



Lee County Schools

Sanford, North Carolina

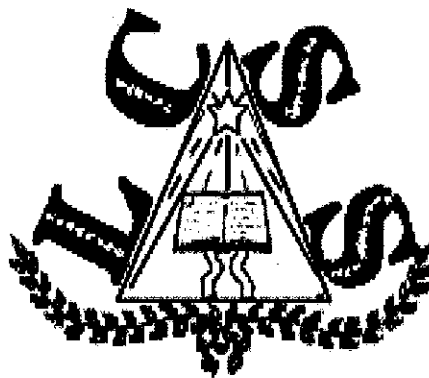
For the Fiscal Year Ended June 30, 2007

Comprehensive Annual Financial Report



Comprehensive Annual Financial Report

**of the
Lee County Schools
Sanford, North Carolina**



For the Fiscal Year Ended June 30, 2007

**Prepared by the Business Office
Dr. James T. McCormick, Superintendent
Tammy H. Howington, Chief Finance Officer**

LEE COUNTY BOARD OF EDUCATION
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**LEE COUNTY BOARD OF EDUCATION
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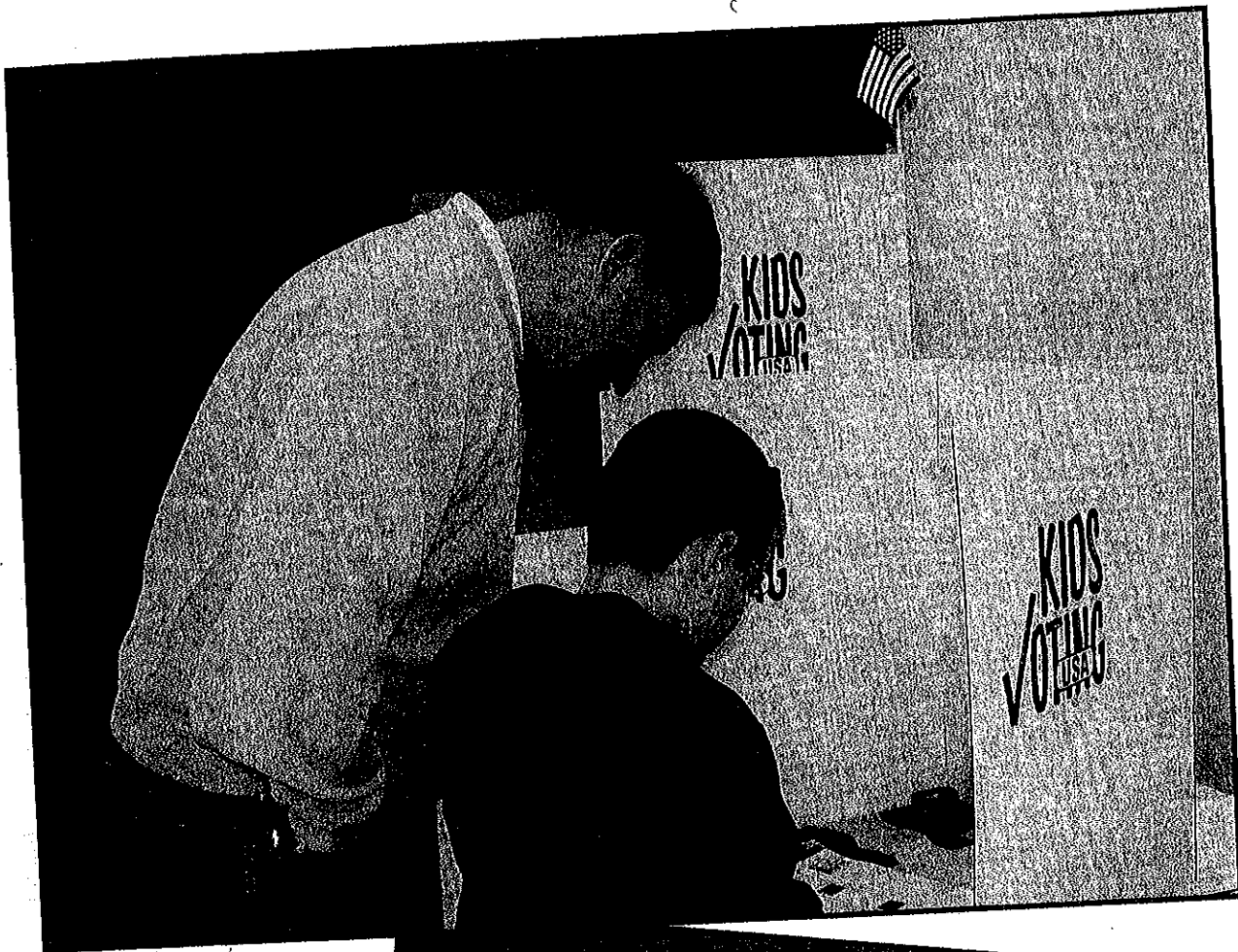
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Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The District implements GASB Statement 34 with the fiscal year beginning July 1, 2002; therefore, schedules presenting government-wide information include information beginning with June 30, 2003.

COMPLIANCE SECTION

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Introductory Section



Lee County Schools

James T. McCormick
Superintendent

Lee County Schools will teach
each student the social and academic skills needed
to become a responsible and productive citizen.

William P. Tatum, Chairman
P. Frank Thompson, Sr., Vice-Chairman
Mary Ellen Axner
John T. Bonardi, Jr.
Eleanor I. Mangum
John T. Quiggle
Linda A. Smith



Letter of Transmittal

October 8, 2007

To the members of the Lee County Board of Education and Citizens of Lee County, North Carolina:

In compliance with the Public School Laws of North Carolina, the Comprehensive Annual Financial Report of the Lee County Board of Education, operating as the "Lee County Schools", for the fiscal year ended June 30, 2007, is herewith submitted. Responsibility for the accuracy, completeness and clarity of the report rests with the Superintendent and the Chief Finance Officer.

The report has been prepared by the Business Office in accordance with generally accepted accounting principles. We believe the data presented is accurate in all material respects and that it is presented in a manner designated to fairly reflect the financial position and results of operations of the Board. All disclosures necessary to enable the reader to gain maximum understanding of the Board's financial activity have been included.

ORDER OF PRESENTATION

The report consists of four sections: Introductory, Financial, Statistical and Compliance. The Introductory Section includes this transmittal letter, an organizational chart and a list of the Board members and principal officials. It also includes the Certificate of Excellence in Financial Reporting from the Association of School Business Officials and the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association. The Financial Section includes management's discussion and analysis and the independent auditor's report with accompanying financial statements and schedules. The notes to the financial statements include information to assist in understanding the Board's financial condition. The Statistical Section includes several tables of unaudited data providing financial history of the Board as well as demographics and other informative statistics. The Compliance Section includes the following: 1) Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, 2) Report on Compliance with Requirements Applicable to Each Major Federal Program and

Internal Control Over Compliance in Accordance with OMB Circular A-133 and the State Single Implementation Act, 3) Report on Compliance with Requirements Applicable to Each Major State Program and Internal Control Over Compliance in Accordance with Applicable Sections of OMB Circular A-133 and the State Single Audit Implementation Act, 4) Schedule of Findings and Questioned Costs, 5) Summary Schedule of Prior Year's Audit Findings, and 6) Schedule of Expenditures of Federal and State Awards.

Generally accepted accounting principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Lee County Board of Education's MD&A can be found immediately following the report of the independent auditors.

The Board is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Nonprofit Organizations, and the State Single Audit Implementation Act. Information related to this single audit, including the schedule of expenditures of federal and state awards, findings and recommendations, and auditor's reports on internal control and compliance with applicable laws and regulations, are included in the Compliance Section of this report.

REPORTING ENTITY

The Lee County Board of Education, elected by the citizens of Lee County, is the lowest level of government having control over all activities related to the public schools in Lee County. The Board is not considered a component unit of any other government, nor does it have its own component unit. The Board consists of seven members elected for staggered terms of four years. The Superintendent serves as secretary to the Board. The Board has no tax levying authority or borrowing authority and is required to maintain accounting records according to a Uniform State format. The Board receives local, state and federal government funding and must comply with the legal requirements of each fund. N.C. General Statute 115C-140 empowers the Lee County Board of Education with general control and supervision of all matters pertaining to the schools in the system.

FINANCIAL AND BUDGETARY CONTROL

In order to meet the challenging learning experiences provided to the students attending Lee County Schools, the Board must use a variety of funding resources, including local, state, federal and private grants while complying with legal

requirements of each funding source entity. In doing so, the Board is unable to summarize all governmental financial transactions and balances in one accounting entity. Instead, the accounting system is divided into three separate entities; each referred to as a "fund". The Board's funds are divided into governmental, proprietary and fiduciary. Each fund is a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities in accordance with legal requirements, generally accepted accounting principles, special regulations or other limitations. Governmental fund types included general, special revenue and capital projects. The enterprise funds are proprietary fund types, with the expendable trust and agency fund being fiduciary fund types. The enterprise fund is presented on a full accrual basis, while the other funds are maintained on a modified accrual basis.

Internal controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the evaluation of costs and benefits requires estimates and judgments of management. All internal control evaluations occur within the framework just described. We believe that the Board's internal controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

North Carolina General Statutes requires all governmental units in the state to adopt a balanced budget by July 1 of each year. The Board has the final approval over the budget and primary accountability for fiscal matters (including any deficits). The Board's annual Budget Resolution authorizes expenditures by purpose on a modified accrual basis. For internal management purposes, the budget is detailed and compared to expenditures and encumbrances by line item within each function and project. The budget amount reflected in the accompanying financial statements represents the final budget as amended for the fiscal year. The Board also uses a purchase order encumbrance system that records and shows encumbrances outstanding against each line item of expenditures. Outstanding encumbrances at the end of the fiscal year related to normal operations are considered to be continuing contracts and are transferred at the end of the fiscal year to appropriations in future years.

MAJOR INIATIVES

As required by the State Department of Public Instruction, Lee County Schools maintains a ten-year facilities plan that has been submitted and approved by the County Commissioners and the State Department of Public Instruction.

The Board is in the process of beginning constructing a new middle school building, scheduled for occupancy in the Fall of 2008, to accommodate enrollment growth and reorganization of schools. The school system is partnering with the County to include a design for a park facility.

CASH MANAGEMENT

It is the Board's policy to invest all idle cash in a manner that earns the highest yield in so much as the funds are protected against loss through FDIC and stringent collateralization requirements monitored through the State Treasurer's office. Furthermore, the Board has issued a competitive bid to secure an interest rate of 1.00% below the federal funds rate on all its daily deposits. Outstanding debts are paid in a timely manner and no problems have been encountered in the collection of receivables. The Board is not required to keep a balance in a non-interest bearing certificate of deposit as a compensating balance to offset all other banking services. As of June 30, 2007, all funds were invested including the individual school funds. Further investment data is provided in the notes to the General Purpose Financial Statements.

RISK MANAGEMENT

The Board participates in various forms of risk coverage including, but not limited to, general liability, automobile liability, comprehensive, collision, hazard and theft coverage on property and contents, blanket finance and forgery bonds and all sports coverage. The Board participates in the North Carolina School Boards Trust for errors and omissions/general, boiler and machinery and vehicle coverage. The Division of Insurance of the North Carolina State Board of Education provides Lee County Schools with hazard and theft coverage on all building and contents. A vendor provides all sports coverage through a local office. Catastrophic athletic coverage is provided by the North Carolina High School Athletic Association.

ECONOMIC CONDITION AND OUTLOOK

The Lee County School system is located within one hour of the metropolitan area of Raleigh, the state capital. Lee County in its own right enjoys those qualities that exemplify the charm and grace of living in a community where you have a sense of belonging and still benefit from having a large metropolitan area nearby. Lee County has a population of 56,908 with an average growth rate of approximately 1% from last year. Another significant distinction of Lee County is that it is located within one hour's drive of the world-famous Research Triangle Park, where some of the most advanced research in the world takes place. The major economic transportation routes of US 15-501, Highway 1 and US 421 will

continue to provide for major industrial and commercial expansion in Lee County in the years to come.

INDEPENDENT AUDIT

Dixon Hughes, PLLC has audited the financial records and transactions of the Lee County Board of Education for the year ended June 30, 2007. They are a firm of independent certified public accountants. In addition to meeting the requirements set forth in state statutes, the audit also was designed to meet the requirements of the federal Single Audit Act Amendments of 1996 and related OMB Circular A-133 and the State Single Audit Implementation Act. The auditor's report is included in the financial section of this report.

FINANCIAL REPORTING AWARDS

The Association of School Business Officials (ASBO) awarded a Certificate of Excellence in Financial Reporting to the Lee County Schools for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2006. This award is a national program that provides unique professional recognition in the preparation and issuance of CAFRs by school systems.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Lee County Schools for its comprehensive annual financial report for the fiscal year ended June 30, 2006. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded these certificates a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. These awards are valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the ASBO and GFOA requirements and we are submitting it to ASBO and GFOA to determine its eligibility for renewed rewards.


ACHIEVEMENT IN FINANCIAL RESOURCE MANAGEMENT

This award is given to North Carolina school systems with no audit exceptions for certified personnel paid from state or federal funds. The Lee County Schools has received this award for the past thirteen consecutive years.


ACKNOWLEDGEMENTS

The preparation of the Comprehensive Annual Financial Report in a timely manner could not have been accomplished without the efforts and dedication of the Superintendent's staff, Business Office and our independent audit firm. We would like to express appreciation to all staff members who assisted in the preparation of this report. Also, our appreciation is expressed to the Finance Department of the County of Lee for their preparation of the data needed in the statistical section of this report.

Respectfully submitted,

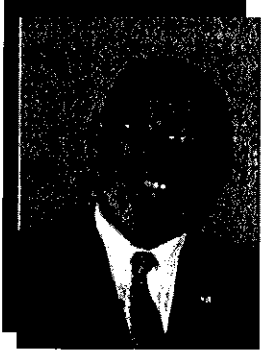


Dr. James T. McCormick
Superintendent

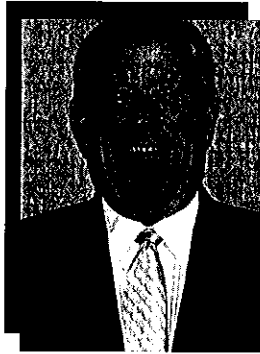


Tammy H. Howington
Chief Finance Officer

Lee County Schools Board of Education Members and Superintendent



William P. Tatum
Chairman



P. Frank Thompson, Sr.
Vice Chairman



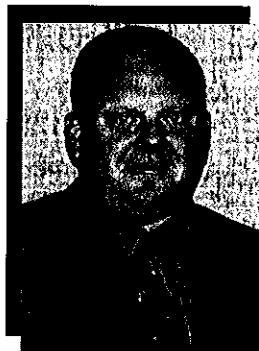
Mary Ellen Axner



John Bonardi, Jr.



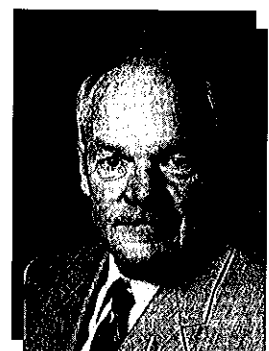
Ellen Mangum



John T. Quiggle



Linda Smith



Dr. James T. McCormick

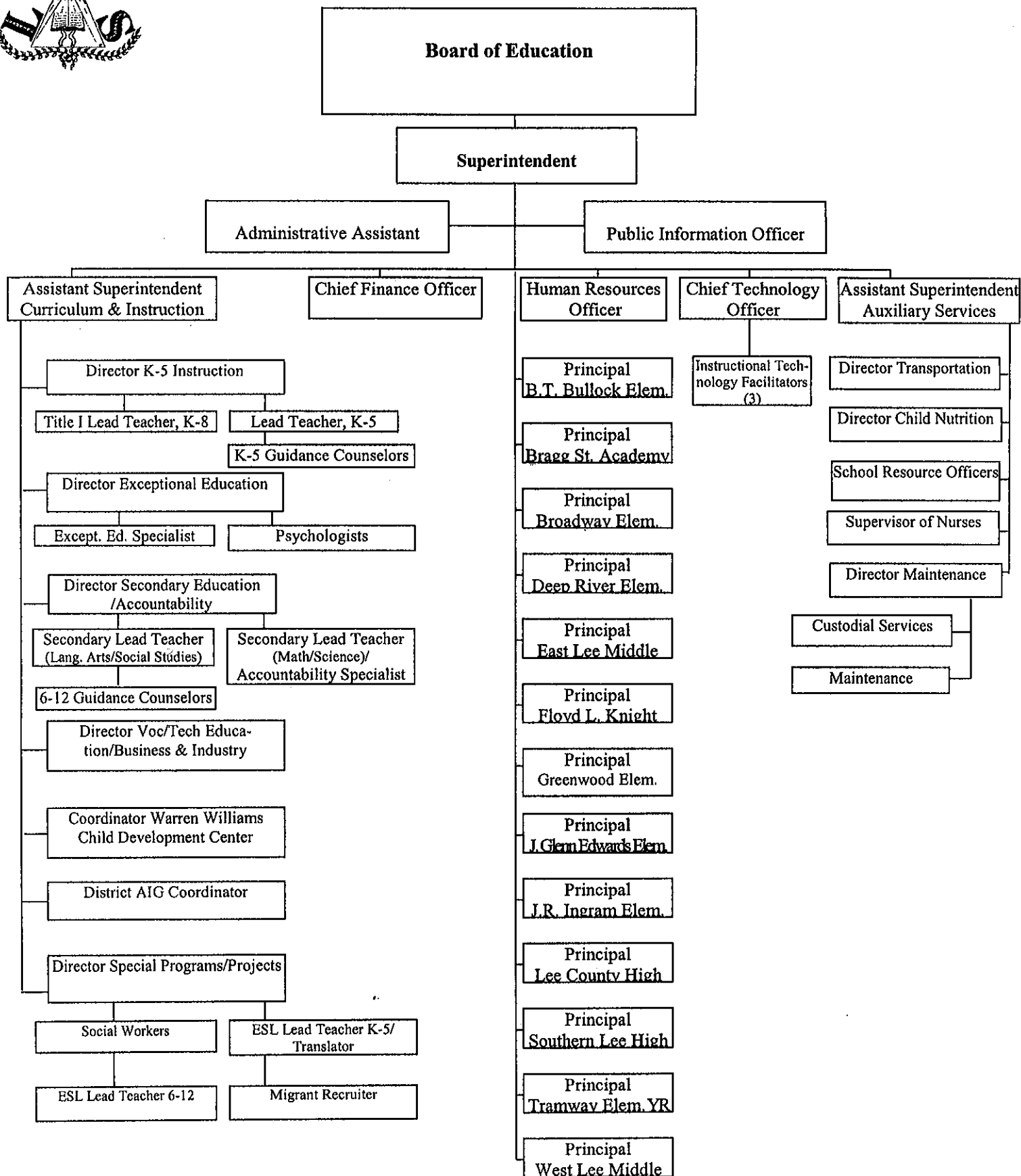
Jimmy Love
Board Attorney

Officials Issuing Report
Dr. James T. McCormick
Superintendent

Tammy H. Howington
Chief Financial Officer



Lee County Schools Organizational Chart



**ASSOCIATION OF SCHOOL BUSINESS OFFICIALS
INTERNATIONAL**



This Certificate of Excellence in Financial Reporting is presented to

LEE COUNTY SCHOOLS

**For its Comprehensive Annual Financial Report (CAFR)
For the Fiscal Year Ended June 30, 2006**

Upon recommendation of the Association's Panel of Review which has judged that the Report substantially conforms to principles and standards of ASBO's Certificate of Excellence Program

