

**CHAPEL HILL-CARRBORO CITY
BOARD OF EDUCATION
Chapel Hill, North Carolina**

*Financial Statements
For the Fiscal Year Ended
June 30, 2014*

**CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Chapel Hill-Carrboro City Board of Education, as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Chapel Hill-Carrboro City Board of Education as of June 30, 2014, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General, State Public School and Federal Grants funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Chapel Hill-Carrboro City Board of Education's basic financial statements. The combining and individual nonmajor fund financial statements and schedules, budgetary schedules and other schedules, as well as the accompanying schedule of expenditures of federal and State awards as required by the 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.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2014 on our consideration of the Chapel Hill-Carrboro City Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Chapel Hill-Carrboro City Board of Education's internal control over financial reporting and compliance.

Anderson Smith & Wike PLLC

October 8, 2014
Rockingham, North Carolina
(910) 997-1418

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

This section of the Chapel Hill-Carrboro City Board of Education's (the "Board") financial report represents our discussion and analysis of the financial performance of the Board for the year ended June 30, 2014. This information should be read in conjunction with the audited financial statements included in this report.

Financial Highlights

- Orange County Commissioners approved a \$102 per student increase for the district from the ad valorem tax and provided funding for 130 new students which increased General Fund revenues by \$1.65 million. The special district tax for the district was increased by \$.02 which provided an additional \$2.3 million in revenue.
- The district's 11th elementary school, Northside, opened in August, 2013 on time and within the budget.
- A new Science Wing construction was started at Culbreth Middle School with a cost of \$2.8 million and planned for completion in October, 2014.
- The 2013-14 budget of Chapel Hill – Carrboro City Schools was focused on the continuation of work to improve instructional quality through significant professional development activities and curriculum development with the Institute for Learning. Development of instructional coaches at all school levels was a goal for the district.
- The 2013-14 budget was balanced using \$2.2 million of fund balance to retain positions and other expenses previously supported by other funds. This was the third year of a three-year plan by the Board to bridge the funding gap created by the economic downturn.
- Financial reporting awards from the Association of School Business Officials International and the Government Finance Officers Association were received for the tenth consecutive year.

Overview of the Financial Statements

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

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

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

The second set of statements included in the basic financial statements is the *Fund Financial Statements*, which are presented for the Board's governmental funds, proprietary fund and fiduciary fund. These statements present the governmental funds on the modified accrual basis of accounting, measuring the near term inflows and outflows of financial resources and what is available at year-end to

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

spend in the next fiscal year. The proprietary and fiduciary funds are presented on the full accrual basis of accounting. The fund financial statements focus on the Board's most significant funds. Because a different basis of accounting is used in the government-wide statements, reconciliation from the governmental fund financial statements to the government-wide statements is required. The government-wide statements provide information about the Board as an economic unit while the fund financial statements provide information on each of the financial resources of each of the Board's major funds.

Government-wide Statements

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

The two government-wide statements report the Board's net position and how it has changed. Net position is the difference between the Board's assets 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 position are an indicator of whether its financial position is improving or deteriorating.
- To assess the Board's overall health, you need to consider additional non-financial factors such as changes in the County's and City districts' property tax bases 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 district funding and State and federal aid finance most of these activities.
- *Business-type activities:* The Board charges fees to help it cover the costs of certain services it provides. School food service is included here.

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

Fund Financial Statements

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

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

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

Governmental funds: Most of the Board's basic services are included in the governmental funds, which generally focus on two things – 1) how cash and other assets that can readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. As a result of this focus, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the coming year to finance the Board's programs. Because this information does not encompass the additional long-term focus of the

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

government-wide statements, additional information at the bottom of the governmental fund statements, in the form of a reconciliation, explains the relationship (or differences) between the government-wide and the fund financial statements. The Board has several governmental funds: the General Fund, the State Public School Fund, the Individual Schools Fund, the Capital Outlay Fund, the Other Special Revenue Fund and the Federal Grants Fund.

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

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

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

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

The fiduciary fund statement is shown as Exhibit 10.

Financial Analysis of the Board as a Whole

Net position is an indicator of the fiscal health of the Board. Assets exceeded liabilities by \$183.3 million as of June 30, 2014 as compared to \$182.7 million as of June 30, 2013, an increase of \$634,000. The largest component of net position is net investment in capital assets of \$183.4 million.

Following is a summary of the Statement of Net Position as of June 30, 2014 and 2013:

**Table 1
Condensed Statement of Net Position
As of June 30, 2014 and 2013**

	Governmental Activities		Business-type Activities		Total Primary Government	
	6/30/14	6/30/13	6/30/14	6/30/13	6/30/14	6/30/13
Current assets	\$ 14,992,936	\$ 17,997,207	\$ 1,166,156	\$ 842,560	\$ 16,159,092	\$ 18,839,767
Capital assets	183,659,592	181,774,926	595,469	329,853	184,255,061	182,104,779
Total assets	198,652,528	199,772,133	1,761,625	1,172,413	200,414,153	200,944,546
Current liabilities	9,982,192	11,217,151	786,450	360,472	10,768,642	11,577,623
Long-term liabilities	6,193,630	6,557,293	126,842	118,610	6,320,472	6,675,903
Total liabilities	16,175,822	17,774,444	913,292	479,082	17,089,114	18,253,526
Net investment in capital assets	182,769,201	180,562,451	595,469	329,853	183,364,670	180,892,304
Restricted net position	3,733,701	2,943,181	-	-	3,733,701	2,943,181
Unrestricted net position (deficit)	(4,026,196)	(1,507,943)	252,864	363,478	(3,773,332)	(1,144,465)
Total net position	\$ 182,476,706	\$ 181,997,689	\$ 848,333	\$ 693,331	\$ 183,325,039	\$ 182,691,020

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

The net position of the Board's governmental activities increased \$479,000 during the year from \$182.0 million at June 30, 2013 to \$182.5 million at June 30, 2014, indicating an improvement in the financial condition of the Board. This improvement is primarily attributable to an increase of \$2.2 million in net investment in capital assets.

The net position of the Board's business-type activities increased \$155,000 from \$693,000 at June 30, 2013 to \$848,000 at June 30, 2014. This increase is the amount of net profit (including transfers) generated by the Board's School Food Service and Child Care programs during the year.

