

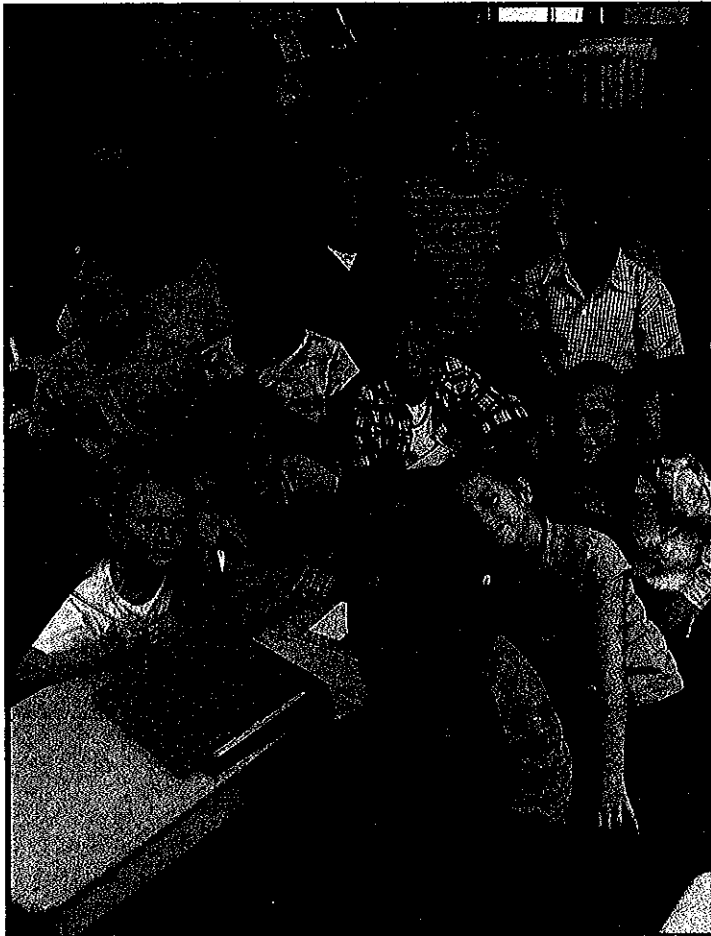


Lee County Schools

Sanford, North Carolina

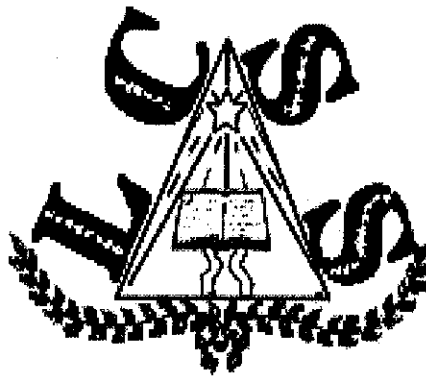
For the Fiscal Year Ended June 30, 2008

Comprehensive Annual Financial Report



Comprehensive Annual Financial Report

of the
Lee County Schools
Sanford, North Carolina



For the Fiscal Year Ended June 30, 2008

Prepared by the Business Office
Gary Jackson, Interim 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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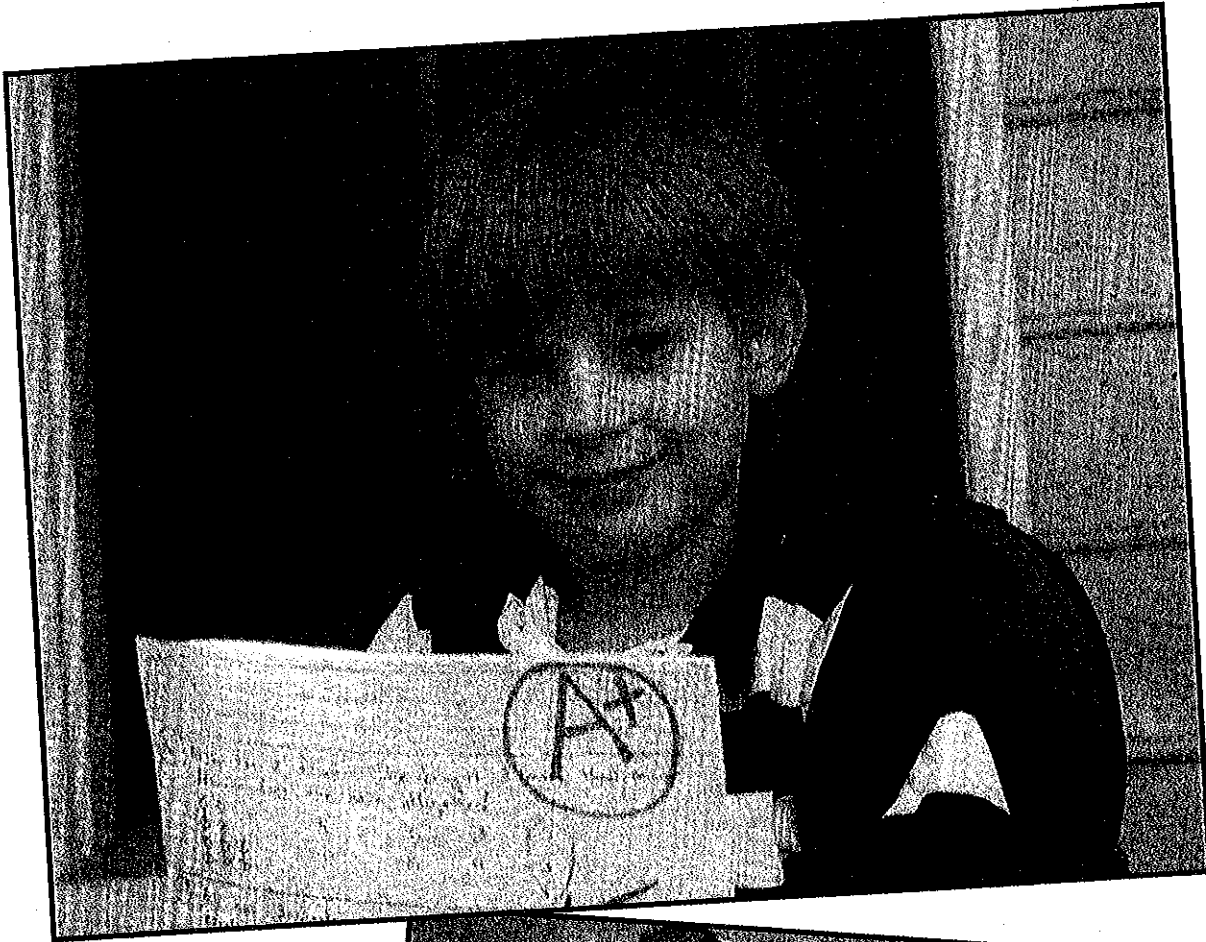
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Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The District implements GASB Statement 34 with the fiscal year beginning July 1, 2002; therefore, schedules presenting government-wide information include information beginning with June 30, 2003.

COMPLIANCE SECTION

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Introductory Section



LEE COUNTY SCHOOLS

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

Letter of Transmittal

October 23, 2008

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, 2008, 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 INITIATIVES

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 final stages of 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, 2008, 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 61,622 with an average growth rate of approximately 8% from two years ago. 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, 2008. 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, 2007. 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, 2007. 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 fourteen 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,

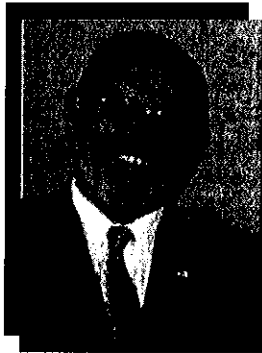
A handwritten signature in black ink, appearing to read "Gary Jackson", with a long horizontal flourish extending to the right.

Mr. Gary Jackson
Interim Superintendent

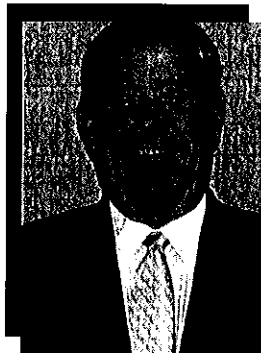
A handwritten signature in black ink, appearing to read "Tammy H. Howington", with a long horizontal flourish extending to the right.