President

Executive Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Lee County Schools
North Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



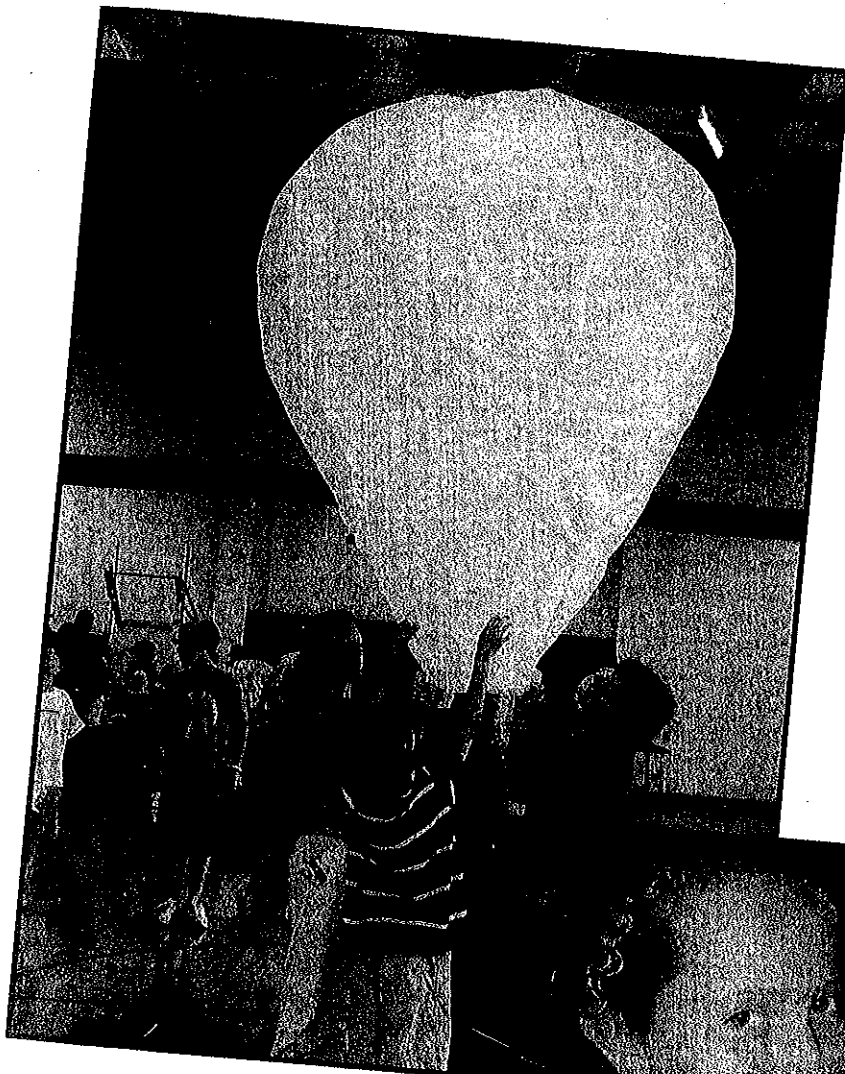
A handwritten signature in black ink, appearing to read "Ronald J. Hall".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

Financial Section





DIXON HUGHES PLLC

Certified Public Accountants and Advisors

INDEPENDENT AUDITORS' REPORT

To the Lee County Board of Education
Lee County, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Lee County Board of Education (BOE), as of and for the year ended June 30, 2007, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the BOE's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant the estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the BOE as of June 30, 2007, and the respective changes in financial position and its cash flows, where applicable, thereof and the respective budgetary comparison for the General and State Public School funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2007, on our consideration of the BOE's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of the BOE. The individual fund schedules, as well as the accompanying schedule of expenditures of federal and State awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Dixon Hughes PLLC

Raleigh, North Carolina

October 8, 2007

LEE COUNTY BOARD OF EDUCATION MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Lee County Board of Education's (the "Board") financial report represents our discussion and analysis of the financial performance of the Board for the year ended June 30, 2007. This information should be read in conjunction with the audited financial statements included in this report.

Financial Highlights

- The Board's 2006-2007 student population continued to grow with an enrollment of 9,330 students in the first month. The housing market in Lee County continues to see an expansion in all areas of the county. During the months of August and September two large projects were annexed and granted conditional zoning for a large mixed density development. A 600 housing unit on NC 87 South was improved with a density mixed of multi-family, townhouses, patio homes, and single family homes. Along the Deep River, bordered by NC 15/501 North, a mixed use and mixed density project of approximately 2,800 housing units was annexed and approved for further design. This project is a combination of multi-family, townhouses, single family, and estate homes. Along with other projects approved in the past year, the City of Sanford and Lee County have added over 5,000 potential housing units. Build-out on projects ranges from 18 ths to 120 months depending on the size and complexity of the project.
- According to population projections, Lee County is expected to grow from 56,908 in 2006 to approximately 63,400 in 2010 and 68,350 in 2015.
- The Board is in the process of constructing a new middle school building, scheduled for occupancy in August 2008, to accommodate enrollment growth and reorganization of schools. The school system is continuing to partner with the County to include a park facility to be funded by State and federal grants on the adjoining middle and high school campus.

The Board is continuing to work diligently with the Lee County Board of Commissioners to find ways to fund increases for student enrollment and to fund the continuing need for additional classroom space. Discussions have been held with County officials concerning renovation of the original high school built in 1954 and the need for a new elementary school due to an expanding student population. An architect has been hired to develop a schematic design for the high school restoration and renovation.

The Board continues to use a ten-year facility study as a living document to plan financing for future facility projects.

Overview of the Financial Statements

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

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

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

LEE COUNTY BOARD OF EDUCATION MANAGEMENT'S DISCUSSION AND ANALYSIS

The second set of statements included in the basic financial statements is the *Fund Financial Statements*, which are presented for the Board's governmental funds, proprietary funds, and fiduciary funds. These statements present the governmental funds on the modified accrual basis of accounting, measuring the near term inflows and outflows of financial resources and what is available at year-end to spend in the next fiscal year. The proprietary 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 assets includes all of the Board's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

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

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

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

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

Fund Financial Statements

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

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

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

Lee County Board of Education has three types of funds:

Governmental funds: Most of the Board's basic services are included in the governmental funds, which generally focus on two things – 1) how cash and other assets can readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. As a result of this focus, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the coming year to finance the Board's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of Exhibit 3 and at Exhibit 5, in the form of reconciliations, explains the relationship (or differences) between the government-wide and the fund financial statements. The Board has several governmental funds: the General Fund, the State Public School Fund, the Individual Schools Fund, the Capital Outlay Fund, and the Federal Grants Fund.

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

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 Board's only proprietary fund is an enterprise fund, School Food Service.

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

Fiduciary funds: Assets held by the Board in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds are reported in the fiduciary funds. The Board's only fiduciary fund is an 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 Flexible Benefits Fund, which accounts for the Section 125 plan maintained for medical and dependent care benefits on behalf of the employees of the school system.

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

Financial Analysis of the Board as a Whole

Net assets are an indicator of the fiscal health of the Board. Assets exceeded liabilities by \$87.9 million as of June 30, 2007. The largest component of net assets is invested in capital assets, net of related debt, of \$87.2 million, which comprises 99% of the total net assets.

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

Following is a summary of the Statement of Net Assets:

**Table 1
Condensed Statements of Net Assets
As of June 30, 2007 and 2006**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>6/30/07</u>	<u>6/30/06</u>	<u>6/30/07</u>	<u>6/30/06</u>	<u>6/30/07</u>	<u>6/30/06</u>
Current assets	\$ 6,414,831	\$ 6,166,382	\$ 1,247,026	\$ 1,348,666	\$ 7,661,857	\$ 7,515,048
Capital assets	<u>88,112,472</u>	<u>72,178,130</u>	<u>650,004</u>	<u>751,907</u>	<u>88,762,476</u>	<u>72,930,037</u>
Total assets	<u>94,527,303</u>	<u>78,344,512</u>	<u>1,897,030</u>	<u>2,100,573</u>	<u>96,424,333</u>	<u>80,445,085</u>
Current liabilities	2,589,941	2,391,503	3,926	3,876	2,593,867	2,395,379
Long-term liabilities	<u>4,026,588</u>	<u>3,133,807</u>	<u>81,082</u>	<u>99,370</u>	<u>4,107,670</u>	<u>3,233,177</u>
Total liabilities	<u>6,616,529</u>	<u>5,525,310</u>	<u>85,008</u>	<u>103,246</u>	<u>6,701,537</u>	<u>5,628,556</u>
Invested in capital assets, net of related debt	87,206,902	72,129,510	650,004	751,907	87,856,906	72,881,417
Restricted net assets	556,365	546,007	-	-	556,365	546,007
Unrestricted net assets	<u>147,507</u>	<u>143,685</u>	<u>1,162,018</u>	<u>1,245,420</u>	<u>1,309,525</u>	<u>1,389,105</u>
Total net assets	<u>\$ 87,910,774</u>	<u>\$ 72,819,202</u>	<u>\$ 1,812,022</u>	<u>\$ 1,997,327</u>	<u>\$ 89,722,796</u>	<u>\$ 74,816,529</u>

The net assets of the Board's governmental activities increased from \$72.8 million at June 30, 2006 to \$87.9 million at June 30, 2007. This increase resulted in large part from construction in progress recorded on our capital assets during the year.

The net assets of our business-type activities decreased from \$2.0 million at June 30, 2006 to \$1.8 million at June 30, 2007. This decrease of \$185,305 is the amount of net loss generated by our school food service operations during the 2007 fiscal year.

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

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

Table 2
Condensed Statements of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Years Ended June 30, 2007 and 2006

	Governmental Activities		Business-type Activities		Total Primary Government	
	6/30/07	6/30/06	6/30/07	6/30/06	6/30/07	6/30/06
Revenues:						
Program revenues:						
Charges for services	\$ 146,354	\$ 169,516	\$ 1,286,450	\$ 1,317,207	\$ 1,432,804	\$ 1,486,723
Operating grants and contributions	52,252,186	49,399,802	2,859,708	2,656,593	55,111,894	52,056,395
Capital grants and contributions	16,253,276	585,030	-	179,911	16,253,276	764,941
General revenue:						
Other revenues	<u>32,075,185</u>	<u>15,528,110</u>	<u>50,314</u>	<u>42,628</u>	<u>32,125,499</u>	<u>15,570,738</u>
Total revenues	<u>100,727,001</u>	<u>65,682,458</u>	<u>4,196,472</u>	<u>4,196,339</u>	<u>104,923,473</u>	<u>69,878,797</u>
Expenses:						
Governmental activities:						
Instructional programs	51,066,262	48,857,183	-	-	51,066,262	48,857,183
Supporting services	32,333,522	15,524,447	-	-	32,333,522	15,524,447
Community services	78,751	82,514	-	-	78,751	82,514
Non-programmed charges	69,713	97,236	-	-	69,713	97,236
Interest on long-term debt	721	1,252	-	-	721	1,252
Depreciation	2,082,192	1,994,089	-	-	2,082,192	1,994,089
Business-type activities:						
Food service	<u>-</u>	<u>-</u>	<u>4,381,775</u>	<u>4,174,877</u>	<u>4,381,775</u>	<u>4,174,877</u>
Total expenses	<u>85,635,429</u>	<u>66,556,721</u>	<u>4,381,775</u>	<u>4,174,877</u>	<u>90,017,204</u>	<u>70,731,598</u>
Increase (decrease) in net assets	15,091,572	(874,263)	(185,303)	21,462	14,906,269	(852,801)
Beginning net assets	<u>72,819,202</u>	<u>73,693,465</u>	<u>1,997,327</u>	<u>1,975,865</u>	<u>74,816,529</u>	<u>75,669,330</u>
Ending net assets	<u>\$87,910,774</u>	<u>\$72,819,202</u>	<u>\$ 1,812,024</u>	<u>\$ 1,997,327</u>	<u>\$89,722,798</u>	<u>\$74,816,529</u>

During the year ended June 30, 2007, our governmental activities generated revenues of \$100.7 million compared with total expenses of \$85.6 million, resulting in the aforementioned increase in our net assets for these activities of \$15.1 million. The principal factor contributing to this increase was the increase during the year in our capital grants and contributions of \$16 million, which resulted from construction projects. Our primary sources of revenue were funding from the State of North Carolina, the County of Lee, and the United States government, which respectively comprised 48%, 29%, and 8% of our revenues. As would be expected, the major component of our expenditures was instructional programs, which accounted for 60% of our total expenditures during the most recent fiscal year. Of the remaining 40% of our total expenditures, 38% was attributable to supporting services.

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

Financial Analysis of the Board's Funds

Governmental Funds: The focus of the Board'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 total fund balance for the Board's governmental funds at June 30, 2007 of \$3.8 million remained relatively stable during the current year, increasing \$50,372 compared to last year. This increase resulted primarily from the excess expenditures in the General Fund during the year of \$75,432, offset by excess revenues in the Non Major Funds of \$10,358 and excess revenues of \$68,361 in the Capital Outlay Fund.

Proprietary funds: The Board's business-type fund, the School Food Service Fund, generated a net loss of \$185,303 during the year ended June 30, 2007 compared to a net income of \$21,462 during the prior year, a decrease of \$206,765. The primary factor contributing to this decrease was the decrease in food sales of \$30,757, offset by the increase in total operating expenses of \$238,275.

General Fund Budgetary Highlights

Over the course of the year, the Board revised the budget several times to account for increases in revenue and expenditure expectations. For the year, the Board's expenditures exceeded revenues by \$15.7 million. In October 2006, the Board adopted a balanced budget for fiscal year 2007 that reflected total resources of \$73.6 million, which included an appropriation of \$14.5 million for the General Fund including \$850,000 of designated fund balance and the State Public School Fund appropriation of \$47.3 million. Over the course of the year, the Board revised the budget several times to account for changes in revenue expectations. The budget at year-end reflected resources of \$73.3 million, which included an appropriation of \$16.7 million for the General Fund and \$48.5 million in the State Public School Fund. The primary factors contributing to the variance between the final amended budget and our actual expenditures were restricted revenues that will be expended during subsequent periods and expenditures which were funded through other federal and state sources.

Capital Assets

Capital assets increased by \$15.8 million compared to the previous year. This increase was primarily due to current year additions of \$18.6 million, which includes construction projects of \$16 million, offset by current year depreciation expense of \$2.5 million. The following is a summary of the capital assets, net of depreciation at year-end. Additional information regarding our capital assets can be found in the notes to the basic financial statements.

**Table 3
Summary of Capital Assets
As of June 30, 2007 and 2006**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>6/30/07</u>	<u>6/30/06</u>	<u>6/30/07</u>	<u>6/30/06</u>	<u>6/30/07</u>	<u>6/30/06</u>
Land	\$2,182,060	\$ 2,182,060	\$ -	\$ -	\$2,182,060	\$ 2,182,060
Construction in progress	16,037,746	-	-	-	16,037,746	22,977,557
Buildings and improvements	65,923,131	67,219,780	-	-	65,923,131	67,219,780
Equipment and furniture	745,595	437,555	650,004	751,907	1,395,599	1,189,462
Vehicles	<u>3,223,940</u>	<u>2,338,735</u>	<u>-</u>	<u>-</u>	<u>3,223,940</u>	<u>2,338,735</u>
Total	<u>\$88,112,472</u>	<u>\$72,178,130</u>	<u>\$ 650,004</u>	<u>\$ 751,907</u>	<u>\$88,762,476</u>	<u>\$ 95,907,594</u>

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

Debt Outstanding

During the year, the Board's outstanding debt increased by \$3,904,342 for the year ended June 30, 2007. Increases from compensated absences and additional debt from the installment purchases of maintenance vehicles and school buses were offset by principal payments made on the outstanding debt and payment and payouts for compensated absences used and from the retiring of employees. Additional information regarding our debt can be found in the notes to the basic financial statements.

