	1,593,105	1,476,452	116,653
Materials and supplies	47,461	40,311	7,150
Other	<u>53,686</u>	<u>41,729</u>	<u>11,957</u>
Total operating expenditures	<u>1,837,873</u>	<u>1,693,578</u>	<u>144,295</u>
Revenues over (under) expenditures	(91,711)	(32,633)	59,078
Nonoperating revenues:			
Interest earned	-	16,425	16,425
Fund balance appropriated	<u>91,711</u>	<u>-</u>	<u>(91,711)</u>
Revenues and fund balance appropriated (under) expenditures	<u>\$ -</u>	<u>\$ (16,208)</u>	<u>\$ (16,208)</u>
Reconciliation of modified accrual to full accrual basis:			
Revenues and fund balance appropriated over (under) expenditures		\$ (16,208)	
Reconciling items:			
(Increase) decrease in compensated absences payable		<u>(10,925)</u>	
Change in net assets		<u>\$ (27,133)</u>	



DIXON HUGHES PLLC

Certified Public Accountants and Advisors

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 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 (BOE), North Carolina, as of and for the year ended June 30, 2008, which collectively comprise the BOE's basic financial statements and have issued our report thereon dated October 31, 2008. 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 BOE's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the BOE's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the internal control over financial reporting.

Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 entity's ability to initiate, authorize, record, processes 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 entity's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as finding 08-01 to be a significant deficiency in internal control over financial reporting.

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 entity's internal control.

Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is not a material weakness.

The BOE's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the response and, accordingly, we express no opinion on it.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the BOE'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*. 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 Chapel Hill-Carrboro City Board of Education, in a separate letter dated October 31, 2008.

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.

Dixon Hughes PLLC

Raleigh, North Carolina
October 31, 2008



DIXON HUGHES PLLC

Certified Public Accountants and Advisors

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 (BOE), 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 each of its major federal programs for the year ended June 30, 2008. The BOE'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 each of its major federal programs is the responsibility of the BOE's management. Our responsibility is to express an opinion on the BOE'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 BOE's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the BOE's compliance with those requirements.

In our opinion, the BOE complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the BOE 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 BOE's internal control over compliance with 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 BOE's internal control over compliance.

A control deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability 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 entity'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 entity'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.

Dixon Hughes PLLC

Raleigh, North Carolina
October 31, 2008



DIXON HUGHES PLLC

Certified Public Accountants and Advisors

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 (BOE), 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 each of its major state programs for the year ended June 30, 2008. The BOE'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 each of its major state programs is the responsibility of the BOE's management. Our responsibility is to express an opinion on the BOE'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; 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 BOE's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the BOE's compliance with those requirements.

In our opinion, the BOE complied, in all material respects, with the requirements referred to above that are applicable to each of its major State programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the BOE is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to state programs. In planning and performing our audit, we considered the BOE's internal control over compliance with 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 BOE's internal control over compliance.

A control deficiency in an entity'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 entity's ability to administer a State program such that there is more than a

remote likelihood that noncompliance with a type of a compliance requirement of a State program that is more than inconsequential will not be prevented or detected by the BOE's internal control.

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding 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.

Dixon Hughes PLLC

*Raleigh, North Carolina
October 31, 2008*

**CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2008**

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 *Yes*

Noncompliance material to financial statements noted *No*

Federal Awards

Internal control over major federal programs:

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

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 OMB Circular A-133 *No*

Identification of major federal programs:

CFDA Numbers	Names of Federal Program or Cluster
84.027	Special Education Cluster:
84.027A	Title VI-B, Education of the Handicapped
84.173	Title VI-B, Capacity Building and Improvement Grant IDEA, Preschool Handicapped Grant
10.553	Child Nutrition Cluster:
10.555	National School Lunch Program
10.559	School Breakfast Program Summer Food Service program for Children
84.365	Title III, Language Acquisition

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, 2008**

Section I - Summary of Auditors' Results (Continued)

State Awards

Internal control over major state programs:

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

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

Section II - Financial Statement Findings

Finding 08-01

SIGNIFICANT DEFICIENCY –
 Excess of Expenditures over Appropriations

Criteria: During the fiscal year ended June 30, 2008, the Board reported expenditures in excess of appropriations within the General Fund, School Food Service Fund and Federal Grants Fund that violated State law (G.S. 115C-441).

Condition: The Board exceeded the expenditure amounts over amounts appropriated in the budget ordinance within the General Fund, School Food Service Fund and Federal Grants Fund.

Effect: Printing and copying and communication expenditures of the General Fund exceeded the amounts appropriated by \$69,660 and \$460, respectively. Purchase of food, salaries and benefits, and Sodexo management fees of the School Food Service Fund exceeded the amounts appropriated by \$96,262, \$68,007, and \$69,222, respectively. In the Federal Grant Fund, alternative programs and services support and financial and human resources exceeded the amount appropriated in the budget ordinance by \$10,248 and \$559, respectively.