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



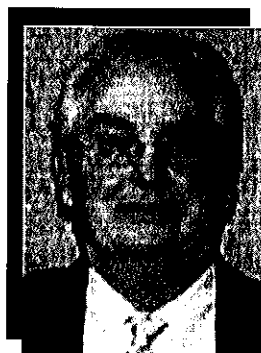
Ellen Mangum



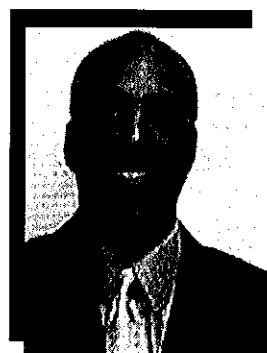
Cameron Sharpe



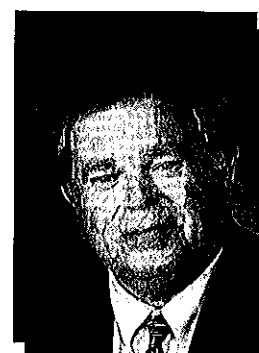
Linda Smith



Dr. Lynn Smith



Shawn Williams



Gary Jackson

Jimmy Love
Board Attorney

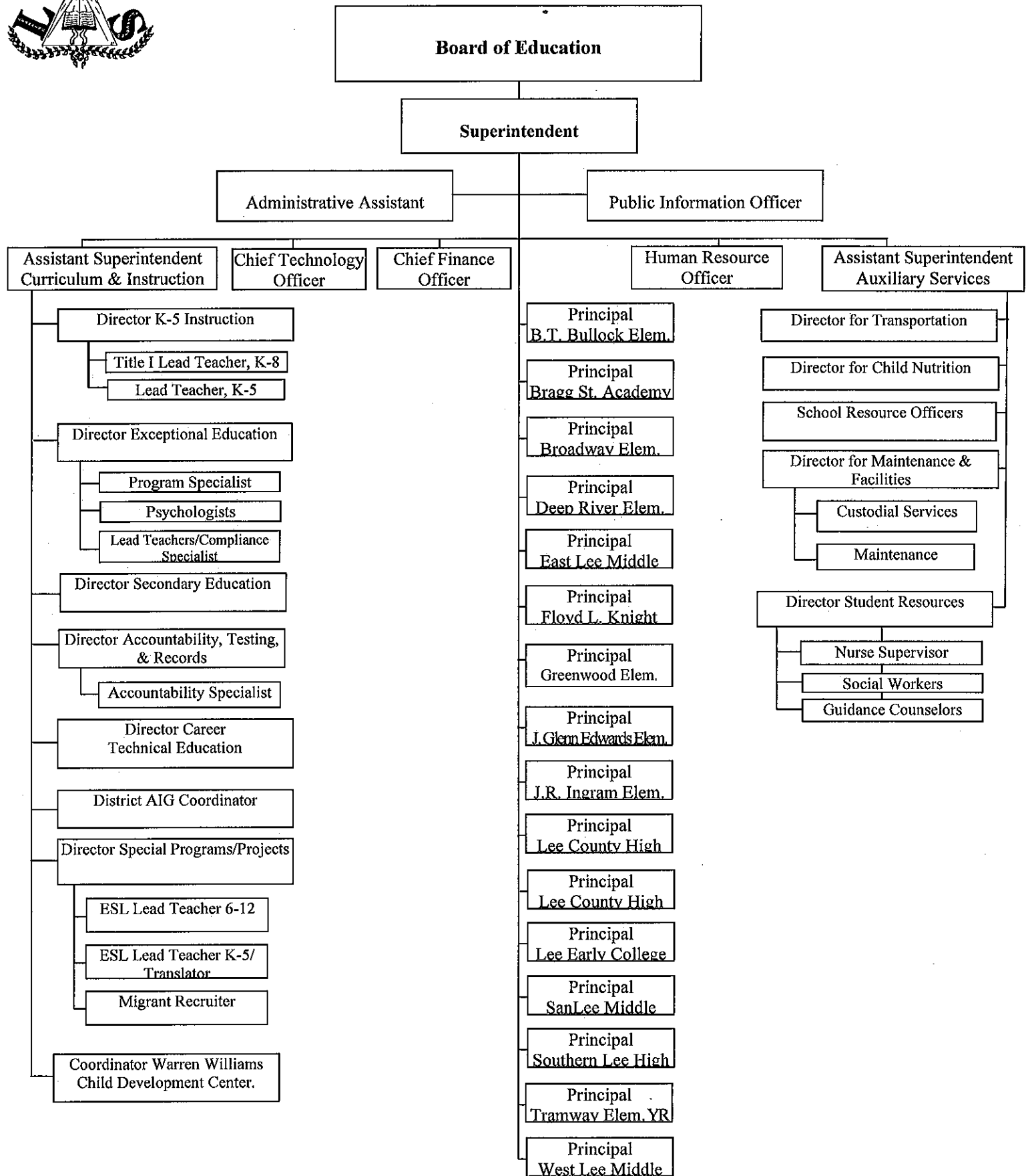
Officials Issuing Report

Gary Jackson
Interim Superintendent

Tammy H. Howington
Chief Finance 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, 2007**

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, 2007

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.