Economic Factors

The Board anticipates an increased enrollment over the next several years and will need continued increases in classroom space, teachers, and equipment. County funding is a major source of income for the Board; therefore, the County's economic outlook directly affects that of the school district. The County's unemployment rate increased from 5.4% in June of 2006 to 6.0% in June 2007. The County's rate is above the national average of 4.7% and state average of 5.1%. The County has also seen an 8.75% decrease in the total number of building permits.

All of these factors were considered in preparing the Board's budget for the 2007 fiscal year. The Board's budget was created to maintain status quo by cutting expenditures and reducing or eliminating services, while attempting to protect core instructional programs and the personnel associated with them.

Requests for Information

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

Tammy Howington, Chief Finance Officer
Lee County Board of Education
Post Office Box 1010
Sanford, NC 27331-1010

LEE COUNTY BOARD OF EDUCATION
STATEMENT OF NET ASSETS
June 30, 2007

Exhibit 1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 3,885,987	\$ 1,106,350	\$ 4,992,337
Due from other governments	1,661,822	18,499	1,680,321
Receivables (net)	499,889	7,246	507,135
Internal balances	49,226	(49,226)	-
Inventories	317,907	164,157	482,064
Capital assets (Note 2):			
Land, improvements, and construction in progress	18,219,806	-	18,219,806
Other capital assets, net of depreciation	69,892,666	650,004	70,542,670
Total capital assets	<u>88,112,472</u>	<u>650,004</u>	<u>88,762,476</u>
Total assets	<u>94,527,303</u>	<u>1,897,030</u>	<u>96,424,333</u>
Liabilities			
Accounts payable and accrued expenses	883,922	212	884,134
Accrued salaries and benefits payable	1,705,298	3,714	1,709,012
Accrued interest payable	721	-	721
Long-term liabilities:			
Due within one year	3,232,169	26,659	3,258,828
Due in more than one year	<u>794,419</u>	<u>54,423</u>	<u>848,842</u>
Total liabilities	<u>6,616,529</u>	<u>85,008</u>	<u>6,701,537</u>
Net assets			
Invested in capital assets, net of related debt	87,206,902	650,004	87,856,906
Restricted for individual schools	556,365	-	556,365
Unrestricted	<u>147,507</u>	<u>1,162,018</u>	<u>1,309,525</u>
Total net assets	<u>\$ 87,910,774</u>	<u>\$ 1,812,022</u>	<u>\$ 89,722,796</u>

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

LEE COUNTY BOARD OF EDUCATION
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2007

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
Primary government						
Instructional programs:						
Regular	\$ 36,689,817	\$ -	\$ 31,353,805	\$ -	\$ (5,336,012)	\$ -
Special	7,655,370	-	7,212,633	-	(442,737)	-
Co-curricular	1,142,155	-	-	-	(1,142,155)	-
Remediation services	888,118	-	817,444	-	(70,674)	-
Student services	4,139,891	-	3,723,120	-	(416,771)	-
Other	550,911	-	314,538	-	(236,373)	-
Supporting services:						
Pupil	97,117	-	1,040,796	-	943,679	-
Instructional staff	878,832	-	743,324	-	(135,508)	-
Administrative	1,639,820	-	645,729	-	(994,091)	-
School administration	4,168,871	-	3,036,612	-	(1,132,259)	-
Business support	24,978,600	146,354	3,194,754	16,253,276	(5,384,216)	-
Central support	541,414	-	86,956	-	(454,458)	-
Other	28,868	-	401	-	(28,467)	-
Community services	78,751	-	-	-	(78,751)	-
Non-programmed charges	69,713	-	82,074	-	12,361	-
Interest on long-term debt	4,989	-	-	-	(4,989)	-
Unallocated depreciation expense**	2,082,192	-	-	-	(2,082,192)	-
Total governmental activities	85,635,429	146,354	52,252,186	16,253,276	(16,983,613)	-
Business-type activities:						
School food service	4,381,775	1,286,450	2,859,708	-	-	(235,617)
Total primary government	\$ 90,017,204	\$ 1,432,804	\$ 55,111,894	\$ 16,253,276	(16,983,613)	(235,617)
General revenues:						
Unrestricted county appropriations - operating					12,666,167	-
Unrestricted county appropriations - capital					16,808,163	-
Unrestricted State appropriation - capital					518,535	-
Unrestricted state and federal appropriations - operating					1,311,906	-
Investment earnings, unrestricted					177,670	50,314
Miscellaneous, unrestricted					592,744	-
Total general revenues					32,075,185	50,314
Change in net assets					15,091,572	(185,303)
Net assets, beginning					72,819,202	1,997,327
Net assets, ending					\$ 87,910,774	\$ 1,812,024
						\$ 89,722,798

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

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

**LEE COUNTY BOARD OF EDUCATION
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2007**

	Major Funds				Total
	General	State Public School	Capital Outlay	Non-major Funds	Governmental Funds
Assets					
Cash and cash equivalents	\$ 2,850,726	\$ -	\$ 478,896	\$ 556,365	\$ 3,885,987
Due from other governments	-	1,500,946	7,120	153,756	1,661,822
Accounts receivable	499,889	-	-	-	499,889
Due from other funds	49,226	-	-	-	49,226
Inventories	317,907	-	-	-	317,907
Total assets	\$ 3,717,748	\$ 1,500,946	\$ 486,016	\$ 710,121	\$ 6,414,831
Liabilities and fund balances					
Liabilities:					
Accounts payable and accrued liabilities	\$ 883,922	\$ -	\$ -	\$ -	\$ 883,922
Accrued salaries and benefits	50,596	1,500,946	-	153,756	1,705,298
Total liabilities	934,518	1,500,946	-	153,756	2,589,220
Fund balances:					
Reserved for:					
Inventories	317,907	-	-	-	317,907
Encumbrances	293,152	-	-	-	293,152
State statute	549,115	-	7,120	-	556,235
Unreserved, General Fund:					
Designated for subsequent year's programs	581,024	-	-	-	581,024
Designated for subsequent year's expenditures	850,000	-	-	-	850,000
Undesignated	192,032	-	-	-	192,032
Unreserved, reported in:					
Special Revenue Funds	-	-	-	556,365	556,365
Capital Projects Fund	-	-	478,896	-	478,896
Total fund balances	2,783,230	-	486,016	556,365	3,825,611
Total liabilities and fund balances	\$ 3,717,748	\$ 1,500,946	\$ 486,016	\$ 710,121	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	88,112,472
Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds.	(4,027,309)
Net assets of governmental activities	\$ 87,910,774

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

LEE COUNTY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2007

	Major Funds			Non-major Funds	Total Governmental Funds
	General	State Public School	Capital Outlay		
Revenues:					
State of North Carolina	\$ 686,963	\$ 46,920,397	\$ 518,535	\$ -	\$ 48,125,895
Lee County	12,666,167	-	16,808,163	-	29,474,330
U.S. Government	174,371	-	-	5,059,718	5,234,089
Other	1,170,974	-	20,634	938,173	2,129,781
Total revenues	14,698,475	46,920,397	17,347,332	5,997,891	84,964,095
Expenditures:					
Current:					
Instructional programs:					
Regular	4,363,386	24,877,257	-	563,857	29,804,500
Special	451,004	2,941,454	-	2,826,283	6,218,741
Co-curricular	-	-	-	927,815	927,815
Remediation services	6,375	665,727	-	49,350	721,452
Student services	307,356	2,899,727	-	155,905	3,362,988
Other	988,283	7,963,015	-	1,052,726	10,004,024
Supporting services:					
Pupil	-	59,513	-	23,170	82,683
Instructional staff	149,323	430,225	-	168,669	748,217
Administrative	875,843	463,650	-	56,612	1,396,105
School administration	1,102,693	2,446,589	-	-	3,549,282
Business support	5,064,402	2,630,279	-	12,308	7,706,989
Central support	390,888	69,708	-	352	460,948
Other	912,324	1,477,265	-	64,400	2,453,989
Community services	78,751	-	-	-	78,751
Non-programmed charges	83,279	(4,012)	-	86,086	165,353
Debt service:					
Principal retirements	-	-	560,522	-	560,522
Interest and fees	-	-	5,327	-	5,327
Capital outlay:					
Land, buildings, and site improvement	-	-	16,598,897	-	16,598,897
Furnishings and equipment	-	-	469,755	-	469,755
Vehicles and other	-	-	1,061,942	-	1,061,942
Total expenditures	14,773,907	46,920,397	18,696,443	5,987,533	86,378,280
Revenues over (under) expenditures	(75,432)	-	(1,349,111)	10,358	(1,414,185)
Other financing sources (uses):					
Transfers to other funds	-	-	-	-	-
Installment purchase obligations issued	-	-	236,448	-	236,448
Capital lease obligations issued	-	-	1,181,024	-	1,181,024
Total other financing sources (uses)	-	-	1,417,472	-	1,417,472
Net change in fund balance	(75,432)	-	68,361	10,358	3,287
Fund balances:					
Beginning of year	2,811,214	-	417,658	546,007	3,774,879
Increase in reserve for inventories	47,448	-	-	-	47,448
End of year	\$ 2,783,230	\$ -	\$ 486,019	\$ 556,365	\$ 3,825,614

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

LEE COUNTY BOARD OF EDUCATION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2007

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

Net changes in fund balances - total governmental funds	\$ 3,287
Change in fund balance due to change in reserve for inventory	47,448
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 were greater (less) than depreciation in the current period.	(103,404)
Amount of donated assets	16,037,746
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(856,950)
Difference in accrued interest payable and interest expensed on fund statements	(721)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Compensated absences	<u>(35,834)</u>
Total changes in net assets of governmental activities	<u>\$ 15,091,572</u>

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

LEE COUNTY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND AND ANNUALLY BUDGETED MAJOR SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2007

	General Fund			State Public School Fund		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
						Variance with final budget positive (negative)
Revenues:						
State of North Carolina	\$ 608,564	\$ 1,075,282	\$ 686,963	\$ 47,351,163	\$ 48,542,198	\$ 46,920,397
County appropriations	12,666,167	12,666,167	12,666,167	-	-	-
U.S. Government	75,000	203,855	174,371	-	-	-
Other	1,716,859	2,715,225	1,170,974	-	-	-
Total revenues	15,066,590	16,660,529	14,998,475	47,351,163	48,542,198	46,920,397
Expenditures:						
Current:						
Instructional programs	6,186,172	7,321,941	6,116,404	40,183,218	40,682,945	39,347,180
Supporting services	8,687,571	9,150,741	8,495,473	7,167,945	7,863,265	7,577,229
Community services	94,205	94,205	78,751	-	-	-
Nonprogrammed charges	98,642	93,642	83,279	-	(4,012)	(4,012)
Total expenditures	15,066,590	16,660,529	14,773,907	47,351,163	48,542,198	46,920,397
Revenues over (under) expenditures	-	-	(75,432)	-	-	-
Fund balance appropriated	-	-	-	-	-	-
Net change in fund balance	\$ -	\$ -	(75,432)	\$ -	\$ -	\$ -
Fund balances:						
Beginning of year			2,811,214			-
Increase (decrease) in reserve for inventory			47,448			-
End of year			\$ 2,783,230			\$ -

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

LEE COUNTY BOARD OF EDUCATION
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2007

	Enterprise Major Fund School Food Service
Assets	
Current assets:	
Cash and cash equivalents	\$ 1,106,350
Due from other governments	18,499
Receivables (net)	7,246
Inventories	164,157
Total current assets	<u>1,296,252</u>
Noncurrent assets:	
Capital assets:	
Equipment, furniture, and vehicles, net	650,004
Total capital assets	<u>650,004</u>
Total assets	<u>1,946,256</u>
Liabilities	
Current liabilities:	
Accrued salaries and wages payable	3,926
Due to other funds	49,226
Compensated absences	26,659
Total current liabilities	<u>79,811</u>
Noncurrent liabilities:	
Compensated absences	54,423
Total liabilities	<u>134,234</u>
Net assets	
Invested in capital assets	650,004
Unrestricted	<u>1,162,018</u>
Total net assets	<u>\$ 1,812,022</u>

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

LEE COUNTY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2007

	Enterprise Major Fund School Food Service
Operating revenues:	
Food sales	\$ 1,286,450
Operating expenses:	
Business support services:	
Purchase of food	1,449,161
Salaries and benefits	2,090,898
Indirect costs	275,692
Materials and supplies	173,663
Repairs and maintenance	123,660
Depreciation	133,280
Other	135,421
Total operating expenses	4,381,775
Operating income (loss)	(3,095,325)
Nonoperating revenues:	
Federal reimbursements	2,526,481
Federal commodities	233,931
State reimbursements	2,804
Indirect costs not paid	96,492
Interest earned	50,314
Total nonoperating revenues	2,910,022
Change in net assets	(185,303)
Net assets, beginning of year	1,997,327
Net assets, end of year	\$ 1,812,024

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

LEE COUNTY BOARD OF EDUCATION
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2007

	Enterprise Major Fund School Food Service
Cash flows from operating activities:	
Cash received from customers	\$ 1,290,636
Cash paid for goods and services	(1,834,216)
Cash paid to employees for services	(2,109,137)
Net cash provided (used) by operating activities	<u>(2,652,717)</u>
Cash flows from noncapital financing activities:	
Federal reimbursements	2,609,535
Due to other funds	2,804
Net cash provided (used) by noncapital financing activities	<u>2,612,339</u>
Cash flows from investing activities:	
Interest earned on investments	50,314
Acquisition of capital assets	(31,377)
Net increase (decrease) in cash and cash equivalents	(21,441)
Cash and cash equivalents, beginning of year	<u>1,127,791</u>
Cash and cash equivalents, end of year	<u>\$ 1,106,350</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (3,095,325)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	133,280
Donated commodities consumed	233,931
Indirect costs not paid	96,492
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	4,186
(Increase) decrease in inventories	(9,499)
Increase (decrease) in salaries and wages payable	49
Increase (decrease) in compensated absences payable	2,457
Total adjustments	<u>(18,288)</u>
Net cash provided (used) by operating activities	<u>\$ (2,652,717)</u>

NONCASH OPERATING AND NONCAPITAL FINANCING ACTIVITIES:

The School Food Service Fund received donated commodities with a value of \$233,931 during the fiscal year. receipt of these commodities is reflected as a nonoperating revenue on Exhibit 8.

Indirect costs of \$96,492 that would be due to the General Fund were not paid. These unpaid costs are reported nonoperating revenue and an operating expense on Exhibit 8.

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

**LEE COUNTY BOARD OF EDUCATION
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
June 30, 2007**

	<u>Flexible Benefits Fund</u>
Assets	
Cash and cash equivalents	<u>\$ 58,341</u>
Liabilities	
Benefits payable	<u> 58,341</u>
Net assets	
Net assets	<u>\$ -</u>

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

LEE COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Lee County Board of Education (Board) is a Local Education Agency empowered by State law [Chapter 115C of the North Carolina General Statutes] with the responsibility to oversee and control all activities related to public school education in Lee County, North Carolina. The Board receives State, local, and federal government funding and must adhere to the legal requirements of each funding source entity.

B. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities display information about the Board. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the effect of internal activities upon revenues and expenses. Interfund services provided and used are not eliminated in the process of consolidation. These statements distinguish between the *governmental* and *business-type activities* of the Board. Governmental activities generally are financed through intergovernmental revenues and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

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

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities. Operating expenses generally result from producing and delivering goods in connection with the fund's principal ongoing operations. Expenses not meeting this definition are reported as nonoperating expenses.

The Board reports the following major governmental funds:

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

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

**LEE COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2007**

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 Lee County appropriations, restricted sales tax monies, proceeds of Lee County bond proceeds issued for school construction, lottery proceeds and certain federal and State assistance.

The Board reports the following major enterprise fund:

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

The Board reports the following fiduciary fund:

Flexible Benefits Fund. Assets held by the Board in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds are reported in the fiduciary funds. The Lee County Board of Education's only fiduciary fund is an agency fund. Agency Funds are custodial in nature and do not involve the measurement of operating results or have a measurement focus. Agency Funds are used to account for assets the Board holds on behalf of others. The Board maintains one agency fund, the Flexible Benefits Fund, which accounts for the Section 125 plan maintained for medical and dependent care benefits on behalf of the employees of the school system.

C. Measurement Focus and Basis of Accounting

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

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Board considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. These could include federal, State, and county grants, and some charges for services. Expenditures are recorded when the related fund liability is incurred, except for claims and judgments and compensated absences which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Acquisitions under capital leases are reported as other financing sources.

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

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

LEE COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2007

D. Budgetary Data

The Board's budgets are adopted as required by the North Carolina General Statutes. Annual budgets are adopted for all funds, except for the individual schools special revenue funds, as required by the North Carolina General Statutes. No budget is required by State law for individual school funds. All appropriations lapse at the fiscal year-end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds. The superintendent is authorized to transfer appropriations between functions within a fund without limitation and without a report to the governing board. The superintendent may not transfer any amounts between funds or from any contingency appropriation within a fund. Amendments which alter the county appropriation or transfer monies to or from the Capital Projects Fund also require the approval of the Lee County Board of Commissioners. During the year, several amendments to the original budget were necessary. The net effects are as follows:

<u>Fund</u>	<u>Net increase in original budget</u>
General Fund	\$ 1,593,939
Special Revenue Funds:	
State Public School Fund	1,191,035
Federal Grants Fund	579,805
Capital Projects Fund	743,082
Enterprise Funds:	
School Food Service Fund	120,200

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. Encumbrances

The Board is required by state statute to record encumbrances in its budgetary accounting system. Encumbrances include purchase orders, contracts, and other commitments related to unperformed contracts for goods and services and are recorded in the expenditure accounts in order to reserve a portion of the related appropriation. At June 30, when appropriations lapse, encumbrances outstanding, if any, are considered in the subsequent budget when determining fund balance appropriated and charged to appropriations in the ensuing year.