Following is a summary of the Statement of Activities for the current and prior fiscal years:

**Table 2
Condensed Statement of Activities
For the Fiscal Years Ended June 30, 2014 and 2013**

	Governmental Activities		Business-type Activities		Total Primary Government	
	6/30/14	6/30/13	6/30/14	6/30/13	6/30/14	6/30/13
Revenues:						
Program revenues:						
Charges for services	\$ 3,352,177	\$ 3,394,702	\$ 3,558,835	\$ 3,657,770	\$ 6,911,012	\$ 7,052,472
Operating grants and contributions	63,995,592	64,250,067	2,177,773	2,055,701	66,173,365	66,305,768
Capital grants and contributions	61,675	162,818	-	-	61,675	162,818
General revenues:						
Other revenues	75,214,557	84,789,047	-	-	75,214,557	84,789,047
Total revenues	<u>142,624,001</u>	<u>152,596,634</u>	<u>5,736,608</u>	<u>5,713,471</u>	<u>148,360,609</u>	<u>158,310,105</u>
Expenses:						
Governmental activities:						
Instructional services	109,586,544	109,512,140	-	-	109,586,544	109,512,140
System-wide support services	26,114,404	26,104,923	-	-	26,114,404	26,104,923
Ancillary services	90,470	106,706	-	-	90,470	106,706
Payments to other governments	649,613	508,313	-	-	649,613	508,313
Interest on long-term debt	32,455	20,142	-	-	32,455	20,142
Unallocated depreciation	5,358,748	6,284,193	-	-	5,358,748	6,284,193
Business-type activities:						
School food service	-	-	4,265,306	4,174,046	4,265,306	4,174,046
Child care	-	-	1,629,050	1,591,053	1,629,050	1,591,053
Total expenses	<u>141,832,234</u>	<u>142,536,417</u>	<u>5,894,356</u>	<u>5,765,099</u>	<u>147,726,590</u>	<u>148,301,516</u>
Excess (deficiency)						
before transfers	791,767	10,060,217	(157,748)	(51,628)	634,019	10,008,589
Transfers in (out)	<u>(312,750)</u>	<u>(67,475)</u>	<u>312,750</u>	<u>67,475</u>	<u>-</u>	<u>-</u>
Increase in net position	479,017	9,992,742	155,002	15,847	634,019	10,008,589
Beginning net position	<u>181,997,689</u>	<u>172,004,947</u>	<u>693,331</u>	<u>677,484</u>	<u>182,691,020</u>	<u>172,682,431</u>
Ending net position	<u>\$ 182,476,706</u>	<u>\$ 181,997,689</u>	<u>\$ 848,333</u>	<u>\$ 693,331</u>	<u>\$ 183,325,039</u>	<u>\$ 182,691,020</u>

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

Total governmental activities generated revenues of \$142.6 million while expenses in this category totaled \$141.8 million for the year ended June 30, 2014, resulting in the aforementioned increase in net position of \$479,000 (including net transfers to business-type activities of \$313,000). Comparatively, revenues were \$152.6 million, expenses totaled \$142.5 million and transfers out were \$67,000 for the year ended June 30, 2013, resulting in an increase in net position of \$10.0 million. In comparing the two years, revenues decreased by \$10.0 million, while expenses decreased by \$704,000. The decrease in revenues was primarily comprised of a \$13.5 million decrease in capital outlay funding from the County. Capital funding from the County was significantly higher in the prior year due to construction of a new elementary school.

The Board's primary sources of revenues were funding from the State of North Carolina, Orange County, Chapel Hill and Carrboro townships and the United States Government, which respectively comprised 41.2%, 36.0%, 15.6% and 3.6% of our total revenues. As would be expected, the major component of our expenditures was instructional services which accounted for 77.3% of our total expenditures during the most recent fiscal year. Of the remaining 22.7% of our total expenditures, 18.4% was attributable to system-wide support services.

Our business-type activities generated revenues of \$5.7 million, while expenses in this category totaled \$5.9 million and net transfers in from governmental activities totaled \$313,000 for the year ended June 30, 2014. For the year, net position increased by \$155,000. Comparatively, revenues were \$5.7 million, expenses were \$5.8 million and transfers in from governmental activities totaled \$67,000 for the year ended June 30, 2013, resulting in an increase in net position of \$16,000. Overall, operating results were fairly consistent for the two years. Transfers increased primarily due to the purchase of cafeteria equipment by the Capital Outlay Fund for the new elementary school that opened during the 2013-2014 year.

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.

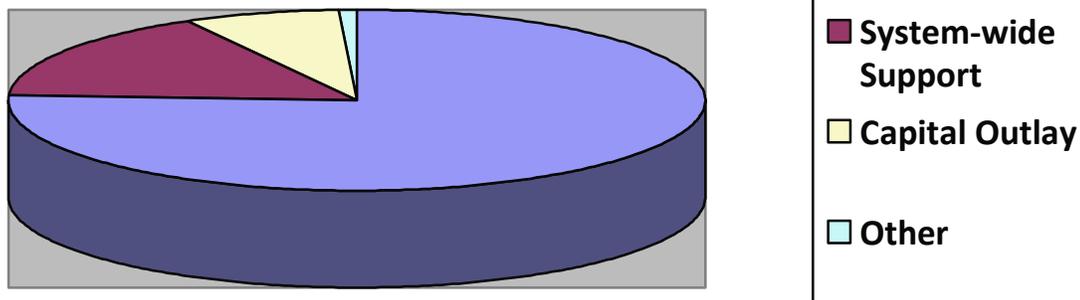
The Board's governmental funds reported a combined fund balance of \$9.1 million at June 30, 2014, a decrease of \$760,000 from the \$9.9 million reported at June 30, 2013.

The State Public School Fund and Federal Grants Fund do not carry fund balance. All revenues in these two funds are expended in the year received. Combined revenues (and expenditures) in these funds totaled \$62.4 million in the year ended June 30, 2014 compared to \$62.6 million in the year ended June 30, 2013. Overall, activity in these funds was very comparable when comparing the two years.

The Capital Outlay Fund reported a decrease in fund balance for the 2014 year of \$22,000. The district incurred \$2.4 million of expenditures during the year related to completion of Northside Elementary School which opened at the start of the 2013-2014 school year. \$2.3 million of expenditures were incurred for construction of a new science lab at Culbreth Middle School. The new science lab is expected to be completed during the 2014-2015 year.

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

Categorization of Expenditures for Governmental Funds



Expenditures presented on modified accrual basis of accounting.

Proprietary Funds: The Board's business-type funds, the School Food Service Fund and the Child Care Fund, generated a combined increase in net position of \$155,000 for the year compared to a \$16,000 increase for the year ended June 30, 2013. The School Food Service Fund reported an increase in net position of \$189,000 in the current year compared to a decrease of \$63,000 for the prior fiscal year. An increase of \$267,000 in capital contributions received from the Capital Outlay Fund was the primary factor contributing to the year-over-year increase in change in net position.

The Child Care Fund reported a decrease in revenues for the year of \$34,000 while expenditures increased by \$38,000 compared to the prior year. After transfers of \$243,000 to the General Fund, the Child Care Fund reported a decrease in net position of \$34,000 for the 2013-2014 year compared to an increase of \$79,000 in the prior year.