Cause: The Board of Education does not have an effective procedure to ensure that expenditures do not exceed the appropriations.

Recommendation: Effective oversight of the Board of Education's financial reporting and internal control by those charged with the responsibility of financial governance would eliminate the potential of future occurrences.

Views of responsible officials and planned corrective actions: The Board of Education agrees with the finding and will ensure proper monitoring of expenditures and will properly amend budgets as required for planned expenditures.

Section III - Federal Award Findings and Questioned Costs

None reported.

Section IV - State Award Findings and Questioned Costs

None reported.

**CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
CORRECTIVE ACTION PLAN
For the Fiscal Year Ended June 30, 2008**

Section II – Financial Statement Findings

Finding: 08-01

Name of Contact Person: Ruby Pittman, Finance Officer

Corrective Action: The Board of Education will ensure proper monitoring of expenditures and will properly amend budgets as required for planned expenditures

Proposed Completion Date: Immediately

**CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS
For the Fiscal Year Ended June 30, 2008**

Finding: 07-01 and 07-02

These matters have been corrected.

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Fiscal Year Ended June 30, 2008

<u>Grantor/Pass-through</u> <u>Grantor/Program Title</u>	<u>CFDA</u> <u>Number</u>	<u>Expenditures</u>
Federal Grants:		
Cash Assistance:		
<u>U.S. Department of Agriculture</u>		
Food and Nutrition Service:		
Passed-through the N.C. Department of Public Instruction:		
Child Nutrition Cluster:		
School Breakfast Program	10.553	\$ 181,093
National School Lunch Program	10.555	903,258
Passed-through the N.C. Department of Health and Human Services:		
Division of Public Health:		
Summer Food Service Program for Children	10.559	<u>131,534</u>
Total U.S. Department of Agriculture		<u>1,215,885</u>
<u>U.S. Department of Education</u>		
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	967,912
School Improvement Strategies	84.010	67,275
Title III, Language Acquisition Grant	84.365	413,449
Title IV, Class Size Reduction	84.340A	-
Title IV, Part A, Safe and Drug Free Schools and Communities	84.186	22,957
Title VI, Federal, State, and Local Partnership for Innovative Programs	84.298	18,906
Improving Teacher Quality	84.367	240,393
Emergency Impact Aid - IDEA	84.938B	-
Emergency Impact Aid	84.938C	-
Language Acquisition LEP	84.365A	64,258
Education Technology - Formula	84.318X	2,249
21st Century Community Learning Centers	84.287	267,110
Office of Special Education and Rehabilitative Services:		
Passed-through the N.C. Department of Public Instruction:		
Special Education Cluster:		
Individuals with Disabilities Education Act		
Title VI-B, Education of the Handicapped	84.027	1,901,430
Title VI-B, Capacity Building and Improvement Grant	84.027A	20,971
IDEA -Preschool Handicapped Grant	84.173	<u>83,364</u>
Total Special Education Cluster		<u>2,005,765</u>

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Fiscal Year Ended June 30, 2008

<u>Grantor/Pass-through</u> <u>Grantor/Program Title</u>	<u>CFDA</u> <u>Number</u>	<u>Expenditures</u>
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>97,296</u>
Total U.S. Department of Education		<u>4,167,570</u>
<u>U.S. Department of Health and Human Services</u>		
Administration for Youth and Families: Head Start	93.600	1,120,225
Health Resources and Services Administration Passed-through the N.C. Department of Public Instruction: Abstinence Education	93.235	<u>5,219</u>
Total U.S. Department of Health and Human Services		<u>1,125,444</u>
Total Federal Cash Assistance		<u>6,508,899</u>
Noncash Assistance:		
<u>U.S. Department of Agriculture</u>		
Passed-through the N.C. Department of Agriculture: Food Distribution Program	10.550	<u>170,504</u>
Total Federal Assistance		<u>6,679,403</u>
State Grants:		
Cash Assistance:		
<u>N.C. Department of Public Instruction</u>		
State Public School Fund		55,289,712
Driver Training		240,044
Vocational Education:		
State Months of Employment		2,392,873
Program Support Funds		736,083
School Technology		226,589
Textbooks		383,657
State Public School Building Capital Fund - Lottery		41,528
State Appropriations - buses		<u>132,487</u>
Total N.C. Department of Public Instruction		<u>59,442,973</u>

**CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
 For the Fiscal Year Ended June 30, 2008**

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<u>N.C. Department Human Resources</u>		
Smart Start		\$ 42,234
More at Four		<u>278,051</u>
Total N.C. Department of Human Resources		<u>320,285</u>
Total State Assistance		<u>59,763,258</u>
Total Federal and State Assistance		<u>\$ 66,442,661</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.