F. 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.

LEE COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2007

State law [G.S. 115C-443] authorizes the Board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; the North Carolina Capital Management Trust (NCCMT), an SEC-registered (2a-7) money market mutual fund; and the North Carolina State Treasurer's Short Term Investment Fund (STIF). The STIF consists of an internal portion and an external portion in which the Board participates. Investments are restricted to those enumerated in G.S. 147-69.1.

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

2. Cash and Cash Equivalents

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

3. Inventories

The inventories of the Board are valued at cost, and the Board uses the first-in, first-out (FIFO) flow assumption in determining cost. The inventories of the Board's General Fund consist of expendable materials and supplies which are recorded as expenditures when purchased. The General Fund inventories do not reflect current appropriable resources and, thus, an equivalent portion of fund balance is reserved.

Proprietary fund inventories consist of food and supplies and are recorded as expenses when consumed.

4. Capital Assets

The Board's capital assets are recorded at original cost. Donated assets are listed at their estimated fair value at the date of donation or forfeiture. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. Certain items acquired before July 1, 1990 are recorded at an estimated original historical cost. The total of these estimates is not considered large enough that any errors would be material when capital assets are considered as a whole.

For capital assets utilized in governmental 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, while for capital assets utilized in business-type activities, the Board's policy is 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
Equipment and furniture	3-10
Vehicles	6

**LEE COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2007**

Depreciation for building and equipment that serve multiple purposes cannot be allocated ratably and is therefore reported as "unallocated depreciation" on the statement of activities. Land and construction in progress are not being depreciated.

5. Long-Term Obligations

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

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, 2007 is recorded in the government-wide and proprietary fund financial statements on a FIFO basis. An estimate has been made based on prior years' records of the current portion of compensated absences.

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

7. Net Assets/Fund Balances

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

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

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

The governmental fund types classify fund balances as follows:

Reserved:

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

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

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

LEE COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2007

Unreserved:

Designated for subsequent year's programs - unexpended funds available at year end, which are held for specific programs of the Board.

Designated for subsequent year's expenditures - portion of total fund balance available for appropriation which has been designated for the adopted 2007-2008 budget ordinance.

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

8. Reconciliation of Government-Wide and Fund Financial Statements

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

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

<u>Description</u>	<u>Amount</u>
Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column)	\$121,322,011
Less accumulated depreciation	<u>(33,209,539)</u>
Net capital assets	88,112,472
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:	
Accrued interest	(721)
Lease and installment financing	(905,570)
Compensated absences	<u>(3,121,018)</u>
Total adjustment	<u>\$ 84,085,163</u>

LEE COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2007

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

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

<u>Description</u>	<u>Amount</u>
Capital outlay expenditures recorded in the fund statements but capitalized as assets in the statement of activities	\$ 18,308,970
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	(2,374,628)
New debt issued during the year is recorded as a source of funds on the fund Statements; it has no effect on the statement of activities.	(1,406,549)
Principal payments on debt owed are recorded as a use of funds on the fund statements but affect only the statement of net assets in the government-wide statements; including accrued interest	548,878
Compensated absences are accrued in the government-wide statements but not in the fund statements because they do not use current resources	(35,834)
Revenues reported in the statement of activities that do not provide current resources are not recorded as revenues in the fund statements: Adjustment due to the use of the consumption method of recording inventory in the government-wide statements	<u>47,448</u>
Total adjustment	<u>\$ 15,088,285</u>

NOTE 2 - DETAIL NOTES ON ALL FUNDS

A. Assets

1. Deposits

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

LEE COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2007

At June 30, 2007, the Board had deposits with banks and savings and loans with a carrying amount of \$3,071,559 and none with the State Treasurer. The bank balances with the financial institutions and the State Treasurer were \$3,212,851 and \$377,357, respectively. Of these balances, \$100,000 was covered by federal depository insurance and \$5,490,208 was covered by collateral held by authorized escrow agents in the name of the State Treasurer.

2. Investments

At June 30, 2007, the Board of Education had \$1,979,119 invested with the State Treasurer in the Short Term Investment Fund (STIF). The STIF is unrated and had a weighted average maturity of 1.6 years at June 30, 2007.

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

Credit Risk. The STIF is unrated and is authorized under NC General Statute 147-69.1. The State Treasurer's STIF is invested in highly liquid fixed income securities consisting primarily of short to intermediate treasuries and agencies, and money market instruments.

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

3. Accounts Receivable

Receivables at the government-wide level at June 30, 2007 were as follows:

	Due from other funds (Internal Balances)	Due from other governments	Other	Total
Governmental activities:				
General Fund	\$ 49,226	\$ -	\$ 499,889	\$ 549,115
Other governmental activities	-	1,661,822	-	1,661,822
Total	<u>\$ 49,226</u>	<u>\$1,661,822</u>	<u>\$ 499,889</u>	<u>\$ 2,210,937</u>
Business-type activities:				
School Food Service	<u>\$ (49,226)</u>	<u>\$ 18,499</u>	<u>\$ 7,246</u>	<u>\$ (37,972)</u>

Due from other governments consists of the following:

Governmental activities:		
State Public School Fund	1,500,946	Operating funds from DPI
Capital Outlay Fund	7,120	Sales tax refund
Federal Grants Fund	153,756	Federal grant funds
	<u>\$1,661,822</u>	
Business-type activities:		
School Food Service	<u>\$ 18,500</u>	USDA reimbursement

LEE COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2007

4. Capital Assets

Capital asset activity for the year ended June 30, 2007 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	\$ 2,182,060	\$ -	\$ -	\$ 2,182,060
Construction in progress	-	16,037,746	-	16,037,746
Total capital assets not being depreciated	<u>2,182,060</u>	<u>16,037,746</u>	<u>-</u>	<u>18,219,806</u>
Capital assets being depreciated:				
Buildings and improvements	93,492,120	561,151	-	94,053,271
Equipment and furniture	1,791,028	469,755	20,000	2,240,783
Vehicles	<u>5,827,326</u>	<u>1,240,318</u>	<u>259,493</u>	<u>6,808,151</u>
Total capital assets being depreciated	<u>101,110,474</u>	<u>2,271,224</u>	<u>279,493</u>	<u>103,102,205</u>
Less accumulated depreciation for:				
Buildings and improvements	\$26,272,340	\$ 1,857,800	\$ -	\$ 28,130,140
Equipment and furniture	1,353,473	161,715	20,000	1,495,188
Vehicles	<u>3,488,591</u>	<u>355,113</u>	<u>259,493</u>	<u>3,584,211</u>
Total accumulated depreciation	<u>31,114,404</u>	<u>2,374,628</u>	<u>279,493</u>	<u>33,209,539</u>
Total capital assets being depreciated, net	<u>69,996,070</u>			<u>69,892,666</u>
Governmental activity capital assets, net	<u>\$72,178,130</u>			<u>\$ 88,112,472</u>
Business-type activities:				
School Food Service Fund:				
Capital assets being depreciated:				
Equipment and furniture	\$ 2,218,661	31,377	-	\$ 2,250,038
Vehicles	<u>32,483</u>	<u>-</u>	<u>-</u>	<u>32,483</u>
Total capital assets being depreciated	<u>2,251,144</u>	<u>31,377</u>	<u>-</u>	<u>2,282,521</u>
Less accumulated depreciation for:				
Equipment and furniture	1,466,754	133,280	-	1,600,034
Vehicles	<u>32,483</u>	<u>-</u>	<u>-</u>	<u>32,483</u>
Total accumulated depreciation	<u>1,499,237</u>	<u>133,280</u>	<u>-</u>	<u>1,632,517</u>
School Food Service capital assets, net	<u>\$ 751,907</u>			<u>\$ 650,004</u>

**LEE COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2007**

Depreciation was charged to governmental functions as follows:

Unallocated depreciation	\$ 2,082,192
Business support services	<u>292,436</u>
Total	<u>\$ 2,374,628</u>

B. Liabilities

1. Pension Plan Obligations

a. Teachers' and State Employees' Retirement System

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

Funding Policy. Plan members are required to contribute six percent of their annual covered salary and the Board is required to contribute at an actuarially determined rate. The current rate is 7.14% of annual covered payroll. The contribution requirements of plan members and Lee County Board of Education are established and may be amended by the North Carolina General Assembly. The Board's contributions to TSERS for the years ended June 30, 2007, 2006, and 2005 were \$3,227,582, \$2,851,042, and \$2,315,825, respectively, equal to the required contributions for each year.

b. Other Post-Employment Benefits

The post-employment healthcare benefits are provided through multiple-employer cost-sharing plans administered by the State. The Board makes monthly contributions to the State for these benefits. Health care benefits are available to retirees of the Teachers' and State Employees' Retirement System (System) who have at least five years of contributing membership in the System. These benefits are provided through the State's Comprehensive Major Medical Plan. Once retirees become eligible for Medicare coverage, they must elect to participate in Part A and Part B coverage to maintain the level of coverage provided prior to retirement. In addition, persons who became surviving spouses of retirees prior to October 1, 1986, receive the same coverage as retirees at the State's expense.

Contributions are determined as a percentage of covered monthly payroll. Annually, the State sets monthly contribution rates for post-employment health care benefits, death benefits, and disability benefits, which are the same for all boards of education across the State. For the fiscal year ended June 30, 2007, the Board made contributions to the State for post-employment health care benefits of \$1,717,761, these contributions represented 3.80% of covered payroll.

2. Other Employee Benefits

In addition to providing pension and post employment healthcare benefits, the Board provides disability benefits and death benefits, in accordance with State statutes, to certain employees. Death benefits are provided through the Benefit Plan for members of the Teachers' and State Employees' Retirement System (Death Benefit Plan), a multiple-employer State-administered cost-sharing plan funded on a one-

LEE COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2007

year term cost basis. Employees who die in active service after one year of contributing membership service in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's highest 12 months salary in a row during the 24 months prior to his/her death, with a minimum benefit of \$25,000 and a maximum of \$50,000.

Short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (Disability Income Plan), a multiple-employer State-administered cost-sharing plan, which also is funded on a one-year term cost basis. Long-term disability benefits are payable from the Disability Income Plan after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled.

All short-term disability benefit payments are made by various State-administered plans. The Board has no liability beyond payment of monthly contributions except for short-term disability benefits, which are paid by the Board during the first six months of the short-term period.

3. Accounts Payable

Accounts payable as of June 30, 2007 are as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Total</u>
Governmental activities:			
General	\$ 883,922	\$ 50,596	\$ 934,518
Other governmental	-	1,654,702	1,654,702
Total governmental activities	<u>\$ 883,922</u>	<u>\$ 1,705,298</u>	<u>\$ 2,589,220</u>
Business activities:			
School Food Service	<u>\$ 212</u>	<u>\$ 3,714</u>	<u>\$ 3,926</u>

4. Risk Management

The Board is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board participates in the North Carolina School Boards Trust (the Trust), a member funded risk management program administered by the North Carolina School Boards Association. Through the Trust, the Board maintains general liability and errors and omissions coverage of \$1 million per claim, and workers' compensation coverage up to the statutory limits for employees to the extent they are paid from Federal and local funds. The State of North Carolina provides workers' compensation for employees to the extent they are paid from State funds. The Trust has an annual aggregate limit for general liability of \$2,000,000, and \$1,400,000 for errors and omissions. The Trust is reinsured through commercial companies for losses in excess of \$100,000 per claim for errors and omissions and general liability coverage, and for losses in excess of \$275,000 per claim for workers' compensation coverage. The Board also participates in the

Public School Insurance Fund (the Fund), a voluntary, self-insured risk control and risk financing fund administered by the North Carolina Department of Public Instruction, insuring the tangible property assets of the Board. The Fund provides coverage up to \$10 million per occurrence and \$20 million in aggregate annually. Excess reinsurance is purchased through commercial insurers, who participate in property losses in excess of the Fund's self-insured retention of \$10 million. A total limit of \$100 million per occurrence is purchased for covered catastrophic events, \$400 million maximum per occurrence for any one flood or earthquake.

LEE COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2007

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

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

5. Construction and Other Significant Commitments

a. Construction commitments

The Board has two construction projects outstanding as of June 30, 2007. The projects are for general construction of a new elementary school and renovation projects. At year-end, the commitments with the contractors for construction are as follows:

<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining commitment</u>
School construction	<u>\$ 16,037,746</u>	<u>\$10,313,853</u>

b. Operating Leases

Lee County Board of Education is obligated under various noncancellable operating leases for computer equipment and mobile units. The future rental payments under these lease agreements are as follows:

<u>June 30</u>	
2007	\$ 84,765
2008	11,418
2009	3,214
	<u>\$ 99,397</u>

Rental expenditures during the fiscal year ended June 30, 2007 were \$165,537.

6. Contingent Liabilities

At June 30, 2007, the Board was a defendant to various lawsuits. In the opinion of the Board's management and the Boards' attorneys, the ultimate effect of these legal matters will not have a material adverse effect on the Board's financial position.

7. Long-Term Obligations

a. Capital Leases

As authorized in State law [G.S. 115C-528(a)], the Board has entered into lease agreements to lease vehicles and telephone system. These leasing arrangements were made for terms of 48, 36 and 60 months. At the conclusion of the lease terms, ownership is transferred to the Board. The lease agreements qualify as capital leases for accounting purposes and, therefore, the obligations have been recorded at the present value of future minimum lease payments as of the date of inception. The debt retirement each year is not considered material and is therefore included in supporting services expenditures in the financial statements.

LEE COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2007

At June 30, 2007, the assets recorded under the capital leases, net of accumulated depreciation of \$35,759, amounted to \$237,509. The following is a schedule of future minimum lease payments and the net present value of the minimum lease payments as of June 30, 2007:

<u>Year Ending June 30</u>	<u>General Long-Term Debt</u>
2007	\$ 62,507
2008	44,699
2009	44,699
2010	44,699
2011 and after	29,800
Total minimum lease payments	226,404
Less: amount representing interest	<u>25,542</u>
Present value of the minimum lease payments	<u>\$ 200,862</u>

b. Installment Purchase

The Board is authorized to finance the purchase of school buses under G.S. 115C-528(a). Session law 2003-284, section 7.25 authorized the State Board of Education to allot monies for the payments on new financing contracts entered into pursuant to G.S. 115C-528. The State has accepted the bid to purchase buses through special third party financing arrangements by DaimlerChrysler Services and Carlyle Capital Markets, Inc. During 2007 the Board entered into installment purchase contracts to finance the purchase of school buses. The financing contract requires only principal payments at the beginning of each contract year.

The future minimum payments of the installment purchases as of June 30, 2007 are as follows:

<u>Year Ending June 30:</u>	<u>Governmental Activities Principal</u>
2007	<u>\$ 704,708</u>

c. Long-Term Obligation Activity

The following is a summary of changes in the Board's long-term obligations for the fiscal year ended June 30, 2007:

	<u>July 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2007</u>	<u>Current portion</u>
Governmental activities:					
Capital leases	\$ 6,401	\$ 236,448	\$ 41,987	\$ 200,862	\$ 23,400
Installment purchases	42,219	1,181,024	518,535	704,708	704,708
Compensated absences	<u>3,085,187</u>	<u>2,472,486</u>	<u>2,436,655</u>	<u>3,121,018</u>	<u>2,464,954</u>
Total	<u>\$3,133,807</u>	<u>\$3,889,958</u>	<u>\$2,997,177</u>	<u>\$4,026,588</u>	<u>\$3,193,062</u>
Business-type activities:					
Compensated absences	<u>\$ 99,370</u>	<u>\$ 14,384</u>	<u>\$ 32,672</u>	<u>\$ 81,082</u>	<u>\$ 26,659</u>

LEE COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2007

The Board entered into three capital lease agreements for two vehicles and a telephone system in the amount of \$20,150, \$20,600, and \$195,698 for the fiscal year ended June 30, 2007. The increase of \$1,181,024 represents installment financing for school buses.

Compensated absences of the governmental activities are expected to be liquidated with revenues of the General Fund.

8. Interfund Balances and Activity

The composition of interfund balances as of June 30, 2007 is as follows:

<u>Receivable</u>	<u>Payable</u>	<u>Amount</u>
General Fund	School Food Service Fund	\$ 49,226

The above amount represents \$49,226 of indirect cost expense owed to the General Fund by the School Food Service Fund and is expected to be paid within one year.