General Fund Budgetary Highlights

Over the course of the year, the Board revised the budget several times to account for changes in revenue expectations and program allocations. Revisions were approved during the year to increase the original budget for total expenditures by \$592,000 and increase the budget for transfers to other funds by \$244,000. The majority of these increases were budgeted to be paid from appropriated fund balance which increased by \$362,000. Overall, there were no significant budgetary variations as revenues and expenditures were in line with final budgeted amounts.

For the year, the Board's General Fund reported a decrease in fund balance of \$1.1 million compared to a decrease of \$3.1 million reported in the prior year. Revenues from Orange County for the local operating budget increased \$1.7 million over the prior year, while supplemental school tax revenues from the Chapel Hill and Carrboro townships increased \$2.6 million to \$22.3 million in 2014. Overall, total General Fund revenues increased over the prior year by \$3.9 million, or 6.5%, while expenditures increased \$2.6 million, or 4.1%.

Capital Assets

Total primary government capital assets were \$184.3 million at June 30, 2014, an increase of 1.2% over the \$182.1 million reported at June 30, 2013. More detailed information about the Board's capital assets is contained in Note 3 to the financial statements.

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

The following is a summary of the Board's capital assets, net of depreciation, at June 30, 2014 and 2013.

**Table 3
Summary of Capital Assets
As of June 30, 2014 and 2013**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>6/30/14</u>	<u>6/30/13</u>	<u>6/30/14</u>	<u>6/30/13</u>	<u>6/30/14</u>	<u>6/30/13</u>
Land	\$ 6,485,407	\$ 6,485,407	\$ -	\$ -	\$ 6,485,407	\$ 6,485,407
Construction in progress	2,707,104	20,679,066	-	-	2,707,104	20,679,066
Buildings and improvements	167,833,139	148,924,956	-	-	167,833,139	148,924,956
Land improvements	1,100,717	1,211,924	-	-	1,100,717	1,211,924
Equipment and furniture	3,991,213	3,214,143	595,469	329,853	4,586,682	3,543,996
Vehicles	1,542,012	1,259,430	-	-	1,542,012	1,259,430
Total	<u>\$ 183,659,592</u>	<u>\$ 181,774,926</u>	<u>\$ 595,469</u>	<u>\$ 329,853</u>	<u>\$ 184,255,061</u>	<u>\$ 182,104,779</u>

Debt Outstanding

During the year, the Board's long-term debt decreased from \$1.2 million at June 30, 2013 to \$890,000 at June 30, 2014. The Board is limited by North Carolina General Statutes with regards to the types of debt it can issue and for what purpose that debt can be used. More detailed information about the Board's outstanding debt is contained in Note 3 to the financial statements.

Economic Factors

- The 2013-14 State budget eliminated the mandatory discretionary reduction of \$2.9 million, but made the reductions permanent. The district permanently lost 42 teacher positions, 25 teacher assistant positions, and two instructional support positions. Other State budget reductions included a loss of funding for instructional supplies, driver training, and support for Limited English Proficiency students.
- While other sectors of the nation have been experiencing some recovery from the recession, public education funding in North Carolina has continued to fall behind. Teachers in our state have only received a single 1.2% pay raise since 2008-09.

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 POSITION
June 30, 2014

Exhibit 1

	Primary Government		Total
	Governmental Activities	Business-type Activities	
Assets			
Cash and cash equivalents	\$ 9,587,837	\$ 1,020,317	\$ 10,608,154
Due from other governments	4,166,713	97,248	4,263,961
Receivables	135,217	31,558	166,775
Internal balances	(17,033)	17,033	-
Prepaid expenses	1,120,202	-	1,120,202
Capital assets:			
Land and construction in progress	9,192,511	-	9,192,511
Other capital assets, net of depreciation	<u>174,467,081</u>	<u>595,469</u>	<u>175,062,550</u>
Total capital assets	<u>183,659,592</u>	<u>595,469</u>	<u>184,255,061</u>
 Total assets	 <u>198,652,528</u>	 <u>1,761,625</u>	 <u>200,414,153</u>
Liabilities			
Accounts payable and accrued expenses	2,440,950	485,869	2,926,819
Accrued salaries and wages payable	3,399,329	-	3,399,329
Unearned revenue	904,301	232,419	1,136,720
Long-term liabilities:			
Due within one year	3,237,612	68,162	3,305,774
Due in more than one year	<u>6,193,630</u>	<u>126,842</u>	<u>6,320,472</u>
 Total liabilities	 <u>16,175,822</u>	 <u>913,292</u>	 <u>17,089,114</u>
Net position			
Net investment in capital assets	182,769,201	595,469	183,364,670
Restricted for:			
Stabilization by State statute	1,354,847	-	1,354,847
School capital outlay	655,150	-	655,150
Instructional services	566,256	-	566,256
Individual schools activities	1,207,448	-	1,207,448
Unrestricted (deficit)	<u>(4,076,196)</u>	<u>252,864</u>	<u>(3,823,332)</u>
 Total net position	 <u>\$ 182,476,706</u>	 <u>\$ 848,333</u>	 <u>\$ 183,325,039</u>

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

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2014

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		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	\$ 61,097,764	\$ -	\$ 39,738,977	\$ -	\$ (21,358,787)	\$ -	\$ (21,358,787)
Special populations	19,839,393	-	8,282,508	-	(11,556,885)	-	(11,556,885)
Alternative programs	7,024,905	-	4,654,491	-	(2,370,414)	-	(2,370,414)
School leadership	6,323,365	-	2,407,512	-	(3,915,853)	-	(3,915,853)
Co-curricular	4,674,099	2,626,915	-	-	(2,047,184)	-	(2,047,184)
School-based support	10,627,018	-	3,910,434	-	(6,716,584)	-	(6,716,584)
System-wide support services:							
Support and development	1,356,561	-	215,730	-	(1,140,831)	-	(1,140,831)
Special population support and development	750,381	-	464,481	-	(285,900)	-	(285,900)
Alternative programs and services support and development	114,664	-	-	-	(114,664)	-	(114,664)
Technology support	2,374,171	-	73,801	-	(2,300,370)	-	(2,300,370)
Operational support	16,058,648	725,262	3,758,458	61,675	(11,513,253)	-	(11,513,253)
Financial and human resource services	1,861,733	-	-	-	(1,861,733)	-	(1,861,733)
Accountability	378,081	-	-	-	(378,081)	-	(378,081)
Policy, leadership and public relations	3,220,165	-	384,451	-	(2,835,714)	-	(2,835,714)
Ancillary services	90,470	-	(2,246)	-	(92,716)	-	(92,716)
Payments to other governments	649,613	-	106,995	-	(542,618)	-	(542,618)
Interest on long-term debt	32,455	-	-	-	(32,455)	-	(32,455)
Unallocated depreciation expense**	5,358,748	-	-	-	(5,358,748)	-	(5,358,748)
Total governmental activities	141,832,234	3,352,177	63,995,592	61,675	(74,422,790)	-	(74,422,790)
Business-type activities:							
School food service	4,265,306	1,720,720	2,177,773	-	-	(366,813)	(366,813)
Child care	1,629,050	1,838,115	-	-	-	209,065	209,065
Total business-type activities	5,894,356	3,558,835	2,177,773	-	-	(157,748)	(157,748)
Total primary government	\$ 147,726,590	\$ 6,911,012	\$ 66,173,365	\$ 61,675	(74,422,790)	(157,748)	(74,580,538)
General revenues:							
					62,845,255	-	62,845,255
					10,909,841	-	10,909,841
					38,313	-	38,313
					1,421,148	-	1,421,148
					(312,750)	312,750	-
					74,901,807	312,750	75,214,557
					479,017	155,002	634,019
					181,997,689	693,331	182,691,020
					\$ 182,476,706	\$ 848,333	\$ 183,325,039