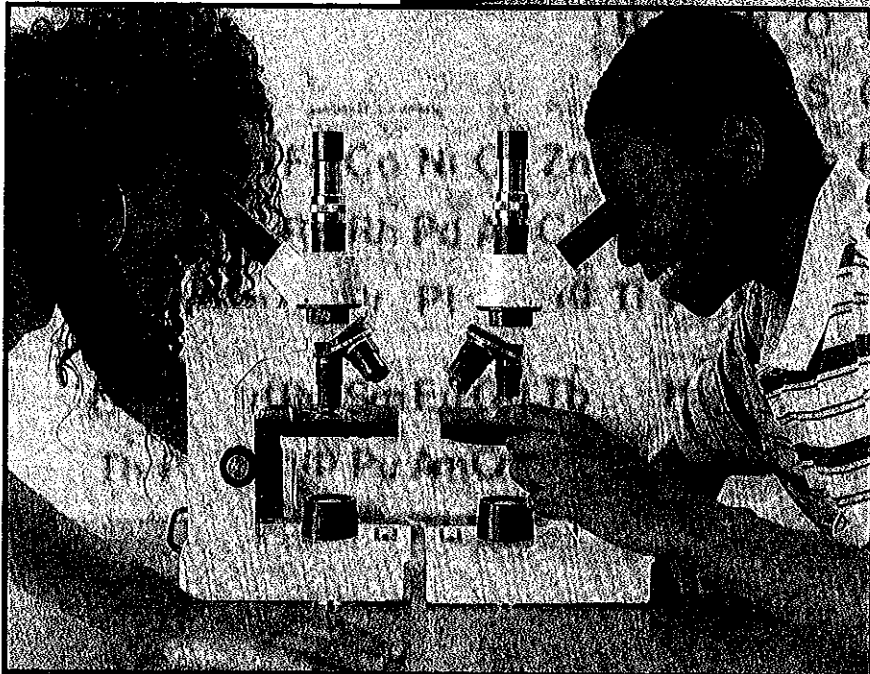
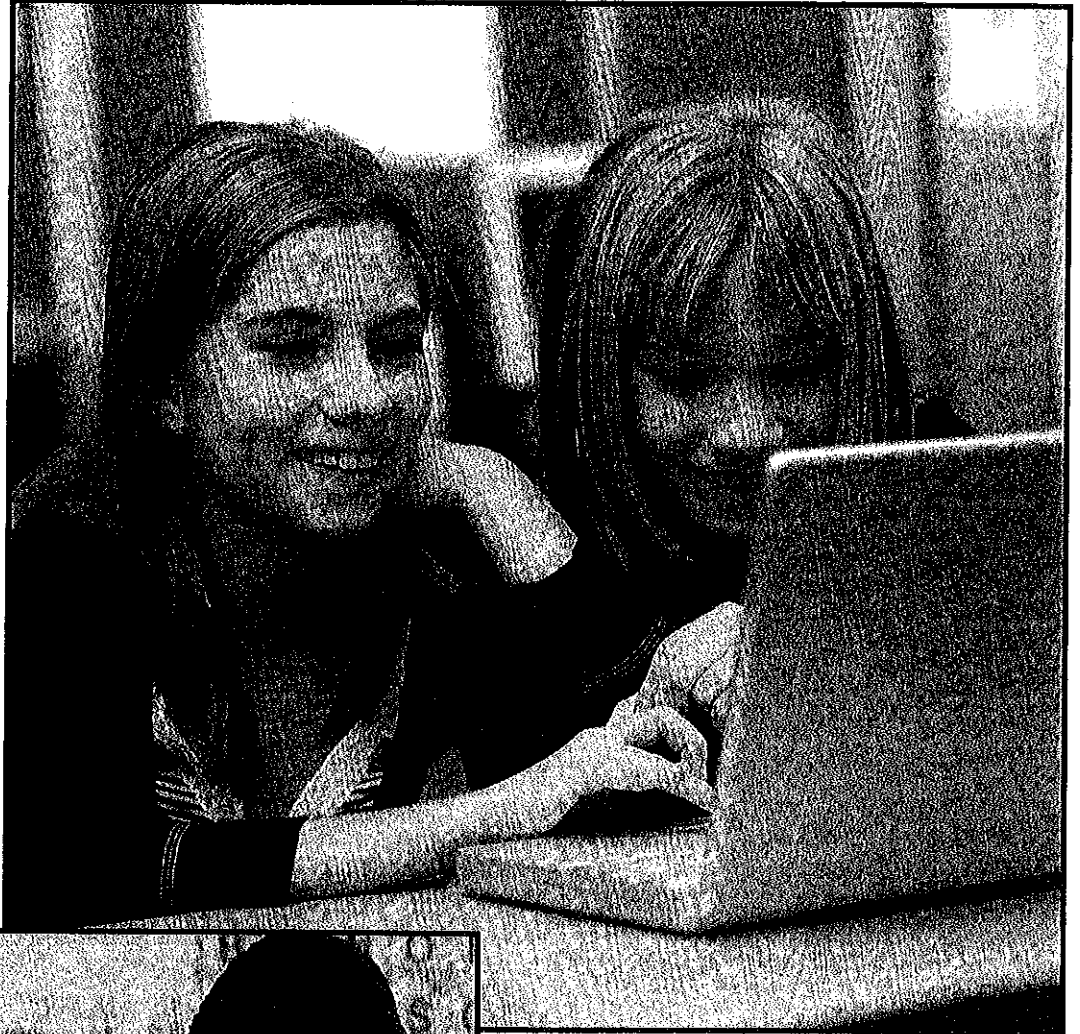
Charles S. Cox

President

Jeffrey R. Emer

Executive Director

Financial Section





DIXON HUGHES PLLC

Certified Public Accountants and Advisors

INDEPENDENT AUDITORS' REPORT

October 23, 2008

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, 2008, 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 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 estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the BOE as of June 30, 2008, and the respective changes in financial position and its cash flows, where applicable, thereof and the respective budgetary comparison for the General and State Public School funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2008 on our consideration of Lee County Board of Education's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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.