NOTE 3 - SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

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

NOTE 4 – AGENCY FUND

Changes in the Board's Agency Fund for the year ended June 30, 2007 are as follows:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2007</u>
Employee Flexible Spending Account				
Assets:				
Cash and cash equivalents	\$ 45,825	\$179,493	\$166,977	\$ 58,341
Liabilities:				
Accounts payable and	\$ 45,825	\$179,493	\$166,977	\$ 58,341

LEE COUNTY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
GENERAL FUND
For the Fiscal Year Ended June 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
State of North Carolina:			
Textbooks	\$ -	\$ 215,530	-
Smart Start	-	97,389	-
More at Four	-	264,044	-
School Nurse Funding Initiative	-	100,000	-
SIPS II Reading/Writing Grant	-	10,000	-
Total State of North Carolina	<u>1,075,282</u>	<u>686,963</u>	<u>(388,319)</u>
Lee County appropriations	<u>12,666,167</u>	<u>12,666,167</u>	<u>-</u>
U.S. Government:			
COPS	-	80,117	-
JROTC	-	94,254	-
Total U.S. Government	<u>203,855</u>	<u>174,371</u>	<u>(29,484)</u>
Other:			
Tuition and fees	-	48,788	-
Medicaid reimbursements	-	67,561	-
ABC revenues	-	12,500	12,500
Contributions and donations	-	56,624	-
Fines and forfeitures	-	362,382	-
Interest earned on investments	-	157,036	-
Rental of school property	-	30,005	-
Indirect costs allocated	-	274,840	-
Insurance Settlement	-	4,894	-
Miscellaneous	-	156,344	-
Total other	<u>2,715,225</u>	<u>1,170,974</u>	<u>(1,544,251)</u>
Total revenues	<u>16,660,529</u>	<u>14,698,475</u>	<u>(1,962,054)</u>
Expenditures:			
Instructional programs:			
Regular	-	4,363,386	-
Special	-	451,004	-
Remediation Services	-	6,375	-
Student services	-	307,356	-
Other	-	988,283	-
Total instructional programs	<u>7,321,941</u>	<u>6,116,404</u>	<u>1,205,537</u>
Supporting services:			
Instructional staff	-	149,323	-
Administrative	-	875,843	-
School administration	-	1,102,693	-
Business support	-	5,064,402	-
Central support	-	390,888	-
Other	-	912,324	-
Total supporting services	<u>9,150,741</u>	<u>8,495,473</u>	<u>655,268</u>

(Continued)

LEE COUNTY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
GENERAL FUND
For the Fiscal Year Ended June 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures: (Continued)			
Community services:			
Regular	\$ -	\$ 67,006	\$ -
Other	-	11,745	-
Total community services	<u>94,205</u>	<u>78,751</u>	<u>15,454</u>
Nonprogrammed charges	<u>93,642</u>	<u>83,279</u>	<u>10,363</u>
Total expenditures	<u>16,660,529</u>	<u>14,773,907</u>	<u>1,886,622</u>
Revenues over (under) expenditures	<u>-</u>	<u>(75,432)</u>	<u>(75,432)</u>
Net change in fund balance	<u>\$ -</u>	<u>(75,432)</u>	<u>\$ (75,432)</u>
Fund balance:			
Beginning of year		2,811,214	
Increase (decrease) in reserve for inventory		<u>47,448</u>	
End of year		<u>\$ 2,783,230</u>	

LEE COUNTY BOARD OF EDUCATION
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2007

	Individual Schools	Federal Grant Funds	Totals
Assets			
Cash and cash equivalents	\$ 556,365	\$ -	\$ 556,365
Due from other governments	<u>-</u>	<u>153,756</u>	<u>153,756</u>
Total assets	<u>\$ 556,365</u>	<u>\$ 153,756</u>	<u>\$ 710,121</u>
Liabilities			
Accrued salaries and wages payable	\$ -	\$ 153,756	\$ 153,756
Fund balances			
Fund balance - undesignated	<u>556,365</u>	<u>-</u>	<u>556,365</u>
Total liabilities and fund balances	<u>\$ 556,365</u>	<u>\$ 153,756</u>	<u>\$ 710,121</u>

LEE COUNTY BOARD OF EDUCATION
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2007

	Individual Schools	Federal Grants Fund	Totals
Revenues:			
U.S. Government	\$ -	\$ 5,059,718	\$ 5,059,718
Other	<u>938,173</u>	<u>-</u>	<u>938,173</u>
Total revenues	<u>938,173</u>	<u>5,059,718</u>	<u>5,997,891</u>
Expenditures:			
Instructional programs:			
Regular	-	563,857	563,857
Special	-	2,826,283	2,826,283
Co-curricular	927,815	-	927,815
Remediation services	-	49,350	49,350
Student services	-	155,905	155,905
Other	-	1,052,726	1,052,726
Total instructional programs	<u>927,815</u>	<u>4,648,121</u>	<u>5,575,936</u>
Supporting services:			
Pupil support	-	23,170	23,170
Instructional staff	-	168,669	168,669
Administrative	-	56,612	56,612
Business support	-	12,308	12,308
Central support	-	352	352
Other	-	64,400	64,400
Total supporting services	<u>-</u>	<u>325,511</u>	<u>325,511</u>
Nonprogrammed charges	<u>-</u>	<u>86,086</u>	<u>86,086</u>
Total expenditures	<u>927,815</u>	<u>5,059,718</u>	<u>5,987,533</u>
Net change in fund balance	10,358	-	10,358
Fund balances:			
Beginning of year	<u>546,007</u>	<u>-</u>	<u>546,007</u>
End of year	<u>\$ 556,365</u>	<u>\$ -</u>	<u>\$ 556,365</u>

LEE COUNTY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
INDIVIDUAL SCHOOLS
For the Fiscal Year Ended June 30, 2007

	Elementary Schools	Middle Schools	High Schools	Special Schools	Total
Revenues:					
General	\$ 68,533	\$ 32,923	\$ 77,242	\$ 1,695	\$ 180,393
Athletics	-	30,328	228,226	-	258,554
Fundraising (net)	30,435	18,104	27,478	(2,580)	73,437
Clubs, classes, and organizations	-	12,960	86,188	-	99,148
Contributions and grants	<u>144,809</u>	<u>32,401</u>	<u>95,795</u>	<u>53,636</u>	<u>326,641</u>
Total revenues	<u>243,777</u>	<u>126,716</u>	<u>514,929</u>	<u>52,751</u>	<u>938,173</u>
Expenditures:					
Instructional programs:					
General	120,232	46,136	87,678	1,945	255,991
Athletics	-	35,129	218,220	-	253,349
Clubs, classes, and organizations	-	12,983	85,061	-	98,044
Contributions and grants	<u>135,889</u>	<u>31,153</u>	<u>107,844</u>	<u>45,545</u>	<u>320,431</u>
Total expenditures	<u>256,121</u>	<u>125,401</u>	<u>498,803</u>	<u>47,490</u>	<u>927,815</u>
Net change in fund balance	(12,344)	1,315	16,126	5,261	10,358
Fund balances, beginning of year	<u>170,159</u>	<u>119,637</u>	<u>214,654</u>	<u>41,557</u>	<u>546,007</u>
Fund balances, end of year	<u>\$ 157,815</u>	<u>\$ 120,952</u>	<u>\$ 230,780</u>	<u>\$ 46,818</u>	<u>\$ 556,365</u>

LEE COUNTY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
FEDERAL GRANTS FUND
For the Fiscal Year Ended June 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
U.S. Government	<u>\$ 6,594,655</u>	<u>\$ 5,059,718</u>	<u>\$ (1,534,937)</u>
Expenditures:			
Instructional programs:			
Regular	865,603	563,857	-
Special	3,522,089	2,826,283	-
Remediation services	70,179	49,350	-
Student services	180,413	155,905	-
Other	<u>1,396,084</u>	<u>1,052,726</u>	<u>-</u>
Total instructional programs	<u>6,034,368</u>	<u>4,648,121</u>	<u>1,386,247</u>
Supporting services:			
Pupil support	33,444	23,170	-
Instructional staff	203,750	168,669	-
Administrative	59,631	56,612	-
Business support	25,428	12,308	-
Central support	8,660	352	-
Other	<u>105,151</u>	<u>64,400</u>	<u>-</u>
Total supporting services	<u>436,064</u>	<u>325,511</u>	<u>110,553</u>
Nonprogrammed charges	<u>124,223</u>	<u>86,086</u>	<u>38,137</u>
Total expenditures	<u>6,594,655</u>	<u>5,059,718</u>	<u>1,534,937</u>
Net change in fund balance	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balance:			
Beginning of year		<u>-</u>	
End of year		<u>\$ -</u>	

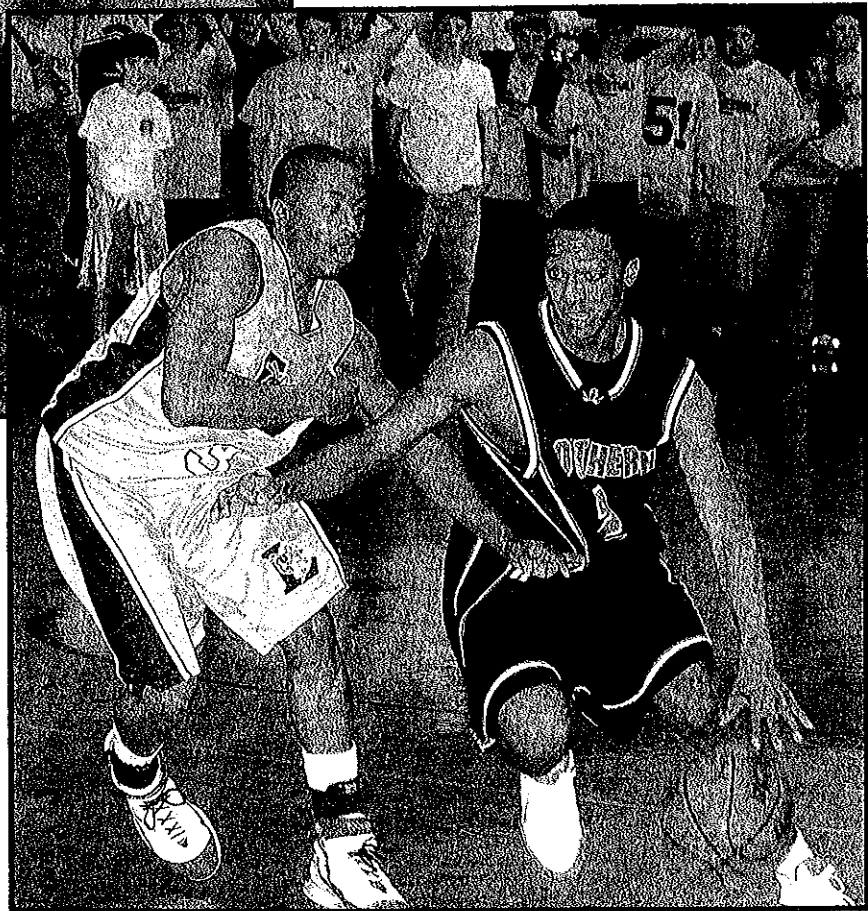
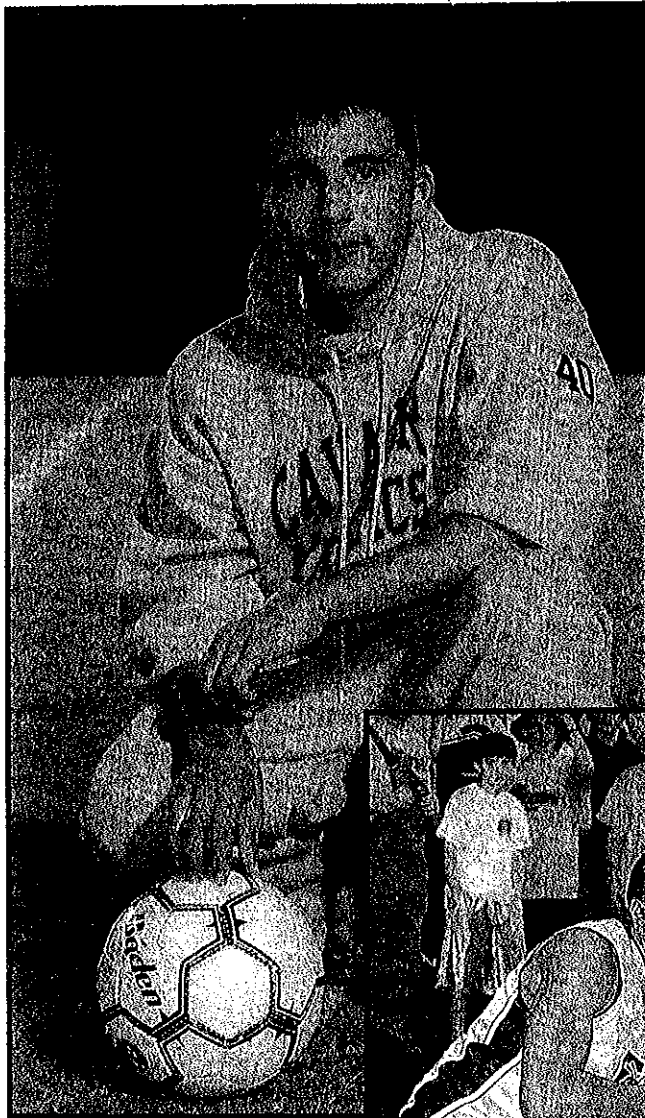
LEE COUNTY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
CAPITAL OUTLAY FUND
For the Fiscal Year Ended June 30, 2007

	Budget	Actual	Variance Positive (Negative)
Revenues:			
State of North Carolina:			
State appropriations - buses	\$ 518,535	\$ 518,535	\$ -
Total State of North Carolina	518,535	518,535	-
Lee County appropriations	16,808,163	16,808,163	-
Other:			
Interest earned on investments		20,634	-
Total other	20,608	20,634	26
Total revenues	17,347,306	17,347,332	26
Expenditures:			
Capital outlay:			
Land, buildings, and site improvement	16,831,198	16,598,897	-
Furnishings and equipment	166,761	469,755	-
Vehicles and other	1,200,970	1,061,942	-
Total expenditures	18,198,929	18,130,594	68,335
Debt service:			
Principal retirements	560,522	560,522	-
Interest and fees	5,327	5,327	-
Total debt service	565,849	565,849	-
Total expenditures	18,764,778	18,696,443	68,335
Revenues over (under) expenditures	(1,417,472)	(1,349,111)	68,361
Other financing sources (uses):			
Installment purchase obligations issued	236,448	236,448	-
Capital lease obligations issued	1,181,024	1,181,024	-
Fund balance appropriated	-	-	-
Net change in fund balance	\$ -	68,361	\$ 1,485,833
Fund balance:			
Beginning of year		417,658	
End of year		\$ 486,019	

LEE COUNTY BOARD OF EDUCATION
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
SCHOOL FOOD SERVICE FUND
For the Fiscal Year Ended June 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Operating revenues:			
Food sales	\$ 1,248,600	\$ 1,244,109	\$ (4,491)
Other	<u>38,500</u>	<u>42,341</u>	<u>3,841</u>
Total operating revenues	<u>1,287,100</u>	<u>1,286,450</u>	<u>(650)</u>
Operating expenditures:			
Business support services:			
Purchase of food	-	1,458,660	-
Salaries and benefits	-	2,109,186	-
Indirect costs	-	275,692	-
Materials and supplies	-	173,662	-
Repairs and maintenance	-	123,660	-
Other	-	<u>135,420</u>	-
Total operating expenditures	<u>4,503,000</u>	<u>4,276,280</u>	<u>226,720</u>
Operating income (loss)	<u>(3,215,900)</u>	<u>(2,989,830)</u>	<u>226,070</u>
Nonoperating revenues:			
Federal reimbursements	2,523,000	2,526,481	3,481
Federal commodities	234,000	233,931	(69)
State reimbursements	3,000	2,804	(196)
Indirect costs not paid	99,000	96,492	(2,508)
Interest earned	<u>51,000</u>	<u>50,314</u>	<u>(686)</u>
Total nonoperating revenues	<u>2,910,000</u>	<u>2,910,022</u>	<u>22</u>
Revenues over (under) expenditures	<u>(305,900)</u>	<u>(79,810)</u>	<u>226,090</u>
Fund balance appropriated	<u>305,900</u>	<u>-</u>	<u>(305,900)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (79,810)</u>	<u>\$ (79,810)</u>
Reconciliation of modified accrual to full accrual basis:			
Revenues and fund balance			
appropriated over (under) expenditures		\$ (79,810)	
Reconciling items:			
Depreciation		(133,280)	
(Increase) decrease in compensated absences payable		18,288	
Increase (decrease) in inventory		<u>9,499</u>	
Change in net assets		<u>\$ (185,303)</u>	

Statistical Section



STATISTICAL SECTION

Financial Trends

These schedules contain trend information to help the reader understand how the district's financial performance and well being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the district's most significant local revenue source, the property tax.

Debt Capacity

These schedules present information to help the reader assess the affordability of the district's current levels of outstanding debt and the district's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the district's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the district's financial report relates to the services the district provides and the activities it performs.

LEE COUNTY SCHOOLS
NET ASSETS BY COMPONENT
Last Five Fiscal Years
(accrual basis of accounting)

	Fiscal Year				
	2007	2006	2005	2004	2003
Governmental activities					
Invested in capital assets	\$ 87,206,902	\$ 72,129,510	\$ 72,484,255	\$ 50,639,280	\$ 51,439,751
Restricted	556,365	546,007	465,513	485,506	456,460
Unrestricted	147,507	143,685	743,697	241,355	691,563
Total governmental activities net assets	<u>\$ 87,910,774</u>	<u>\$ 72,819,202</u>	<u>\$ 73,693,465</u>	<u>\$ 51,366,141</u>	<u>\$ 52,587,774</u>
Business-type activities					
Invested in capital assets	\$ 650,004	\$ 751,907	\$ 716,521	\$ 790,336	\$ 920,388
Unrestricted	1,162,018	1,245,420	1,259,344	1,266,889	1,076,123
Total business-type activities net assets	<u>\$ 1,812,022</u>	<u>\$ 1,997,327</u>	<u>\$ 1,975,865</u>	<u>\$ 2,057,225</u>	<u>\$ 1,996,511</u>
Government-wide					
Invested in capital assets	\$ 87,856,906	\$ 72,881,417	\$ 73,200,776	\$ 51,429,616	\$ 52,360,139
Restricted	556,365	546,007	465,513	485,506	456,460
Unrestricted	1,309,525	1,389,105	2,003,041	1,508,244	1,767,686
Total government-wide net assets	<u>\$ 89,722,796</u>	<u>\$ 74,816,529</u>	<u>\$ 75,669,330</u>	<u>\$ 53,423,366</u>	<u>\$ 54,584,285</u>

Note: Lee County Schools began to report accrual information when it implemented GASB Statement 34 in 2003.