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

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, 2014

Exhibit 4

	Major Funds				Non-major Funds	Total Governmental Funds
	General	State Public School	Federal Grants	Capital Outlay	Special Revenue	
Revenues:						
State of North Carolina	\$ -	\$ 58,450,091	\$ -	\$ 61,675	\$ 366,765	\$ 58,878,531
Orange County	40,513,098	-	-	10,909,841	-	51,422,939
U.S. Government	-	-	3,956,840	-	1,221,896	5,178,736
Other	24,001,541	-	-	248,394	3,125,688	27,375,623
Total revenues	64,514,639	58,450,091	3,956,840	11,219,910	4,714,349	142,855,829
Expenditures:						
Current:						
Instructional services:						
Regular instructional	20,898,905	39,365,673	373,304	111,370	54,290	60,803,542
Special populations	11,425,423	6,320,396	1,962,112	-	-	19,707,931
Alternative programs	2,167,999	2,049,800	1,016,030	-	1,744,527	6,978,356
School leadership	3,873,952	2,407,512	-	-	-	6,281,464
Co-curricular	2,173,472	-	-	-	2,469,655	4,643,127
School-based support	6,646,166	3,805,318	105,116	-	-	10,556,600
System-wide support services:						
Support and development	1,131,842	215,730	-	-	-	1,347,572
Special population support and development	280,928	156,952	307,529	-	-	745,409
Alternative programs and services support and development	37,646	-	-	-	76,258	113,904
Technology support	1,980,285	73,801	-	304,353	-	2,358,439
Operational support	9,262,829	3,641,503	73,745	19,999	-	12,998,076
Financial and human resource services	1,848,904	-	-	-	493	1,849,397
Accountability	375,576	-	-	-	-	375,576
Policy, leadership and public relations	2,779,528	372,442	12,009	34,848	-	3,198,827
Ancillary services	33,204	(2,246)	-	56,625	2,887	90,470
Non-programmed charges	686,779	-	106,995	-	-	793,774
Debt service:						
Principal retirement	-	-	-	322,084	-	322,084
Interest and fees	-	-	-	32,455	-	32,455
Capital outlay	-	-	-	10,409,996	-	10,409,996
Total expenditures	65,603,438	58,406,881	3,956,840	11,291,730	4,348,110	143,606,999
Revenues over (under) expenditures	(1,088,799)	43,210	-	(71,820)	366,239	(751,170)
Other financing sources (uses):						
Transfers from other funds	243,373	-	-	50,000	-	293,373
Transfers to other funds	(208,829)	(43,210)	-	-	(50,000)	(302,039)
Total other financing sources (uses)	34,544	(43,210)	-	50,000	(50,000)	(8,666)
Net change in fund balance	(1,054,255)	-	-	(21,820)	316,239	(759,836)
Fund balances:						
Beginning of year	7,764,061	-	-	676,970	1,443,828	9,884,859
End of year	\$ 6,709,806	\$ -	\$ -	\$ 655,150	\$ 1,760,067	\$ 9,125,023

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

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2014

Exhibit 5

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

Net changes in fund balances - total governmental funds \$ (759,836)

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. 1,884,666

Difference in lease income recognized from deferred revenue due to difference between income recognition periods for governmental funds and governmental activities. (87,667)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of 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. 322,084

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
 Compensated absences (880,230)

Total changes in net position of governmental activities \$ 479,017

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

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND AND ANNUALLY BUDGETED MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2014

Exhibit 6

	General Fund			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
State of North Carolina	\$ -	\$ -	\$ -	\$ -
Orange County	40,513,098	40,513,098	40,513,098	-
U.S. Government	-	-	-	-
Other	23,469,651	23,700,058	24,001,541	301,483
Total revenues	63,982,749	64,213,156	64,514,639	301,483
Expenditures:				
Current:				
Instructional services				
Regular instructional	23,820,269	21,951,576	20,898,905	1,052,671
Special populations	10,710,041	11,529,700	11,425,423	104,277
Alternative programs	1,648,904	2,288,944	2,167,999	120,945
School leadership	3,448,073	3,911,617	3,873,952	37,665
Co-curricular	2,053,023	2,227,409	2,173,472	53,937
School-based support	6,341,370	7,017,513	6,646,166	371,347
Total instructional services	48,021,680	48,926,759	47,185,917	1,740,842
System-wide support services				
Support and development	1,469,789	1,287,778	1,131,842	155,936
Special population support and development	148,611	295,121	280,928	14,193
Alternative programs and services support and development	30,362	37,647	37,646	1
Technology support	1,904,232	1,980,287	1,980,285	2
Operational support	9,701,155	9,481,550	9,262,829	218,721
Financial and human resource services	1,683,730	1,849,008	1,848,904	104
Accountability	376,490	376,490	375,576	914
Policy, leadership and public relations	2,878,172	2,831,206	2,779,528	51,678
Total system-wide support services	18,192,541	18,139,087	17,697,538	441,549
Ancillary services				
Nutrition	-	33,205	33,204	1
Nonprogrammed charges	979,680	686,779	686,779	-
Total expenditures	67,193,901	67,785,830	65,603,438	2,182,392
Revenues over (under) expenditures	(3,211,152)	(3,572,674)	(1,088,799)	2,483,875
Other financing sources (uses):				
Transfers from other funds	-	243,373	243,373	-
Transfers to other funds	(11,761)	(255,265)	(208,829)	46,436
Total other financing sources (uses)	(11,761)	(11,892)	34,544	46,436
Fund balance appropriated	3,222,913	3,584,566	-	(3,584,566)
Net change in fund balance	\$ -	\$ -	(1,054,255)	\$ (1,054,255)
Fund balances:				
Beginning of year			7,764,061	
End of year			\$ 6,709,806	