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.

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 combining and individual fund financial statements and 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. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Dixon Hughes PLLC

Southern Pines, North Carolina
October 23, 2008

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, 2008. This information should be read in conjunction with the audited financial statements included in this report.

Financial Highlights

- The Board's 2007-2008 student population continued to grow with an enrollment of 9,458 students in the first month. The housing market in Lee County continues to see an expansion in all areas of the county. The 600 housing unit on NC 87 South is progressing with a density mixed of multi-family, townhouses, patio homes, and single family homes. Construction has started on several smaller developments across the county. More construction is expected to handle the influx of military personnel and their families affiliated with BRAC and Fort Bragg in the near future. The completion of the 421 bypass and the completion of the four lane highways will help make Lee County attractive to families working in and around our county due to easy access.
- According to population projections, Lee County is expected to grow from 56,908 in 2006 to approximately 64,000 in 2010 and 71,000 in 2015.
- The Board has recently completed construction of a new middle school building, scheduled for occupancy in the fall 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.

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 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 \$95.8 million as of June 30, 2008. The largest component of net assets is invested in capital assets, net of related debt, of \$95.0 million, which comprises 99% of the total net assets.

Following is a summary of the Statement of Net Assets:

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>6/30/08</u>	<u>6/30/07</u>	<u>6/30/08</u>	<u>6/30/07</u>	<u>6/30/08</u>	<u>6/30/07</u>
Current assets	\$ 6,488,705	\$ 6,414,831	\$ 1,001,851	\$ 1,247,026	\$ 7,490,556	\$ 7,661,857
Capital assets	<u>94,437,577</u>	<u>88,112,472</u>	<u>555,953</u>	<u>650,004</u>	<u>94,993,530</u>	<u>88,762,476</u>
Total assets	<u>100,926,282</u>	<u>94,527,303</u>	<u>1,557,804</u>	<u>1,897,030</u>	<u>102,484,086</u>	<u>96,424,333</u>
Current liabilities	2,658,026	2,589,941	4,531	3,926	2,640,156	2,593,867
Long-term liabilities	<u>3,972,718</u>	<u>4,026,588</u>	<u>98,491</u>	<u>81,082</u>	<u>4,071,209</u>	<u>4,107,670</u>
Total liabilities	<u>6,630,744</u>	<u>6,616,529</u>	<u>103,022</u>	<u>85,008</u>	<u>6,733,766</u>	<u>6,701,537</u>
Invested in capital assets, net of related debt	93,846,311	87,206,902	555,953	650,004	94,402,264	87,856,906
Restricted net assets	481,331	556,365	-	-	481,331	556,365
Unrestricted net assets (deficit)	<u>(32,104)</u>	<u>147,507</u>	<u>898,829</u>	<u>1,162,018</u>	<u>866,725</u>	<u>1,309,525</u>
Total net assets	<u>\$ 94,295,538</u>	<u>\$ 87,910,774</u>	<u>\$ 1,454,782</u>	<u>\$ 1,812,022</u>	<u>\$ 95,750,320</u>	<u>\$ 89,722,796</u>

The net assets of the Board's governmental activities increased from \$87.9 million at June 30, 2007 to \$94.3 million at June 30, 2008. This increase resulted in large part from construction in progress recorded in our capital assets during the year. The County bond revenue received pays for school construction.

The net assets of our business-type activities decreased from \$1.8 million at June 30, 2007 to \$1.5 million at June 30, 2008. This decrease of \$357,000 is the amount of net loss generated by our school food service operations during the 2008 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, 2008 and 2007**