LEE COUNTY SCHOOLS
EXPENSES, PROGRAM REVENUES AND NET (EXPENSE)
 Last Five Fiscal Years
 (accrual basis of accounting)

	Fiscal Year				
	2007	2006	2005	2004	2003
Expenses					
Governmental activities:					
Instructional programs	\$ 51,066,262	\$ 48,857,183	\$ 46,135,412	\$ 43,728,609	\$ 42,107,772
Support services	32,333,522	15,524,447	14,109,071	13,722,341	13,657,593
Unallocated depreciation expense	2,082,192	1,994,089	1,549,697	1,448,206	1,366,544
Other	153,453	181,002	128,089	141,459	99,612
Total governmental activities expenses	<u>85,635,429</u>	<u>66,556,721</u>	<u>61,922,269</u>	<u>59,040,615</u>	<u>57,231,521</u>
Business-type activities:					
Child nutrition	4,381,775	4,174,877	3,959,035	3,588,344	3,447,142
Total government-wide expenses	<u>90,017,204</u>	<u>70,731,598</u>	<u>65,881,304</u>	<u>62,628,959</u>	<u>60,678,663</u>
Program Revenues					
Governmental activities:					
Charges for services	146,354	169,516	143,235	167,843	98,679
Operating grants and contributions	52,252,186	49,399,802	48,032,707	45,264,296	44,852,918
Capital grants and contributions	16,253,276	585,030	644,135	683,163	1,669,094
Total governmental activities program revenues	<u>68,651,816</u>	<u>50,154,348</u>	<u>48,820,077</u>	<u>46,115,302</u>	<u>46,620,691</u>
Business-type activities:					
Charges for services	1,286,450	1,317,207	1,355,363	1,312,672	1,367,763
Operating grants and contributions	2,859,708	2,836,504	2,494,529	2,320,693	2,113,441
Total business-type activities program revenues	<u>4,146,158</u>	<u>4,153,711</u>	<u>3,849,892</u>	<u>3,633,365</u>	<u>3,481,204</u>
Total government-wide program revenues	<u>72,797,974</u>	<u>54,308,059</u>	<u>52,669,969</u>	<u>49,748,667</u>	<u>50,101,895</u>
Net (Expense)	<u>\$ (17,219,230)</u>	<u>\$ (16,423,539)</u>	<u>\$ (13,211,335)</u>	<u>\$ (12,880,292)</u>	<u>\$ (10,576,768)</u>

Note: Lee County Schools began to report accrual information when it implemented GASB Statement 34 in 2003.

LEE COUNTY SCHOOLS
GENERAL REVENUES AND TOTAL CHANGE IN NET ASSETS
 Last Five Fiscal Years
 (accrual basis of accounting)

	Fiscal Year			
	2007	2006	2005	2003
Net (Expense)				
Total government-wide net (expense)	\$ (17,219,230)	\$ (16,423,539)	\$ (13,211,335)	\$ (10,576,768)
General revenues and transfers:				
Governmental activities:				
State of North Carolina	518,535	644,189	256,158	338,066
Lee County - unrestricted	12,666,167	12,171,984	9,871,984	8,705,974
Lee County - restricted construction proceeds	16,808,163	743,000	743,000	397,800
Other revenues	2,082,320	1,968,937	1,597,375	877,952
Transfers in (out)	-	-	-	-
Total governmental activities general revenues and transfers	32,075,185	15,528,110	12,468,517	10,319,792
Business-type activities:				
Other revenues	50,314	42,628	27,783	20,071
Transfers in (out)	-	-	-	-
Total business-type activities general revenues and transfers	50,314	42,628	27,783	20,071
Total government-wide general revenues and transfers	32,125,499	15,570,738	12,496,300	10,339,863
Change in Net Assets	\$ 14,906,269	\$ (852,801)	\$ (715,035)	\$ (236,905)

Notes: Lee County Schools began to report accrual information when it implemented GASB Statement 34 in 2003.
 State of North Carolina revenues for fiscal year 2004 include state funding for a construction project.

LEE COUNTY SCHOOLS
FUND BALANCES - GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year									
	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
General Fund										
Reserved	\$1,160,174	\$ 790,428	\$1,148,331	\$ 815,196	\$ 546,363	\$ 369,047	\$ 424,484	\$ 376,416	\$ 664,893	\$ 431,161
Unreserved	1,623,056	2,020,786	1,941,263	2,045,573	2,272,350	2,624,711	2,073,350	1,980,254	1,633,373	1,536,305
Total general fund	<u>\$2,783,230</u>	<u>\$2,811,214</u>	<u>\$3,089,594</u>	<u>\$2,860,769</u>	<u>\$2,818,713</u>	<u>\$2,993,758</u>	<u>\$2,497,834</u>	<u>\$2,356,670</u>	<u>\$2,298,266</u>	<u>\$1,967,466</u>
All Other Governmental Funds										
Reserved	\$ 7,120	\$ 196,675	\$ 207,737	\$ 296,149	\$ 220,072	\$ 100,142	\$ 36,397	\$ 43,505	\$ 1,270,417	\$ 4,248,655
Unreserved, reported in:										
Capital projects fund	478,896	220,983	190,978	82,005	108,545	87,288	51,038	409,856	(688,076)	(3,620,813)
Special revenue funds	556,365	546,007	465,513	485,506	456,460	437,587	461,595	352,276	392,271	306,169
Total all other governmental funds	<u>\$1,042,381</u>	<u>\$ 963,665</u>	<u>\$ 864,228</u>	<u>\$ 863,660</u>	<u>\$ 785,077</u>	<u>\$ 625,017</u>	<u>\$ 549,030</u>	<u>\$ 805,637</u>	<u>\$ 974,612</u>	<u>\$ 934,011</u>

Source: Information taken from District's audited financial statements.

LEE COUNTY SCHOOLS
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)

Financial Trends
Schedule 5

	Fiscal Year									
	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Revenues:										
State of North Carolina	\$48,125,895	\$45,512,640	\$43,426,871	\$40,672,345	\$40,250,942	\$39,313,645	\$39,056,250	\$36,784,872	\$34,428,370	\$37,230,741
U. S. Government	5,234,089	4,990,721	5,410,969	4,748,127	4,611,903	3,739,237	3,255,296	3,056,569	2,754,647	2,724,492
Local sources:										
Lee County - unrestricted	12,666,167	12,171,984	9,871,984	9,127,384	8,705,974	9,066,263	8,925,874	8,343,108	8,224,840	7,145,000
Lee County - restricted	16,808,163	743,000	743,000	1,048,841	397,800	395,511	400,000	655,775	5,730,876	16,270,890
Supplemental city school tax	-	-	-	-	-	-	-	-	-	-
Local option sales tax	-	-	-	-	-	-	-	-	-	-
Other revenues	2,129,781	2,524,566	2,099,508	2,044,866	1,867,782	1,918,746	2,113,396	2,056,046	2,133,601	1,642,258
Total revenues	84,964,095	65,942,911	61,552,332	57,641,563	55,834,401	54,433,402	53,750,816	50,896,370	53,272,334	65,013,381
Expenditures:										
Instructional programs	51,039,520	48,603,620	46,400,069	43,396,293	41,958,214	40,655,853	40,500,372	37,829,688	34,879,308	31,811,026
Support services	16,398,213	15,869,140	13,654,184	12,804,244	13,010,233	12,752,943	12,485,270	11,915,825	12,060,613	11,098,317
Capital Outlay	18,130,594	1,255,991	1,236,904	1,120,763	725,576	284,747	744,651	1,224,468	5,921,414	21,699,847
Other	809,953	434,673	500,667	218,876	155,363	167,948	135,966	183,301	80,332	54,337
Total expenditures	86,378,280	66,163,424	61,791,824	57,540,176	55,849,386	53,861,491	53,866,259	51,153,282	52,941,667	64,663,527
Revenues over (under) expenditures	(1,414,185)	(220,513)	(239,492)	101,387	(14,985)	571,911	(115,443)	(256,912)	330,667	349,854
Other financing (uses)										
Installment purchase obligates issued	236,448	-	447,566	-	-	-	-	-	-	-
Capital lease obligations issued	1,181,024	-	21,319	19,252	-	-	-	-	40,734	-
Total other financing (uses)	1,417,472	-	468,885	19,252	-	-	-	-	40,734	-
Extraordinary item	-	-	-	-	-	-	-	146,341	-	-
Net change in fund balances	\$ 3,287	\$ (220,513)	\$ 229,393	\$ 120,639	\$ (14,985)	\$ 571,911	\$ (115,443)	\$ (110,571)	\$ 371,401	\$ 349,854

Note: The extraordinary item consisted of a residual equity transfer in.

LEE COUNTY, NC
Assessed Value and Actual Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year	Real Property		Personal Property	Public Service Companies (1)	Less: Tax Exempt Real Property	Total Taxable Assessed Value	Total Direct Tax Rate (2)	Estimated Actual Taxable Value (3)		Assessed Value as a Percentage of Actual Value
	Residential Property	Commercial Property						Actual	Taxable Value (3)	
2007	2,157,260,462	679,908,600	1,207,962,419	112,251,434	139,678,704	4,017,704,211	0.79	4,526,990,660		88.75%
2006	2,096,670,300	659,680,800	1,199,743,255	101,758,654	139,581,042	3,918,271,967	0.79	4,414,954,329		88.75%
2005	2,165,767,500	641,559,100	1,031,506,417	100,485,686	267,506,752	3,671,811,951	0.67	3,841,611,164		95.58%
2004	2,042,744,100	603,641,300	1,052,518,849	96,087,790	172,891,586	3,622,100,453	0.67	3,622,100,453		100.00%
2003	1,692,094,500	420,771,100	1,023,584,061	77,065,305	195,895,632	3,017,619,334	0.78	4,010,125,361		75.25%
2002	1,662,357,800	387,816,800	967,218,133	83,696,227	186,151,467	2,914,937,493	0.78	3,562,622,211		81.82%
2001	1,613,939,624	346,740,060	940,480,179	77,491,104	156,760,978	2,821,889,989	0.75	3,425,455,194		82.38%
2000	1,586,239,201	329,223,470	900,630,655	76,014,586	159,547,546	2,732,560,366	0.75	3,259,644,955		83.83%
1999	1,557,933,506	314,099,710	819,055,894	87,656,102	179,936,442	2,598,808,770	0.71	2,970,067,166		87.50%
1998	1,510,912,004	297,338,468	719,109,030	80,589,660	177,644,954	2,430,304,208	0.71	2,749,212,905		88.40%

Source: Lee County Tax Office

Notes:

- (1) Public service companies valuations are provided to the County by the North Carolina Department of Revenue. These amounts include both real and personal property.
- (2) Per \$100 of value.
- (3) The estimated market value is calculated by dividing the assessed value by an assessment-to-sales ratio determined by the State Department of Revenue. The ratio is based on actual property sales which took place during the fiscal year.
- (4) Property in Lee County is reassessed every four years. The last reassessment was on January 1, 2007 and will be the basis for fiscal 2008 taxes.

LEE COUNTY, NC
Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years
(Per \$100.00 of Assessed Value)

	2007	2006	2005	2004 (1)	2003	2002	2001	2000	1999	1998
County:										
Lee	0.790	0.790	0.670	0.670	0.780	0.780	0.750	0.750	0.710	0.710
Municipalities:										
Town of Broadway	0.470	0.490	0.490	0.490	0.530	0.530	0.530	0.530	0.590	0.590
City of Sanford	0.610	0.590	0.590	0.560	0.570	0.570	0.570	0.550	0.550	0.550
Fire Districts										
Cameron	0.067	0.068	0.068	0.071	0.066	0.070	0.086	0.095	0.078	0.093
Cape Fear	0.058	0.066	0.066	0.068	0.082	0.079	0.055	0.055	0.040	0.055
Carolina Trace	0.052	0.040	0.037	0.037	0.038	0.034	0.035	0.035	0.028	0.038
Deep River	0.068	0.082	0.076	0.076	0.085	0.081	0.081	0.073	0.053	0.075
Lemon Springs	0.065	0.072	0.072	0.070	0.053	0.056	0.056	0.047	0.042	0.060
Northview	0.064	0.060	0.077	0.070	0.061	0.064	0.065	0.039	0.044	0.050
Northwest Pocket	0.086	0.085	0.079	0.084	0.084	0.086	0.078	0.081	0.061	0.076
Tramway	0.069	0.049	0.042	0.038	0.041	0.041	0.037	0.036	0.031	0.032
West Sanford	0.091	0.082	0.082	0.088	0.103	0.087	0.083	0.051	0.099	0.034
Other Districts: (3)										
Central Business District	0.150	0.150	0.130	0.130	0.130	0.130	0.100	0.100	0.100	0.100
Lee County Water & Sewer District #1	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

Notes:

- (1) Property in Lee County is reassessed every four years. The last reassessment was on January 1, 2007 and will be the basis for fiscal 2008 taxes.
- (2) The property tax rates for each of the governments listed above are based on unit-wide tax rates. For each government, certain motor vehicles were taxed at the preceding year's rate.
- (3) The Lee County Water & Sewer District # 1 has not enacted property taxes as of June 30, 2007.

Source: Lee County Tax Department

LEE COUNTY, NC
PRINCIPAL PROPERTY TAX PAYERS
Current Year and Nine Years Ago

Taxpayer	Type of Business	Fiscal Year 2007			Fiscal Year 1998		
		Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Wyeth	Pharmaceuticals	\$ 266,458,615	1	6.6%	\$ 46,466,449	3	1.9%
GKN Automotive Components, Inc.	Automotive Parts	79,313,804	2	2.0%	59,178,951	2	2.4%
Coty, Inc.	Cosmetics	51,981,803	3	1.3%	28,135,050	6	1.2%
Donald R. Simpson	Real Estate	51,964,692	4	1.3%	-		0.0%
Altel Carolina Inc.	Utility	41,598,633	5	1.0%	30,544,981	4	1.3%
Progress Energy	Utility	40,055,434	6	1.0%	24,195,050	7	1.0%
Moen, Inc.	Plumbing Fixtures	34,772,463	7	0.9%	29,282,535	5	1.2%
Commercial Grading, Inc.	Construction	34,637,971	8	0.9%	-		0.0%
Frontier Spinning Mills LLC	Textiles	29,010,023	9	0.7%	-		0.0%
Martin Marietta	Rock Quarry	27,551,479	10	0.7%	-		0.0%
Unifi Spun Yarns, Inc.	Textiles	-		0.0%	65,070,362	1	2.7%
Sara Lee Knits	Textiles	-		0.0%	19,770,433	8	0.8%
Avondale Mills	Textiles	-		0.0%	15,494,333	9	0.6%
Amisub of NC, Inc.	Hospital	-		0.0%	15,262,386	10	0.6%
Totals		\$ 657,344,917		16.8%	\$ 333,400,530		14.3%

Source: Lee County Tax Department

LEE COUNTY, NC
PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years
(in thousands)

Fiscal Year Ended June 30	Total Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years		Total Collections to Date	
		Amount	Percentage of Levy	Amount	Percentage of Levy	Amount	Percentage of Levy
2007	31,896,203	30,887,929	96.8%	-		\$ 30,887,929	96.8%
2006	30,865,687	29,860,345	96.7%	674,900		\$ 30,535,245	98.9%
2005	24,701,551	23,797,835	96.3%	676,831		\$ 24,474,666	99.1%
2004	24,499,755	23,471,377	95.8%	856,676		\$ 24,328,053	99.3%
2003	23,574,692	22,393,187	95.0%	1,007,018		\$ 23,400,205	99.3%
2002	22,784,612	21,820,606	95.8%	828,205		\$ 22,648,811	99.4%
2001	21,266,214	20,301,075	95.5%	849,177		\$ 21,150,252	99.5%
2000	20,852,055	20,080,240	96.3%	725,763		\$ 20,806,003	99.8%
1999	19,183,266	18,569,496	96.8%	505,002		\$ 19,074,498	99.4%
1998	18,099,187	17,452,269	96.4%	637,531		\$ 18,089,800	99.9%

Source: Lee County Tax Department

Note: The total tax levy includes penalties assessed and releases or discoveries made after the original assessment of taxable value.

LEE COUNTY SCHOOLS
Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Year	Real Property		Total Primary Government	Population Estimate	Per Capita
	Capital Leases	Installment Purchases			
2007	\$200,862	\$704,708	\$905,570	56,908	15.91
2006	6,401	42,219	48,620	55,704	0.87
2005	20,270	191,408	211,678	54,417	3.89
2004	17,209	10,799	28,008	53,421	0.52
2003	9,230	9,230	18,460	52,058	0.35

Note: Lee County Schools began to report accrual information when it implemented GASB Statement 34 in 2003. The Board's debt is reported on Lee County School's financials as required. Details regarding the Board's outstanding long-term obligations can be found in the notes to the financial statements.

LEE COUNTY SCHOOLS
Demographic and Economic Statistics for Lee County
Last Ten Fiscal Years

Fiscal Year	Population (1)	Personal Income (1) (amounts expressed in thousands)	Per Capita Personal Income (1)	Public School Enrollment (2)	Unemployment Rate (3)
2007	56,908	*	*	9,330	6.00%
2006	55,704	1,554,422	26,777	9,219	5.40%
2005	54,417	1,439,609	26,455	9,056	5.60%
2004	53,421	1,342,616	25,218	8,924	6.00%
2003	52,058	1,320,754	25,371	8,834	7.60%
2002	51,111	1,272,007	24,887	8,778	7.40%
2001	49,424	1,243,247	25,155	8,725	6.30%
2000	48,766	1,210,686	24,826	8,593	4.20%
1999	48,559	1,171,750	24,130	8,618	3.40%
1998	47,611	1,107,045	23,502	8,441	3.80%

* Information not yet available

Notes:

- (1) Bureau of Economic Analysis, U. S. Department of Commerce. Figures are for the prior calendar year.
- (2) Lee County Board of Education
- (3) N.C. Employment Security Commission

LEE COUNTY, NC
PRINCIPAL EMPLOYERS
Current Year and Nine Years Ago (1)

	Fiscal Year 2007 (2)			Fiscal Year 2000 (1)		
	Approximate Number of Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Wyeth Vaccines	1000-1500	1	4.68%	-	-	0.00%
Lee County Schools	1000-1500	2	4.68%	-	-	0.00%
Gold Kist, Inc	1000-1500	3	4.68%	1000-1500	1	5.01%
Static Control Components, Inc.	1000-1500	4	4.68%	500-999	2	3.01%
Coty, Inc.	500-999	5	2.81%	500-999	3	3.01%
Central Carolina Hospital	500-999	6	2.81%	500-999	5	3.01%
Tyson Foods	500-999	7	2.81%	-	-	0.00%
Moen, Inc.	500-999	8	2.81%	500-999	6	3.01%
Pentair Pool Products	500-999	9	2.81%	-	-	0.00%
The Pantry, Inc.	500-999	10	2.81%	-	-	0.00%
Magneti Marelli USA, Inc.	-	-	0.00%	500-999	4	3.01%
GKN Automotive Components, Inc.	-	-	0.00%	500-999	7	3.01%
Pac-Fab, Inc.	-	-	0.00%	500-999	8	3.01%
Redman Mobile Homes, Inc.	-	-	0.00%	250-499	9	1.50%
Cherokee Sanford Group LLC	-	-	0.00%	250-499	10	1.50%
Total	-	-	<u>35.55%</u>	-	-	<u>29.07%</u>

Source: NC Employment Security Commission; total county employment

Notes:

- (1) Information is actually provided for current year and seven years ago because data from nine years ago is not available.
(2) Based on September 2006 employment which is most recent information provided by the NC Employment Security Commission.