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

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND AND ANNUALLY BUDGETED MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2014

Exhibit 6 (continued)

	State Public School Fund			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
State of North Carolina	\$ 63,388,137	\$ 62,309,693	\$ 58,450,091	\$ (3,859,602)
Orange County	-	-	-	-
U.S. Government	-	-	-	-
Other	-	-	-	-
Total revenues	<u>63,388,137</u>	<u>62,309,693</u>	<u>58,450,091</u>	<u>(3,859,602)</u>
Expenditures:				
Current:				
Instructional services				
Regular instructional	44,878,211	41,939,362	39,365,673	2,573,689
Special populations	5,996,202	6,394,753	6,320,396	74,357
Alternative programs	2,398,325	3,081,502	2,049,800	1,031,702
School leadership	2,312,717	2,493,568	2,407,512	86,056
Co-curricular	-	-	-	-
School-based support	3,447,399	3,891,433	3,805,318	86,115
Total instructional services	<u>59,032,854</u>	<u>57,800,618</u>	<u>53,948,699</u>	<u>3,851,919</u>
System-wide support services				
Support and development	148,075	215,731	215,730	1
Special population support and development	105,088	156,952	156,952	-
Alternative programs and services support and development	-	-	-	-
Technology support	-	73,928	73,801	127
Operational support	3,429,538	3,649,063	3,641,503	7,560
Financial and human resource services	251,302	-	-	-
Accountability	-	-	-	-
Policy, leadership and public relations	376,819	371,241	372,442	(1,201)
Total system-wide support services	<u>4,310,822</u>	<u>4,466,915</u>	<u>4,460,428</u>	<u>6,487</u>
Ancillary services				
Nutrition	-	(2,246)	(2,246)	-
Nonprogrammed charges	-	-	-	-
Total expenditures	<u>63,343,676</u>	<u>62,265,287</u>	<u>58,406,881</u>	<u>3,858,406</u>
Revenues over (under) expenditures	<u>44,461</u>	<u>44,406</u>	<u>43,210</u>	<u>(1,196)</u>
Other financing sources (uses):				
Transfers from other funds	-	-	-	-
Transfers to other funds	(44,461)	(44,406)	(43,210)	1,196
Total other financing sources (uses)	<u>(44,461)</u>	<u>(44,406)</u>	<u>(43,210)</u>	<u>1,196</u>
Fund balance appropriated	-	-	-	-
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balances:				
Beginning of year			-	
End of year			<u>\$ -</u>	

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

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION

Exhibit 6 (continued)

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

GENERAL FUND AND ANNUALLY BUDGETED MAJOR SPECIAL REVENUE FUNDS

For the Fiscal Year Ended June 30, 2014

	Federal Grants Fund			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
State of North Carolina	\$ -	\$ -	\$ -	\$ -
Orange County	-	-	-	-
U.S. Government	5,056,913	6,024,676	3,956,840	(2,067,836)
Other	-	-	-	-
Total revenues	<u>5,056,913</u>	<u>6,024,676</u>	<u>3,956,840</u>	<u>(2,067,836)</u>
Expenditures:				
Current:				
Instructional services				
Regular instructional	1,046,903	469,149	373,304	95,845
Special populations	1,948,228	2,574,522	1,962,112	612,410
Alternative programs	1,523,113	1,426,595	1,016,030	410,565
School leadership	-	-	-	-
Co-curricular	-	-	-	-
School-based support	63,800	176,997	105,116	71,881
Total instructional services	<u>4,582,044</u>	<u>4,647,263</u>	<u>3,456,562</u>	<u>1,190,701</u>
System-wide support services				
Support and development	-	3,000	-	3,000
Special population support and development	304,869	261,951	307,529	(45,578)
Alternative programs and services support and development	40,000	-	-	-
Technology support	-	-	-	-
Operational support	20,000	74,745	73,745	1,000
Financial and human resource services	-	-	-	-
Accountability	-	-	-	-
Policy, leadership and public relations	-	12,010	12,009	1
Total system-wide support services	<u>364,869</u>	<u>351,706</u>	<u>393,283</u>	<u>(41,577)</u>
Ancillary services				
Nutrition	-	-	-	-
Nonprogrammed charges	110,000	1,025,707	106,995	918,712
Total expenditures	<u>5,056,913</u>	<u>6,024,676</u>	<u>3,956,840</u>	<u>2,067,836</u>
Revenues over (under) expenditures	-	-	-	-
Other financing sources (uses):				
Transfers from other funds	-	-	-	-
Transfers to other funds	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Fund balance appropriated	-	-	-	-
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Fund balances:				
Beginning of year	-	-	-	-
End of year	-	-	<u>\$ -</u>	-

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

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
STATEMENT OF NET POSITION
PROPRIETARY FUND TYPES
June 30, 2014

Exhibit 7

	Enterprise		Totals
	Major Fund	Non-major Fund	
	School Food Service	Child Care	
Assets			
Current assets:			
Cash and cash equivalents	\$ 328,512	\$ 691,805	\$ 1,020,317
Due from other governments	97,248	-	97,248
Receivables	632	30,926	31,558
Due from other funds	17,033	-	17,033
Total current assets	<u>443,425</u>	<u>722,731</u>	<u>1,166,156</u>
Noncurrent assets:			
Capital assets:			
Furniture and equipment, net	<u>595,469</u>	<u>-</u>	<u>595,469</u>
Total assets	<u>1,038,894</u>	<u>722,731</u>	<u>1,761,625</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	483,780	2,089	485,869
Compensated absences	37,624	30,538	68,162
Unearned revenue	98,769	133,650	232,419
Total current liabilities	<u>620,173</u>	<u>166,277</u>	<u>786,450</u>
Noncurrent liabilities:			
Compensated absences	<u>63,581</u>	<u>63,261</u>	<u>126,842</u>
Total liabilities	<u>683,754</u>	<u>229,538</u>	<u>913,292</u>
Net position			
Investment in capital assets	595,469	-	595,469
Unrestricted (deficit)	<u>(240,329)</u>	<u>493,193</u>	<u>252,864</u>
Total net position	<u>\$ 355,140</u>	<u>\$ 493,193</u>	<u>\$ 848,333</u>

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

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND TYPES
For the Fiscal Year Ended June 30, 2014