	Governmental Activities		Business-type Activities		Total Primary Government	
	6/30/08	6/30/07	6/30/08	6/30/07	6/30/08	6/30/07
Revenues:						
Program revenues:						
Charges for services	\$ 180,518	\$ 146,354	\$ 1,247,547	\$ 1,286,450	\$ 1,428,065	\$ 1,432,804
Operating grants and contributions	59,119,707	52,252,186	2,908,554	2,859,708	62,028,261	55,111,894
Capital grants and contributions	8,000,742	16,253,276	-	-	8,000,742	16,253,276
General revenue:						
Other revenues	<u>16,258,062</u>	<u>32,075,185</u>	<u>39,822</u>	<u>50,314</u>	<u>16,297,884</u>	<u>32,125,499</u>
Total revenues	<u>83,559,029</u>	<u>100,727,001</u>	<u>4,195,923</u>	<u>4,196,472</u>	<u>87,754,952</u>	<u>104,923,473</u>
Expenses:						
Governmental activities:						
Instructional services	61,373,844	-	-	-	61,373,844	-
Instructional programs	-	51,066,262	-	-	-	51,066,262
System-wide support	13,507,983	-	-	-	13,507,983	-
Support services	-	32,333,522	-	-	-	32,333,522
Ancillary services	140,498	-	-	-	140,498	-
Community services	-	78,751	-	-	-	78,751
Non-programmed charges	105,238	69,713	-	-	105,238	69,713
Interest on long-term debt	10,570	4,989	-	-	10,570	4,989
Unallocated depreciation	2,036,132	2,082,192	-	-	2,036,132	2,082,192
Business-type activities:						
Food service	-	-	<u>4,553,165</u>	<u>4,381,775</u>	<u>4,553,165</u>	<u>4,381,775</u>
Total expenses	<u>77,174,265</u>	<u>85,635,429</u>	<u>4,553,165</u>	<u>4,381,775</u>	<u>81,727,430</u>	<u>90,017,204</u>
Increase (decrease) in net assets	6,384,764	15,091,572	(357,242)	(185,303)	6,027,522	14,906,269
Beginning 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>
Ending net assets	<u>\$94,295,538</u>	<u>\$87,910,774</u>	<u>\$ 1,454,782</u>	<u>\$ 1,812,024</u>	<u>\$95,750,320</u>	<u>\$89,722,798</u>

During the year ended June 30, 2008, our governmental activities generated revenues of \$83.5 million compared with total expenses of \$77.1 million, resulting in the aforementioned increase in our net assets for these activities of \$6.3 million. The principal factor contributing to this increase was the increase during the year in our capital grants and contributions of \$8 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 74%, 17%, and 6% of our revenues. As would be expected, the major component of our expenditures was instructional services, which accounted for 80% of our total expenditures during the most recent fiscal year. Of the remaining 20% of our total expenditures, 17% was attributable to system-wide supporting services. Due to significant changes in function-level expense coding classification in Governmental Activities during the year, comparisons cannot be made between purpose-level expenses for the years ended June 30, 2008 and June 30, 2007.

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, 2008 of \$3.8 million remained relatively stable during the current year, increasing \$5,068 compared to last year. This increase resulted primarily from the excess expenditures in the General Fund and Non Major Funds of \$39,967 and \$75,034, respectively. These losses were off set by excess revenues of \$93,106 in the Capital Outlay Fund.

Proprietary funds: The Board's business-type fund, the School Food Service Fund, generated a net loss of \$357,242 during the year ended June 30, 2008 compared to a net loss of \$185,303 during the prior year. The primary factor contributing to this decrease was the decrease in food sales of \$38,903, offset by the increase in total operating expenses of \$171,390.

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 finished with expenditures in excess of revenues, net of change in inventories, of \$13,000.

Capital Assets

Capital assets increased by \$6.3 million compared to the previous year. This increase was primarily due to current year additions of \$8.9 million, which includes construction projects of \$8 million, offset by current year depreciation expense of \$2.6 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 on pages 23, 27, and 28 in the notes to the basic financial statements.

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>6/30/08</u>	<u>6/30/07</u>	<u>6/30/08</u>	<u>6/30/07</u>	<u>6/30/08</u>	<u>6/30/07</u>
Land	\$2,182,060	\$2,182,060	\$ -	\$ -	\$2,182,060	\$2,182,060
Construction in progress	24,038,488	16,037,746	-	-	24,038,488	16,037,746
Buildings and improvements	64,291,869	65,923,131	-	-	64,291,869	65,923,131
Equipment and furniture	687,087	745,595	555,953	650,004	1,243,040	1,395,599
Vehicles	<u>3,238,073</u>	<u>3,223,940</u>	<u>-</u>	<u>-</u>	<u>3,238,073</u>	<u>2,223,940</u>
Total	<u>\$94,437,577</u>	<u>\$88,112,472</u>	<u>\$ 555,953</u>	<u>\$ 650,004</u>	<u>\$94,993,530</u>	<u>\$ 88,762,476</u>

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

Debt Outstanding

During the year, the Board's outstanding debt decreased by \$36,461 for the year ended June 30, 2008. 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 on pages 31 through 33 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 5.5% in June of 2007 to 6.9% in June 2008. The County's rate is above the national and state average of 5.9%.