**LEE COUNTY SCHOOLS
NUMBER OF PERSONNEL
Last Ten Fiscal Years**

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Instructional Programs:										
Regular	601	598	581	575	572	597	557	554	542	550
Special	234	230	227	218	220	204	201	192	187	169
Student Services	40	37	32	32	32	33	32	31	32	35
Total Instructional Programs	875	865	840	825	824	834	790	777	761	754
Support Services:										
Pupil	6	6	5	4	4	6	4	2	0	2
Instructional Staff	30	32	31	28	28	26	23	24	26	22
Administrative	14	13	14	16	15	16	16	16	14	13
School Administration	34	32	28	27	27	27	26	26	26	24
Business	82	80	76	76	76	67	72	72	67	58
Central	156	152	143	151	149	140	145	146	155	151
Total Support Services	322	315	297	302	299	282	286	286	288	270
Total	1197	1180	1137	1127	1123	1116	1076	1063	1049	1024

Source: Lee County Schools' Human Resources Department

LEE COUNTY SCHOOLS
SCHOOLS AND STUDENT PROGRAMS
Last Ten Fiscal Years

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Number of Schools										
Elementary	7	7	7	7	7	7	7	7	7	8
Middle	2	2	2	2	2	2	2	2	2	2
High	3	2	1	1	1	1	1	1	1	1
Alternative	1	1	1	1	1	1	1	1	1	1
Exceptional	1	1	1	1	1	1	1	1	1	1
Total	14	13	12	12	12	12	12	12	12	13
Child Nutrition										
Average breakfasts served daily	2210	2173	2214	2186	2155	2015	1738	NA	NA	NA
Average lunches served daily	7813	7573	7273	7686	7138	7027	6267	NA	NA	NA
Exceptional Children's Program										
Number of disabled students	1057	1071	1089	1114	1107	1070	1058	NA	NA	NA
Number of academically/ intellectually gifted students	1109	1202	1269	1335	1346	1310	1323	NA	NA	NA
English as a Second Language Program (ESL)										
Number of students served	1339	1223	1202	1175	1159	1053	1087	943	841	655
Number of schools with ESL	13	12	12	12	12	12	12	12	12	12
Number of languages spoken	24	23	20	16	20	19	18	17	18	NA
Athletic Programs										
Middle Schools										
Men's sports	5	5	5	5	5	5	5	5	5	5
Women's sports	5	5	5	5	5	5	5	5	5	5
High Schools										
Men's sports	20	20	11	11	11	11	11	11	11	11
Women's sports	21	21	11	11	11	11	11	11	11	11

Source: Information taken from District's audited financial statements.

LEE COUNTY SCHOOLS
SCHOOL BUILDING INFORMATION
Last Ten Fiscal Years

School	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Elementary										
B.T. Bullock										
Square Feet	78,768	78,768	78,768	78,768	78,768	78,768	78,768	78,768	78,768	See
Capacity	650	650	650	650	650	650	650	650	650	Notes
First month membership	612	616	613	539	562	570	604	612	618	Below
St. Clair										
Square Feet	See	See	See	See	See	See	See	See	See	20,223
Capacity	Notes	Notes	Notes	Notes	Notes	Notes	Notes	Notes	Notes	300
First month membership	Below	Below	Below	Below	Below	Below	Below	Below	Below	305
Warren Williams										
Square Feet	See	See	See	See	See	See	See	See	See	15,897
Capacity	Notes	Notes	Notes	Notes	Notes	Notes	Notes	Notes	Notes	300
First month membership	Below	Below	Below	Below	Below	Below	Below	Below	Below	346
Broadway										
Square Feet	86,615	86,615	86,615	86,615	86,615	86,615	86,615	86,615	86,615	86,615
Capacity	700	700	700	700	700	700	700	700	700	700
First month membership	619	675	672	675	672	642	630	700	692	503
Deep River										
Square Feet	78,768	78,768	78,768	78,768	78,768	78,768	78,768	78,768	78,768	78,768
Capacity	650	650	650	650	650	650	650	650	650	650
First month membership	628	519	512	523	549	616	622	597	619	508
Greenwood										
Square Feet	94,324	94,324	94,324	94,324	94,324	94,324	94,324	94,324	94,324	94,324
Capacity	720	720	720	720	720	720	720	720	720	720
First month membership	631	659	625	615	613	626	625	648	729	824
J. Glenn Edwards										
Square Feet	70,229	70,229	70,229	70,229	70,229	70,229	70,229	70,229	70,229	70,229
Capacity	660	660	660	660	660	660	660	660	660	660
First month membership	626	625	649	629	615	639	616	603	631	650
J.R. Ingram										
Square Feet	70,229	70,229	70,229	70,229	70,229	70,229	70,229	70,229	70,229	70,229
Capacity	660	660	660	660	660	660	660	660	660	660
First month membership	713	655	613	574	582	594	609	617	641	691
Tramway										
Square Feet	78,768	78,768	78,768	78,768	78,768	78,768	78,768	78,768	78,768	See
Capacity	650	650	650	650	650	650	650	650	650	Notes
First month membership	645	657	661	691	680	683	649	640	494	Below
Jonesboro										
Square Feet	See	See	See	See	See	See	See	See	See	37,908
Capacity	Notes	Notes	Notes	Notes	Notes	Notes	Notes	Notes	Notes	500
First month membership	Below	Below	Below	Below	Below	Below	Below	Below	Below	515

Operating
Schedule 15
(continued)
1998

School	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Middle										
East Lee	94,723	94,723	94,723	94,723	94,723	94,723	94,723	94,723	94,723	94,723
Square Feet	750	750	750	750	750	750	750	750	750	750
Capacity	986	1,018	1,055	1,090	1,057	1,078	1,046	1,043	1,032	976
First month membership										
West Lee										
Square Feet	94,723	94,723	94,723	94,723	94,723	94,723	94,723	94,723	94,723	94,723
Capacity	750	750	750	750	750	750	750	750	750	750
First month membership	1,107	1,082	1,084	1,071	1,100	1,074	1,040	927	976	1,103
High										
Lee County										
Square Feet	311,364	311,364	311,364	311,364	311,364	311,364	311,364	311,364	311,364	311,364
Capacity	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700
First month membership	1,479	1,762	2,575	2,522	2,441	2,310	2,318	2,218	1,965	2,110
Southern Lee										
Square Feet	183,520	183,520	See	See	See	See	See	See	See	See
Capacity	1,400	1,400	Notes	Notes	Notes	Notes	Notes	Notes	Notes	Notes
First month membership	1,106	904	Below	Below	Below	Below	Below	Below	Below	Below
Lee Early College										
Square Feet	N/A	See	See	See	See	See	See	See	See	See
Capacity	100	Notes	Notes	Notes	Notes	Notes	Notes	Notes	Notes	Notes
First month membership	73	Below	Below	Below	Below	Below	Below	Below	Below	Below
Alternative										
Bragg Street Academy										
Square Feet	10,893	10,893	10,893	10,893	10,893	10,893	10,893	10,893	10,893	10,893
Capacity	144	144	144	144	144	144	144	144	144	144
First month membership	46	34	37	41	33	32	28	26	40	40
Special										
F.L. Knight/The Children's Center										
Square Feet	20,841	20,841	20,841	20,841	20,841	20,841	20,841	20,841	20,841	20,841
Capacity	225	225	225	225	225	225	225	225	225	225
First month membership	59	61	62	58	45	45	45	60	65	59

Source: Information taken from District's audited financial statements

Notes: St. Clair Elementary was closed when B. T. Bullock Elementary was opened in 1998-99.

Jonesboro Elementary was closed when Tramway Elementary was opened in 1998-99 as a year-round school of choice. For the children not opting to attend the year-round school, attendance was split between J. Glenn Edwards Elementary and Broadway Elementary.

Southern Lee High School opened in 2005-06 to serve grades 9-11 and began to serve grades 9-12 in 2006-07. Lee Early College opened in 2006-07 to serve 9th grade only. This campus is housed on the campus of the local community college.

This information does not include mobile unit square footage.

LEE COUNTY SCHOOLS
OPERATING STATISTICS
Last Ten Fiscal Years

Fiscal Year	Average Daily Membership	Average Daily Attendance	Fund Operating Expenditures	Per Pupil Expenditure	% Change	NC Per Pupil Expenditure Rank	Certified Personnel	Ratio of Pupil-Certified Ratio	Student Attendance Percentage	Students Receiving Free or Reduced-Price Meals
2007	9258	8829	\$70,559,325	\$7,621	2.90%	94	675	13.7	55.8%	55.8%
2006	9133	8710	67,646,764	7,407	6.40%	81	675	13.5	54.9%	54.9%
2005	9056	8657	63,061,423	6,964	5.00%	92	650	13.9	50.9%	50.9%
2004	8924	8542	59,190,682	6,633	1.70%	94	625	14.3	49.8%	49.8%
2003	8834	8472	57,637,420	6,525	2.43%	83	639	13.8	48.1%	48.1%
2002	8778	8438	55,914,942	6,370	-0.27%	86	635	13.8	45.4%	45.4%
2001	8725	8368	55,729,665	6,387	4.65%	84	602	14.5	42.6%	42.6%
2000	8593	8224	52,438,914	6,103	7.37%	80	596	14.4	43.1%	43.1%
1999	8618	8242	48,987,777	5,684	5.75%	85	583	14.8	Unavailable	Unavailable
1998	8441	8041	45,366,506	5,375	9.58%	81	578	14.6	Unavailable	Unavailable

Sources: Lee County Schools Child Nutrition Department, Students Receiving Free or Reduced-Price Meals
North Carolina Department of Public Instruction, all other information reported.

Notes: The amounts shown for per pupil expenditures represent the per pupil expenditures as computed and reported by the North Carolina Department of Public Instruction (NCDPI). NCDPI computes this statistic by dividing current expense expenditures by average daily membership. Consequently, capital expense expenditures and certain other expenditures (community services, Head Start, and inter/intra fund transfers) are excluded to improve the comparability of per pupil expenditures between fiscal years and between other North Carolina school districts. This computation is considered the official per pupil expenditure reported for Lee County Schools.

**LEE COUNTY SCHOOLS
TEACHERS' SALARIES
Last Ten Fiscal Years**

<u>Year Ended June 30th</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Average</u>
2007	\$30,506	\$70,363	\$41,556
2006	29,505	68,714	41,206
2005	27,199	67,725	40,925
2004	27,008	63,770	39,773
2003	27,008	63,770	39,652
2002	27,008	62,510	39,296
2001	26,750	61,211	37,939
2000	25,772	56,475	Unavailable
1999	24,543	52,551	Unavailable
1998	23,315	47,833	Unavailable

Source: Lee County Schools' Finance Department

Note: The above table includes base pay from the state salary schedule and the systemwide local salary supplement.

LEE COUNTY SCHOOLS
GOVERNMENTAL FUND EXPENDITURES BY FUNCTION
Last Ten Fiscal Years

Fiscal Year	Regular Instructional	Special Instructional	Other Instructional	Pupil Support	Instructional Support	General Administration	School Administration	Business Support	Central Support	Other		
										Support Services	Community Services	Total
2007	\$29,804,500	\$6,218,741	\$15,016,279	\$82,683	\$748,217	\$1,396,105	\$3,549,282	\$7,706,989	\$460,948	\$2,453,989	\$78,751	\$165,353 \$67,681,837
2006	28,805,537	5,694,230	14,103,853	89,075	638,726	1,388,616	3,402,756	7,464,486	462,794	2,422,687	82,514	187,849 64,743,123
2005	27,667,924	5,747,676	12,984,469	87,026	723,023	1,360,059	3,077,207	6,008,506	416,445	1,991,303	58,848	166,298 60,288,784
2004	25,099,057	6,598,429	11,698,807	70,388	659,803	1,320,640	2,865,422	5,845,356	384,738	1,706,578	79,091	127,880 56,456,189
2003	25,319,958	6,026,031	10,612,225	732,220	652,469	1,340,671	2,811,982	5,481,623	419,244	1,601,226	73,770	66,980 55,138,399

Note: Lee County Schools began to report accrual information when it implemented GASB Statement 34 in 2003.

LEE COUNTY SCHOOLS
CAPITAL PROJECTS FUND EXPENDITURES
 Last Ten Fiscal Years

Fiscal Year	Sites and Building Improvements	Furniture and Equipment	Vehicles and Other	Total
2007	\$16,598,897	\$469,755	\$1,627,791	\$18,696,443
2006	875,206	96,775	448,320	1,420,301
2005	530,017	131,354	851,054	1,512,425
2004	773,406	82,696	166,907	1,023,009
2003	236,916	88,315	76,892	402,123

Note: Lee County Schools began to report accrual information when it implemented GASB Statement 34 in 2003.

LEE COUNTY SCHOOLS
Sources of School Food Service Revenues and Reimbursements
For The Last Ten Years

<u>Year Ended June 30</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Food Sales	\$1,286,450	\$1,317,207	\$1,355,363	\$1,300,506	\$1,358,210	\$1,375,760	\$1,408,873	\$1,401,553	\$1,368,348	\$1,256,994
USDA Reimbursement	2,526,481	2,344,118	2,155,336	1,991,777	1,896,122	1,773,667	1,612,512	1,477,927	1,456,593	1,371,951
Donated Commodities	233,931	217,270	220,617	220,747	197,879	196,594	276,032	165,213	195,863	142,007
Other	149,610	137,833	146,359	132,390	49,064	119,242	140,414	181,797	155,810	115,970
Local Reimbursement	-	-	-	3,638	-	-	-	-	-	-
Total	\$4,196,472	\$4,016,428	\$3,877,675	\$3,649,058	\$3,501,275	\$3,465,263	\$3,437,831	\$3,226,490	\$3,176,614	\$2,886,922
Food Sales	31%	33%	35%	36%	39%	40%	41%	43%	43%	44%
USDA Reimbursement	60%	58%	56%	55%	54%	51%	47%	46%	46%	48%
Donated Commodities	6%	5%	6%	6%	6%	6%	8%	5%	6%	5%
Other	4%	3%	4%	4%	1%	3%	4%	6%	5%	3%
State/Local Reimbursement	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: Exhibit 8 in Financial Section.

Notes:

The State Reimbursements in 2004 are for the Kindergarten breakfast program.

Other revenues include such things as investment income, indirect cost not paid, disposition of fixed assets, donations and miscellaneous revenue.

Unaudited.

LEE COUNTY, NC
Ratio of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Year	Governmental Activities			Business-type Activities			Total Primary Government	Percentage of Personal Income (1)	Per Capita (1)
	General Obligation Bonds	Certificates of Participation	Installment Loans	General Obligation Bonds	Bond Anticipation Notes	Installment Loans			
2007	13,410,000	53,075,000	2,386,899	-	-	-	68,871,899	*	1,210
2006	16,210,000	25,220,000	2,822,304	-	-	-	44,252,304	2.85%	794
2005	19,030,000	25,720,000	3,240,187	-	-	-	47,990,187	3.33%	882
2004	21,875,000	26,220,000	3,641,693	8,030,000	-	-	59,766,693	4.45%	1,119
2003	24,805,000	-	4,027,844	8,116,500	-	-	36,949,344	2.80%	710
2002	27,780,000	-	2,257,294	4,035,000	4,166,000	-	38,238,294	3.01%	748
2001	28,580,000	-	2,603,608	4,118,000	-	-	35,301,608	2.84%	714
2000	31,410,000	-	2,929,359	4,200,000	-	-	38,539,359	3.18%	790
1999	34,195,000	-	2,412,938	4,281,000	-	-	40,888,938	3.49%	842
1998	37,035,000	-	-	-	2,831,085	1,025,997	40,892,082	3.69%	859

* Information not yet available

Source: County of Lee, North Carolina, Annual Financial Report for the year ended June 30, 2007.

Notes: Details regarding the County's outstanding debt can be found in the notes to the financial statements.

(1) See Schedule 13 for personal income and population data. These ratios are calculated using personal income and population for the prior calendar year. Calendar 2006 personal income not available to calculate fiscal year 2007.