Exhibit 8

	Enterprise		Totals
	Major Fund School Food Service	Non-major Fund Child Care	
Operating revenues:			
Food sales	\$ 1,720,720	\$ -	\$ 1,720,720
Child care fees	-	1,407,317	1,407,317
Rental of school property	-	430,798	430,798
Total operating revenues	<u>1,720,720</u>	<u>1,838,115</u>	<u>3,558,835</u>
Operating expenses:			
Purchase of food	-	108,514	108,514
Salaries and benefits	1,191,652	1,427,687	2,619,339
Indirect costs	154,031	-	154,031
Materials and supplies	10,342	40,963	51,305
Repairs and maintenance	37,599	-	37,599
Depreciation	38,468	-	38,468
Non-capitalized equipment	61,438	1,564	63,002
Chartwells management fees	2,902,209	-	2,902,209
Contracted services	-	35,881	35,881
Other	23,598	14,441	38,039
Total operating expenses	<u>4,419,337</u>	<u>1,629,050</u>	<u>6,048,387</u>
Operating income (loss)	<u>(2,698,617)</u>	<u>209,065</u>	<u>(2,489,552)</u>
Nonoperating revenues:			
Federal reimbursements	1,918,154	-	1,918,154
Federal commodities	234,534	-	234,534
State reimbursements	5,085	-	5,085
Indirect costs not paid	154,031	-	154,031
Contributions and donations	20,000	-	20,000
Total nonoperating revenues	<u>2,331,804</u>	<u>-</u>	<u>2,331,804</u>
Income (loss) before transfers and contributions	(366,813)	209,065	(157,748)
Transfers to other funds	-	(243,373)	(243,373)
Transfers from other funds	252,039	-	252,039
Capital contributions	304,084	-	304,084
Change in net position	189,310	(34,308)	155,002
Net position, beginning of year	<u>165,830</u>	<u>527,501</u>	<u>693,331</u>
Net position, end of year	<u>\$ 355,140</u>	<u>\$ 493,193</u>	<u>\$ 848,333</u>

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

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPES
For the Fiscal Year Ended June 30, 2014

Exhibit 9

	Enterprise		Totals
	Major Fund	Non-major Fund	
	School Food Service	Child Care	
Cash flows from operating activities:			
Cash received from customers	\$ 1,774,684	\$ 1,836,411	\$ 3,611,095
Cash paid for goods and services	(2,391,799)	(201,633)	(2,593,432)
Cash paid to employees for services	(1,149,630)	(1,409,130)	(2,558,760)
Net cash provided (used) by operating activities	<u>(1,766,745)</u>	<u>225,648</u>	<u>(1,541,097)</u>
Cash flows from noncapital financing activities:			
Transfers from (to) other funds	208,829	(243,373)	(34,544)
Due from other funds	(17,033)	-	(17,033)
Federal and State reimbursements	1,873,866	-	1,873,866
Contributions and donations	20,000	-	20,000
Net cash provided (used) by noncapital financing activities	<u>2,085,662</u>	<u>(243,373)</u>	<u>1,842,289</u>
Net increase (decrease) in cash and cash equivalents	318,917	(17,725)	301,192
Cash and cash equivalents, beginning of year	<u>9,595</u>	<u>709,530</u>	<u>719,125</u>
Cash and cash equivalents, end of year	<u>\$ 328,512</u>	<u>\$ 691,805</u>	<u>\$ 1,020,317</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (2,698,617)	\$ 209,065	\$ (2,489,552)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	38,468	-	38,468
Donated commodities	234,534	-	234,534
Salaries paid by special revenue fund	43,210	-	43,210
Indirect costs not paid	154,031	-	154,031
Changes in assets and liabilities:			
Decrease in accounts receivable	40,738	3,264	44,002
Increase (decrease) in accounts payable and accrued liabilities	408,853	(270)	408,583
Increase (decrease) in unearned revenue	13,226	(4,968)	8,258
Increase (decrease) in compensated absences payable	(1,188)	18,557	17,369
Total adjustments	<u>931,872</u>	<u>16,583</u>	<u>948,455</u>
Net cash provided (used) by operating activities	<u>\$ (1,766,745)</u>	<u>\$ 225,648</u>	<u>\$ (1,541,097)</u>

NONCASH OPERATING AND NONCAPITAL FINANCING ACTIVITIES:

The School Food Service Fund received donated commodities with a value of \$234,534 during the fiscal year. The receipt of these commodities is reflected as a nonoperating revenue on Exhibit 8. The consumption of these commodities is recorded as an operating expense.

The State Public School Fund paid salaries and benefits of \$43,210 to administrative personnel of the School Food Service Fund during the fiscal year. The payment is reflected as a transfer in and an operating expense on Exhibit 8.

School Food Service capital assets with a value of \$304,084 were purchased by the Capital Outlay Fund during the year. The value of these assets is reflected as a capital contribution on Exhibit 8.

Indirect costs of \$154,031 that would be due to the General Fund were not paid. These unpaid costs are reflected as a non-operating revenue and an operating expense on Exhibit 8.

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

**CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
June 30, 2014**

Exhibit 10

	<u>Employee Flexible Spending Account</u>
Assets	
Cash	<u>\$ 133,759</u>
Liabilities	
Accounts payable and accrued liabilities	<u>\$ 133,759</u>

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

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

B. Basis of Presentation

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

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

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

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

The Board reports the following major governmental funds:

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

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

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

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

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

The Board reports the following nonmajor governmental funds:

Other Special Revenue Fund. The Other Special Revenue Fund is used to account for gifts and grants restricted as to use, certain federal and state grants restricted as to use, federal and state appropriations made directly to local school administrative units, funds received for refunds, reimbursements and various special programs.

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

The Board reports the following major enterprise fund:

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

The Board reports the following nonmajor enterprise fund:

Child Care Fund. The Child Care Fund is used to account for the after school care program within the school system, as well as revenues from the rental of school property.

The Board reports the following fiduciary fund:

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

C. Measurement Focus and Basis of Accounting

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

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

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

recorded when the related fund liability is incurred, except for claims and judgments and compensated absences which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Acquisitions under capital leases are reported as other financing sources.

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

D. Budgetary Data

The Board's budgets are adopted as required by the North Carolina General Statutes. Annual budgets are adopted for all funds, except for the fiduciary funds and the individual schools special revenue funds, as required by the North Carolina General Statutes. No budget is required by State law for individual school funds. All appropriations lapse at the fiscal year-end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the purpose level for all annually budgeted funds. The budget is presented in the accompanying financial statements at the function level for informational purposes only. Amendments are required for any revisions that alter total expenditures of any fund or that change appropriations at the purpose level. 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 is managed by the staff of the Department of State Treasurer and operated in accordance with State laws and regulations. It is not registered with the SEC. 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.