All of these factors were considered in preparing the Board's budget for the new 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, 2008

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 4,118,259	\$ 723,016	\$ 4,841,275
Due from other governments	1,819,409	93,853	1,913,262
Receivables (net)	204,535	7,436	211,971
Internal balances	1,632	(1,632)	-
Inventories	344,870	179,178	524,048
Capital assets (Note 2):			
Land, improvements, and construction in progress	26,220,548	-	26,220,548
Other capital assets, net of depreciation	68,217,029	555,953	68,772,982
Total capital assets	<u>94,437,577</u>	<u>555,953</u>	<u>94,993,530</u>
Total assets	<u>100,926,282</u>	<u>1,557,804</u>	<u>102,484,086</u>
Liabilities			
Accounts payable and accrued expenses	162,478	4,531	167,009
Accrued salaries and benefits payable	1,752,637	-	1,752,637
Due to other governmental units	742,911	-	742,911
Long-term liabilities:			
Due within one year	2,112,739	94,830	2,207,569
Due in more than one year	<u>1,859,979</u>	<u>3,661</u>	<u>1,863,640</u>
Total liabilities	<u>6,630,744</u>	<u>103,022</u>	<u>6,733,766</u>
Net assets			
Invested in capital assets, net of related debt	93,846,311	555,953	94,402,264
Restricted for individual schools	481,331	-	481,331
Unrestricted (deficit)	<u>(32,104)</u>	<u>898,829</u>	<u>866,725</u>
Total net assets	<u>\$ 94,295,538</u>	<u>\$ 1,454,782</u>	<u>\$ 95,750,320</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, 2008**

Exhibit 2

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
Primary government:						
Governmental activities:						
Instructional programs:						
Regular instructional	\$ 38,456,442	\$ -	\$ 35,245,283	\$ -	\$ (3,211,159)	\$ -
Special populations	8,978,667	-	8,194,941	-	(783,726)	-
Alternative programs	5,142,535	-	3,706,528	-	(1,436,007)	-
School leadership	4,481,586	-	3,090,584	-	(1,391,002)	-
Co-curricular	339,576	-	62	-	(339,514)	-
School-based support	3,975,038	-	2,682,675	-	(1,292,363)	-
System-wide support services:						
Support and development	1,005,408	-	627,768	-	(377,640)	-
Special populations support and development	148,741	-	142,111	-	(6,630)	-
Alternative programs and services support and development	220,034	-	94,407	-	(125,627)	-
Technology support	782,959	-	282,974	-	(499,985)	-
Operational support	9,381,983	180,518	3,055,326	8,000,742	1,854,603	-
Financial and human resource	1,121,466	-	490,717	-	(630,749)	-
Accountability	8,588	-	-	-	(8,588)	-
System-wide pupil support	2,020	-	892,761	-	890,741	-
Policy, leadership, and public relations	836,784	-	489,397	-	(347,387)	-
Ancillary services	140,488	-	28,801	-	(111,687)	-
Non-programmed charges	105,238	-	95,372	-	(9,866)	-
Interest on long-term debt	10,570	-	-	-	(10,570)	-
Unallocated depreciation expense	2,036,132	-	-	-	(2,036,132)	-
Total governmental activities	77,174,265	180,518	59,119,707	8,000,742	(9,873,298)	-
Business-type activities:						
School food service	4,553,165	1,247,547	2,908,554	-	-	(397,064)
Total primary government	\$ 81,727,430	\$ 1,428,065	\$ 62,028,261	\$ 8,000,742	\$ (9,873,298)	\$ (397,064)
General revenues:						
Unrestricted county appropriations - operating					13,502,134	-
Unrestricted county appropriations - capital					721,812	-
Unrestricted State appropriation - capital					979,990	-
Unrestricted state and federal appropriations - operating					-	-
Investment earnings, unrestricted					124,305	37,622
Miscellaneous, unrestricted					929,821	2,200
Total general revenues					16,258,062	39,822
Change in net assets					6,384,764	(357,242)
Net assets, beginning					87,910,774	1,812,024
Net assets, ending					\$ 94,295,538	\$ 1,454,782
						\$ 95,750,320

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, 2008

	Major Funds				Total
	General	State Public School	Capital Outlay	Non-major Funds	Governmental Funds
Assets					
Cash and cash equivalents	\$ 3,057,805	\$ -	\$ 579,123	\$ 481,331	\$ 4,118,259
Due from other governments	94,016	1,569,350	22,401	133,642	1,819,409
Accounts receivable	204,535	-	-	-	204,535
Due from other funds	1,632	-	-	-	1,632
Inventories	344,870	-	-	-	344,870
Total assets	\$ 3,702,858	\$ 1,569,350	\$ 601,524	\$ 614,973	\$ 6,488,705
Liabilities and fund balances					
Liabilities:					
Accounts payable and accrued liabilities	\$ 162,478	\$ -	\$ -	\$ -	\$ 162,478
Accrued salaries and benefits	49,645	1,569,350	-	133,642	1,752,637
Due to other governmental units	720,510	-	22,401	-	742,911
Total liabilities	932,633	1,569,350	22,401	133,642	2,658,026
Fund balances:					
Reserved for:					
Inventories	344,870	-	-	-	344,870
State statute	300,183	-	-	-	300,183
Unreserved, General Fund:					
Designated for subsequent year's programs	672,646	-	-	-	672,646
Designated for subsequent year's expenditures	1,004,234	-	516,769	-	1,521,003
Undesignated	448,292	-	-	-	448,292
Unreserved, reported in:					
Special Revenue Funds	-	-	-	481,331	481,331
Capital Projects Fund	-	-	62,354	-	62,354
Total fund balances	2,770,225	-	579,123	481,331	3,830,679
Total liabilities and fund balances	\$ 3,702,858	\$ 1,569,350	\$ 601,524	\$ 614,973	

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.