LEE COUNTY, NC
Ratios of Net General Obligation Bonded Debt Outstanding
Last Ten Fiscal Years

Fiscal Year	Gross General Obligation Bonded Debt	Less Debt Payable from Enterprise Fund	Net General Obligation Bonded Debt	Percentage of Personal Income (1)	Percentage of Actual Taxable Value of Property (2)	Per Capita (1)
2007	13,410,000	-	13,410,000	*	0.33%	236
2006	16,210,000	-	16,210,000	1.04%	0.41%	291
2005	19,030,000	-	19,030,000	1.32%	0.52%	350
2004	29,905,000	8,030,000	21,875,000	1.63%	0.60%	409
2003	32,921,500	8,116,500	24,805,000	1.88%	0.82%	476
2002	31,815,000	4,035,000	27,780,000	2.18%	0.95%	544
2001	32,698,000	4,118,000	28,580,000	2.30%	1.01%	578
2000	35,610,000	4,200,000	31,410,000	2.59%	1.15%	644
1999	38,476,000	4,281,000	34,195,000	2.92%	1.32%	704
1998	37,035,000	-	37,035,000	3.35%	1.52%	778

* Information not yet available

Source: County of Lee, North Carolina, Annual Financial Report for the year ended June 30, 2007.

Note: Details regarding the County's outstanding debt can be found in the notes to the Financial Statements.

(1) See Schedule 13 for personal income and population data. These ratios are calculated using personal income and population for the prior calendar year. Calendar 2006 personal income not available to calculate fiscal year 2007.

(2) See Schedule 5 for property value data.

LEE COUNTY, NC
Direct and Overlapping Governmental Activities Debt
General Obligation Bonds
As of June 30, 2007

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Direct and Underlying Debt</u>
Direct:			
Lee County	\$ 13,410,000	100%	\$ 13,410,000
Underlying Debt:			
Town of Broadway	731,000	100%	731,000
Lee County Water & Sewer District #1	975,000	100%	975,000
City of Sanford	<u>4,615,000</u>	100%	<u>4,615,000</u>
Total direct and overlapping debt	19,731,000		<u>\$ 19,731,000</u>

Source: County of Lee, North Carolina, Annual Financial Report for the year ended June 30, 2007.

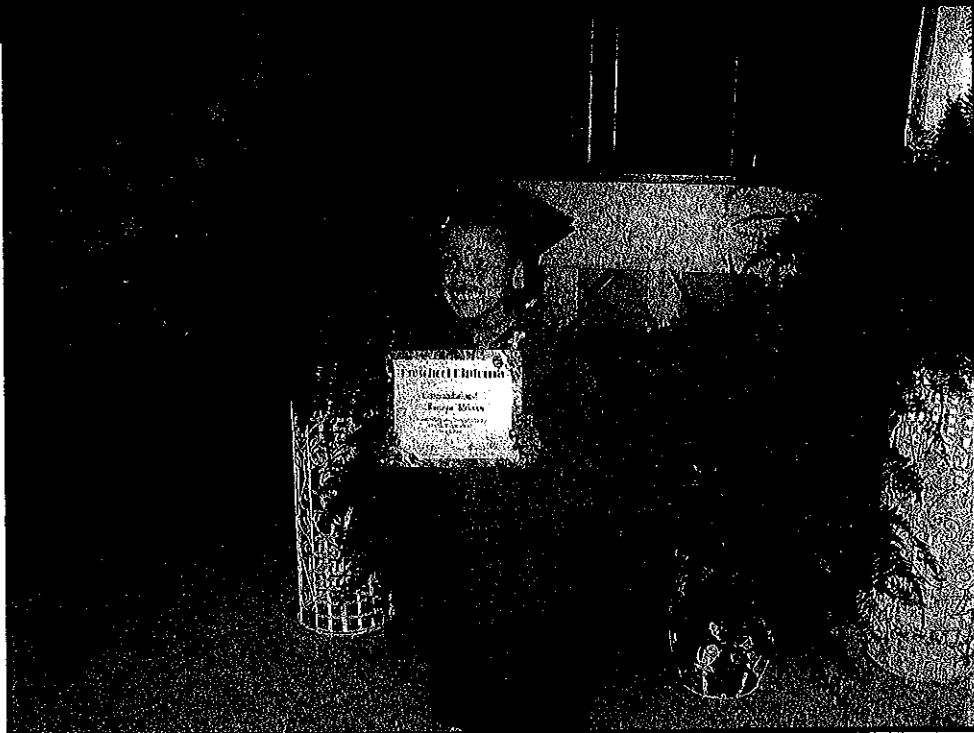
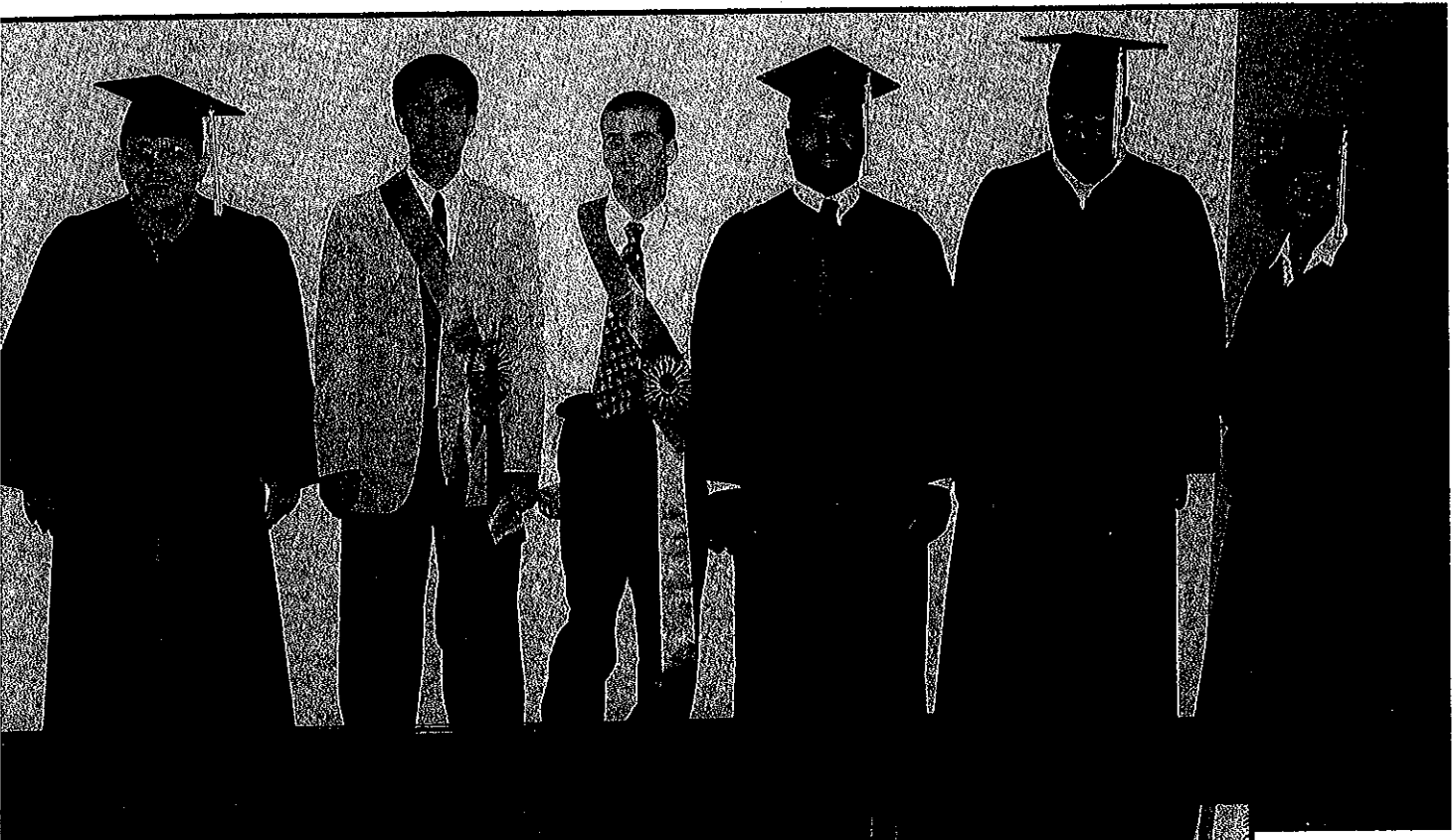
LEE COUNTY, NC
Legal Debt Margin Information
Last Ten Fiscal Years
(amounts expressed in thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Assessed Value of Property	\$4,017,704	\$3,918,272	\$3,671,812	\$3,622,100	\$3,017,619	\$2,914,937	\$2,821,890	\$2,732,560	\$2,598,809	\$2,430,304
Debt Limit, 8% of Assessed Value Statutory Limitation	321,416	313,462	293,745	289,768	241,410	233,195	225,751	218,605	207,905	194,424
Amount of Debt Applicable to Limit										
Gross debt	68,872	44,252	47,990	60,901	38,083	43,538	40,602	43,839	46,189	50,523
Less: Debt outstanding for water and sewer purposes	-	-	-	9,164	9,251	13,501	9,418	9,500	9,581	12,462
Total net debt applicable to limit	68,872	44,252	47,990	51,737	28,833	30,037	31,184	34,339	36,608	38,061
Legal debt margin	<u>\$ 252,544</u>	<u>\$ 269,210</u>	<u>\$ 245,755</u>	<u>\$ 238,031</u>	<u>\$ 212,577</u>	<u>\$ 203,158</u>	<u>\$ 194,567</u>	<u>\$ 184,266</u>	<u>\$ 171,297</u>	<u>\$ 156,363</u>
Total net debt applicable to the limit										
as a percentage of debt limit	21.43%	14.12%	16.34%	17.85%	11.94%	12.88%	13.81%	15.71%	17.61%	19.58%

Source: County of Lee, North Carolina, Annual Financial Report for the year ended June 30, 2007.

Note: NC Statute GS159-55 limits the County's outstanding debt to 8% of the appraised value of property subject to taxation. The following deductions are made from gross debt to arrive at net debt applicable to the limit: money held for payment of principal; debt incurred for water, sewer, gas, or electric power purposes; uncollected special assessments, funding and refunding bonds not yet issued; and revenue bonds. The legal debt margin is the difference between the debt limit and the County's net debt outstanding applicable to the limit, and represents the County's legal borrowing authority.

Compliance Section





DIXON HUGHES PLLC

Certified Public Accountants and Advisors

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

To the Lee County Board of Education
Lee County, North Carolina

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Lee County Board of Education (BOE), North Carolina, as of and for the year ended June 30, 2007, which collectively comprise the BOE's basic financial statements and have issued our report thereon dated October 8, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the BOE's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the BOE's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, processes or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the BOE's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Dixon Hughes PLLC

Raleigh, North Carolina
October 8, 2007



DIXON HUGHES PLLC

Certified Public Accountants and Advisors

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

To the Lee County Board of Education
Lee County, North Carolina

Compliance

We have audited the compliance of the Lee County Board of Education (BOE), North Carolina, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major federal programs for the year ended June 30, 2007. The BOE's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the BOE's management. Our responsibility is to express an opinion on the BOE's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133 and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the BOE's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the BOE's compliance with those requirements.

In our opinion, the BOE complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the BOE is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the BOE's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the BOE's internal control over compliance.

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

A control deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

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

Dixon Hughes PLLC

Raleigh, North Carolina
October 8, 2007



DIXON HUGHES PLLC

Certified Public Accountants and Advisors

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

To the Lee County Board of Education
Lee County, North Carolina

Compliance

We have audited the compliance of the Lee County Board of Education, North Carolina, with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major state programs for the year ended June 30, 2007. The BOE's major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major state programs is the responsibility of the BOE's management. Our responsibility is to express an opinion on the BOE's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; applicable sections of OMB Circular A-133, as described in the *Audit Manual for Governmental Auditors in North Carolina*; and the State Single Audit Implementation Act. Those standards, applicable sections of OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred.

An audit includes examining, on a test basis, evidence about the BOE's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the BOE's compliance with those requirements.

In our opinion, the BOE complied, in all material respects, with the requirements referred to above that are applicable to each of its major state programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the BOE is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to state programs. In planning and performing our audit, we considered the BOE's internal control over compliance with requirements that could have a direct and material effect on a major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with applicable sections of OMB Circular A-133 and the State Single Audit Implementation Act.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major state program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Dixon Hughes PLLC

Raleigh, North Carolina
October 8, 2007

**LEE COUNTY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2007**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued	<i>Unqualified</i>
Internal control over financial reporting:	
• Material weakness(es) identified?	<i>No</i>
• Significant deficiency(ies) identified that are not considered to be material weaknesses	<i>None</i>
Noncompliance material to financial statements noted	<i>No</i>

Federal Awards

Internal control over major federal programs:	
• Material weakness(es) identified?	<i>No</i>
• Significant deficiency(ies) identified that are not considered to be material weaknesses	<i>None</i>
Type of auditors' report issued on compliance for major federal programs	<i>Unqualified</i>
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133	<i>No</i>

Identification of major federal programs:

CFDA Numbers	Names of Federal Program or Cluster
84.027	Special Education Cluster:
84.027A	Title VI-B, Education of the Handicapped
84.173	Title VI-B, Capacity Building and Improvement Grant
	IDEA – Preschool Grants
84.010	Title I, Grants to Local Educational Agencies

Dollar threshold used to distinguish between Type A and Type B Programs	<u>\$ 300,000</u>
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Auditee qualified as low-risk auditee?	<i>Yes</i>
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(Continued)

**LEE COUNTY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2007**

Section I - Summary of Auditors' Results (Continued)

State Awards

Internal control over major state programs:

- Material weakness(es) identified? *No*
- Significant deficiency(ies) identified that are not considered to be material weaknesses *No*

Type of auditors' report issued on compliance for major state programs

Unqualified

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act

No

Identification of major state programs:

Program Name

N. C. Department of Public Instruction:
State Public School Fund
School Buses
School Technology Fund

Section II - Financial Statement Findings

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

Section III - Federal Award Findings and Questioned Costs

No findings and questioned costs related to federal awards aggregating \$10,000 or more were noted.

Section IV - State Award Findings and Questioned Costs

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

LEE COUNTY BOARD OF EDUCATION
SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS
For the Fiscal Year Ended June 30, 2007

There were no findings or questioned costs related to our audit of federal and state awards for the fiscal year ended June 30, 2006.

LEE COUNTY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Fiscal Year Ended June 30, 2007

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
Federal Grants:		
Cash Assistance:		
U.S. Department of Agriculture		
Food and Nutrition Service		
Passed through the N.C. Department of Public Instruction:		
Child Nutrition Cluster:		
School Breakfast Program	10.553	\$ 520,616
National School Lunch Program	10.555	1,990,569
Total Child Nutrition Cluster		<u>2,511,185</u>
Total U.S. Department of Agriculture		<u>2,511,185</u>
U.S. Department of Education		
Office of Elementary and Secondary Education		
Passed through the N.C. Department of Public Instruction:		
Education Consolidation and Improvement Act of 1981		
Improving America School Act of 1994 (IASA)		
Title 1, Grants to Local Educational Agencies		
Educationally Deprived Children	84.010	1,677,915
Migrant Education	84.011	187,306
Even Start	84.253	130,753
Passed through the N.C. Department of Public Instruction:		
Title IV, Part A, Safe and Drug Free Schools and Communities	84.186	30,112
Title VI, Federal, State, and Local Partnership for Innovative Programs	84.298	13,427
Improving Teacher Quality	84.367A	462,904
Language Acquisition - LEP	84.365	122,706
Educational Technology - Formula	84.318X	20,986
Reading First Grant	84.357	302,634
Office of Special Education and Rehabilitative Services		
Passed through the N.C. Department of Public Instruction:		
Special Education Cluster		
Individuals with Disabilities Education Act		
Special Education - Grants to States	84.027	1,823,713
Title VI, Part B, Capacity Building and Improvement Grant	84.027A	17,251
Title VI, Part B, Children with Disabilities - Risk Pool Program	84.027A	44,517
Special Education - Preschool Grants	84.173	84,381
Total Special Education Cluster		<u>1,969,862</u>

(Continued)

LEE COUNTY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Fiscal Year Ended June 30, 2007

<u>Grantor/Pass-through</u> <u>Grantor/Program Title</u>	<u>Federal</u> <u>CFDA</u> <u>Number</u>	<u>Expenditures</u>
Federal Grants: (Continued)		
Cash Assistance:		
Passed through the N.C. Department of Public Instruction:		
Carl D. Perkins Vocational and Applied Technology		
Education Act Amendments of 1990		
Basic Grants to States Program Development	84.048	\$ 123,502
Abstinence Education	93.235	<u>17,611</u>
Total U.S. Department of Education		<u>5,059,718</u>
Other Federal Assistance:		
U.S. Department of Defense		
Direct Program:		
JROTC	None	<u>94,254</u>
U.S. Department of Justice		
Direct Program:		
COPS Grant	16.710	<u>70,117</u>
Total Federal Cash Assistance		<u>7,735,274</u>
Noncash Assistance:		
U.S. Department of Agriculture		
Passed through the N.C. Department of Agriculture:		
Food Distribution Program	10.550	<u>233,931</u>
Total Federal Assistance		<u>7,969,205</u>
State Grants:		
Cash Assistance:		
N.C. Department of Public Instruction:		
State Public School Fund		46,306,769
Driver Training		10,793
Vocational Education		
State Months of Employment		152,787
Textbooks		215,530
SIPS II Reading/Writing Grant		11,884
State Appropriations - buses		518,535
School Technology		<u>450,048</u>
Total N.C. Department of Public Instruction		<u>47,666,346</u>

(Continued)

LEE COUNTY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Fiscal Year Ended June 30, 2007

<u>Grantor/Pass-through</u> <u>Grantor/Program Title</u>	<u>Federal</u> <u>CFDA</u> <u>Number</u>	<u>Expenditures</u>
State Grants: (Continued)		
Cash Assistance:		
N.C. Department of Health and Human Services:		
Division of Child Development		
Smart Start		\$ 93,361
More at Four		263,859
School Nurse Funding		<u>100,000</u>
Total N.C. Department of Health and Human Services		<u>457,220</u>
Total State Assistance		<u>48,123,566</u>
Total Federal and State Assistance		<u>\$ 56,092,771</u>

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

Basis of Presentation

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