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

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. Prepaid Expenditures

Prepaid expenditures represent amounts paid to vendors for goods or services in one period that benefit a future period. The Board utilizes the consumption method of accounting and recognizes prepaid items as expenditures in the period 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.

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

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

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

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

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

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.

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

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, 2014 is recorded in the government-wide and proprietary fund financial statements on a FIFO basis. An estimate has been made based on prior years' records of the current portion of compensated absences.

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

7. Net Position/Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

Prepaid expenditures- portion of fund balance that is not an available resource because it represents the year end balance of prepaid expenditures, which are not spendable resources.

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

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

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

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

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

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

Assigned fund balance – portion of fund balance that the Board of Education intends to use for specific purposes.

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

Special revenues – portion of fund balance that represents the residual amount of revenues from certain grants, reimbursements, indirect costs and other financial resources in excess of related expenditures that the Board of Education has assigned to be expended for educational services. This amount can be expended on instructional services, system-wide support services, ancillary services or non-programmed charges.

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

The Board of Education has a management policy for revenue spending that provides guidance for programs with multiple revenue sources. The Finance Officer will pay expenditures from restricted revenue sources first and then from general unrestricted revenues.

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 position

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net position - governmental activities* as reported in the government-wide statement of net position. The net adjustment of \$173,351,683 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)	\$275,124,751
Less accumulated depreciation	<u>(91,465,159)</u>
Net capital assets	183,659,592
Difference in unavailable lease revenue attributable to difference in income recognition periods for governmental funds and governmental activities	(876,667)
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not recorded in the fund statements:	
Installment purchases	(890,391)
Compensated absences	<u>(8,540,851)</u>
Total adjustment	<u>\$173,351,683</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

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

changes in net position of governmental activities as reported in the government-wide statement of activities. There are several elements of that total adjustment of \$1,238,853 as follows:

<u>Description</u>	<u>Amount</u>
Capital outlay expenditures recorded in the fund statements but capitalized as assets in the statement of activities	\$ 7,552,020
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	(5,667,354)
Principal payments on debt owed are recorded as a use of funds on the fund statements but again affect only the statement of net position in the government-wide statements	322,084
Difference in lease income recognized from unavailable revenue due to difference between income recognition periods for governmental funds and governmental activities.	(87,667)
Expenses reported in the statement of activities that do not require the use of current resources to pay are not recorded as expenditures in the fund statements:	
Compensated absences are accrued in the government-wide statements but not in the fund statements because they do not use current resources	<u>(880,230)</u>
Total adjustment	<u>\$ 1,238,853</u>

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Excess of Expenditures Over Appropriations

During the fiscal year ended June 30, 2014, the Board reported expenditures within the Federal Grants Fund that violated State law [G.S. 115C-441] because they exceeded the amount appropriated in the budget ordinance for system-wide support services by \$41,577. Management will monitor budgets monthly and make necessary amendments to avoid expenditures in excess of appropriations.

NOTE 3 - DETAIL NOTES ON ALL FUNDS

A. Assets

1. Deposits

All of the Board's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the Board's agents in the unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Board, these deposits are considered to be held by the agent in the entity's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Board or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Board under the Pooling

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

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, 2014, the Board had deposits with banks and savings and loans with a carrying amount of \$4,272,323 and with the State Treasurer of \$0. The bank balances with the financial institutions and the State Treasurer were \$5,448,481 and \$75,730, respectively. Of these balances, \$1,367,147 was covered by federal depository insurance and \$4,157,064 was covered by collateral held by authorized escrow agents in the name of the State Treasurer.

2. Investments

At June 30 2014, the Board had \$6,469,590 invested with the State Treasurer in the Short Term Investment Fund (STIF). The STIF is unrated and had a weighted average maturity of 1.3 years at June 30, 2014. The Board has no policy for managing interest rate risk or credit risk.

3. Accounts Receivable

Receivables at the government-wide level at June 30, 2014 are as follows:

	Due from (to) other funds (Internal balances)	Due from other governments	Other	Total
Governmental activities:				
General Fund	\$ 168,484	\$ 497,081	\$ 132,175	\$ 797,740
Other governmental activities	<u>(185,517)</u>	<u>3,669,632</u>	<u>3,042</u>	<u>3,487,157</u>
Total governmental activities	<u>\$ (17,033)</u>	<u>\$ 4,166,713</u>	<u>\$ 135,217</u>	<u>\$ 4,284,897</u>
Business-type activities:				
School Food Service Fund	\$ 17,033	\$ 97,248	\$ 632	\$ 114,913
Child Care Fund	<u>-</u>	<u>-</u>	<u>30,926</u>	<u>30,926</u>
Total business-type activities	<u>\$ 17,033</u>	<u>\$ 97,248</u>	<u>\$ 31,558</u>	<u>\$ 145,839</u>

Due from other governments consists of the following:

Governmental activities:		
General Fund	\$ 497,081	Amounts due from County
State Public School Fund	1,994,245	Operating funds from DPI
Capital Outlay Fund	1,387,579	Amounts due from County
Federal Grants Fund	100,598	Federal grant funds
Other Special Revenue Fund	<u>187,210</u>	State grant funds
Total	<u>\$ 4,166,713</u>	
Business-type activities:		
School Food Service Fund	<u>\$ 97,248</u>	Federal grant funds

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

4. Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 6,485,407	\$ -	\$ -	\$ 6,485,407
Construction in progress	<u>20,679,066</u>	<u>5,864,468</u>	<u>23,836,430</u>	<u>2,707,104</u>
Total capital assets not being depreciated	<u>27,164,473</u>	<u>5,864,468</u>	<u>23,836,430</u>	<u>9,192,511</u>
Capital assets being depreciated:				
Buildings and improvements	223,572,839	23,726,643	-	247,299,482
Land improvements	4,907,492	-	-	4,907,492
Equipment and furniture	6,870,836	1,206,151	-	8,076,987
Vehicles	<u>5,057,091</u>	<u>591,188</u>	-	<u>5,648,279</u>
Total capital assets being depreciated	<u>240,408,258</u>	<u>25,523,982</u>	-	<u>265,932,240</u>
Less accumulated depreciation for:				
Buildings and improvements	74,647,883	4,818,460	-	79,466,343
Land improvements	3,695,568	111,207	-	3,806,775
Equipment and furniture	3,656,693	429,081	-	4,085,774
Vehicles	<u>3,797,661</u>	<u>308,606</u>	-	<u>4,106,267</u>
Total accumulated depreciation	<u>85,797,805</u>	<u>5,667,354</u>	-	<u>91,465,159</u>
Total capital assets being depreciated, net	<u>154,610,453</u>			<u>174,467,081</u>
Governmental activity capital assets, net	<u>\$ 181,774,926</u>			<u>\$ 183,659,592</u>
	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type activities:				
School Food Service Fund:				
Capital assets being depreciated:				
Equipment and furniture	\$ 1,009,303	\$ 304,084	\$ -	\$ 1,313,387
Less accumulated depreciation for:				
Equipment and furniture	<u>679,450</u>	<u>38,468</u>	-	<u>717,918</u>
School Food Service capital assets, net	<u>329,853</u>			<u>595,469</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>37,339</u>
Child Care Fund capital assets, net	<u>-</u>			<u>-</u>
Business-type activities capital assets, net	<u>\$ 329,853</u>			<u>\$ 595,469</u>

**CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
 NOTES TO THE FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2014**

Depreciation was charged to governmental functions as follows:

System-wide support services	\$ 308,606
Unallocated depreciation	<u>5,358,748</u>
 Total	 <u>\$ 5,667,354</u>

5. Construction and Other Significant Commitments

As of June 30, 2014, the Board had several construction and repair projects in progress throughout the district, including the construction of a new science lab at Culbreth Middle School. At year-end, the Board's commitments with contractors for the remaining portion of the contracts to complete these projects totaled approximately \$2.5 million.

B. Liabilities

1. Pension Plan and Other Postemployment Obligations

a. Teachers' and State Employees' Retirement System

Plan Description. Chapel Hill-Carrboro City Board of Education contributes to the statewide Teachers' and State Employees' Retirement System (TSERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. TSERS provides retirement benefits to plan members and beneficiaries. Article 1 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Teachers' and State Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for TSERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute six percent of their annual covered salary and the Board is required to contribute at an actuarially determined rate. The current rate is 8.69% 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, 2014, 2013 and 2012 were \$7,094,646, \$6,797,565 and \$6,016,874, respectively, equal to the required contributions for each year.

b. Other Postemployment Benefits

Healthcare Benefits

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

CHAPEL HILL-CARRBORO CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

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

Funding Policy. The Comprehensive Major Medical Plan is administered by the Executive Administrator and Board of Trustees of the Plan, which establish premium rates except as may be established by the General Assembly in an appropriation act. The healthcare benefits for retired and disabled employees are the same as for active employees, except that the coverage becomes secondary when former employees become eligible for Medicare. For employees first hired on and after October 1, 2006, future coverage as retired employees is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on and after October 1, 2006 with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan's total noncontributory premium. For employees hired before October 1, 2006, healthcare benefits are provided to retirees (at no charge to the retirees) who have at least five years of contributing retirement membership prior to disability or retirement. In addition, persons who became surviving spouses of retirees prior to October 1, 1986, receive the same coverage as retirees at the State's expense.

Contributions are determined as a percentage of covered monthly payroll. Annually, the monthly contribution rates to the Plan, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill. For the fiscal years ended June 30, 2014, 2013 and 2012, the School Board paid all annual required contributions to the Plan for postemployment healthcare benefits of \$4,408,641, \$4,324,982 and \$4,043,598, respectively. These contributions represented 5.40%, 5.30% and 5.00% of covered payroll, respectively.

Long-term Disability Benefits

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

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

Funding Policy. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five or more years of contributing membership service in the Teachers' and State Employees' Retirement System of North Carolina, earned within 96 months prior to the end of the short-term disability period or cessation of salary continuation payments, whichever is later; (2) the employee must make application to receive long-term benefits within 180 days after the

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conclusion of the short-term disability period or after salary continuation payments cease or after monthly payments for Workers' Compensation cease (excluding monthly payments for permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her usual occupation; (4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; (5) the employee must not be eligible to receive an unreduced retirement benefit from the Retirement System; and (6) the employee must terminate employment as a permanent, full-time employee. An employee is eligible to receive an unreduced retirement benefit from the Retirement System after (1) reaching the age of 65 and completing five years of creditable service, or (2) reaching the age of 60 and completing 25 years of creditable service, or (3) completing 30 years of creditable service, at any age.

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

The Board's contributions are established in the Appropriations Bill by the General Assembly. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The contributions cannot be separated between the amounts that relate to other postemployment benefits and employment benefits for active employees. Those individuals who are receiving extended short-term disability benefit payments cannot be separated from the number of members currently eligible to receive disability benefits as an other postemployment benefit. For the fiscal years ended June 30, 2014, 2013 and 2012, the Board paid all annual required contributions to the DIPNC for disability benefits of \$359,223, \$359,055 and \$420,534, respectively. These contributions represented 0.44%, 0.44% and 0.52% of covered payroll, respectively.

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2. Accounts Payable

Accounts payable as of June 30, 2014 are as follows:

	<u>Vendors and Other</u>	<u>Salaries and Benefits</u>	<u>Total</u>
Governmental activities:			
General Fund	\$ 993,158	\$ 1,273,647	\$ 2,266,805
Other governmental activities	<u>1,447,792</u>	<u>2,125,682</u>	<u>3,573,474</u>
Total governmental activities	<u>\$ 2,440,950</u>	<u>\$ 3,399,329</u>	<u>\$ 5,840,279</u>
Business-type activities:			
School Food Service Fund	\$ 483,780	\$ -	\$ 483,780
Child Care Fund	<u>2,089</u>	<u>-</u>	<u>2,089</u>
Total business-type activities	<u>\$ 485,869</u>	<u>\$ -</u>	<u>\$ 485,869</u>

3. Unearned Revenues

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

Governmental activities:		
Prepayment of pre-k tuition (General Fund)		\$ 27,634
Prepaid use fee (Capital Outlay Fund - see below)		<u>876,667</u>
Total governmental activities		<u>\$ 904,301</u>
Business-type activities:		
Prepayments of meals (School Food Service Fund)		\$ 98,769
Prepayments of tuition (Child Care Fund)		<u>133,650</u>
Total business-type activities		<u>\$ 232,419</u>

The Board entered into a lease agreement with the University of North Carolina at Chapel Hill (the "University"), whereby the Board constructed additional space at Smith Middle School which is being leased to the University for a period of thirty years. During the first ten years of the agreement, the parties may terminate the agreement only upon a breach of the agreement that remains uncured for a reasonable amount of time after receipt of notice of the breach. In such event, the Board shall refund the University an amount equal to the use fee prorated over the remaining number of years of the ten year period. The agreement required the University to pay a use fee of \$1,315,000 at the beginning of the lease. Due to the terms of the agreement, this fee is being recognized as revenue by the Board over a ten year period in the governmental funds statements (Capital Outlay Fund) and over a thirty year period in the governmental activities statements. At June 30, 2014 the fee had been fully recognized as revenue in the fund statements while unearned revenue reported in the Statement of Net Assets for governmental activities totaled \$876,667.