94,437,577

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.

(3,972,718)

Net assets of governmental activities

\$ 94,295,538

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, 2008

	Major Funds				Total Governmental Funds
	General	State Public School	Capital Outlay	Non-major Funds	
Revenues:					
State of North Carolina	\$ 695,769	\$ 52,333,690	\$ 979,990	\$ -	\$ 54,009,449
Lee County	13,502,134	-	8,722,554	-	22,224,688
U.S. Government	141,754	-	-	5,055,733	5,197,487
Contributions and donations	-	-	-	-	-
Other	1,539,416	-	15,851	892,761	2,448,028
Total revenues	15,879,073	52,333,690	9,718,395	5,948,494	83,879,652
Expenditures:					
Current:					
Instructional programs:					
Regular	3,913,677	33,676,943	-	730,817	38,321,437
Special	752,205	6,308,602	-	1,886,339	8,947,146
Alternative	450,159	1,668,585	-	3,005,738	5,124,482
School leadership	1,375,269	3,090,584	-	-	4,465,853
Co-curricular	338,322	-	-	62	338,384
School-based support	1,278,408	2,594,001	-	88,674	3,961,083
System-wide support services:					
Support and development	374,110	627,036	-	732	1,001,878
Special populations support and	6,108	98,975	-	43,136	148,219
Alternative programs and services support					
and development	124,855	951	-	93,456	219,262
Technology support	434,745	261,494	-	21,480	717,719
Operational support	5,661,776	3,037,299	-	18,027	8,717,102
Financial and human resource	626,812	479,465	-	11,252	1,117,529
Accountability	8,558	-	-	-	8,558
System-wide pupil support	2,013	-	-	-	2,013
Policy, leadership and public relations	344,449	489,397	-	-	833,846
Ancillary services	111,697	358	-	28,443	140,498
Non-programmed charges	115,877	-	-	95,372	211,249
Debt service:					
Principal retirements	-	-	646,292	-	646,292
Interest and fees	-	-	10,570	-	10,570
Capital outlay:					
Real property and buildings	-	-	8,708,677	-	8,708,677
Furnishings and equipment	-	-	238,040	-	238,040
Vehicles and other	-	-	353,698	-	353,698
Total expenditures	15,919,040	52,333,690	9,957,277	6,023,528	84,233,535
Revenues over (under) expenditures	(39,967)	-	(238,882)	(75,034)	(353,883)
Other financing sources (uses):					
Installment purchase obligations issued	-	-	274,335	-	274,335
Capital lease obligations issued	-	-	57,653	-	57,653
Net change in fund balance	(39,967)	-	93,106	(75,034)	(21,895)
Fund balances:					
Beginning of year	2,783,229	-	486,017	556,365	3,825,611
Increase in reserve for inventories	26,963	-	-	-	26,963
End of year	\$ 2,770,225	\$ -	\$ 579,123	\$ 481,331	\$ 3,830,679

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, 2008**

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

Net changes in fund balances - total governmental funds	\$ (21,895)
Change in fund balance due to change in reserve for inventory	26,963
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.	6,403,699
Expenditures in the statement of activities that do not provide current financial resources are not reported as expenses in the funds.	
Loss on disposal of capital assets	(78,594)
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.	314,304
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	(260,434)
Total changes in net assets of governmental activities	<u>\$ 6,384,764</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, 2008**

	General Fund			State Public School Fund				
	Original Budget	Final Budget	Actual	Variance with final budget positive (negative)	Original Budget	Final Budget	Actual	Variance with final budget positive (negative)
Revenues:								
State of North Carolina	\$ -	\$ 700,522	\$ 695,769	\$ (4,753)	\$ 51,416,078	\$ 53,456,541	\$ 52,333,690	\$ (1,122,851)
County appropriations	13,502,134	13,502,134	13,502,134	-	-	-	-	-
U.S. Government	90,000	130,765	141,754	10,989	-	-	-	-
Other	851,859	1,556,227	1,539,416	(16,811)	-	-	-	-
Total revenues	14,443,993	15,889,648	15,879,073	(10,575)	51,416,078	53,456,541	52,333,690	(1,122,851)
Expenditures:								
Current:								
Instructional programs	7,484,666	9,306,267	8,108,040	1,198,227	46,896,811	48,368,502	47,338,715	1,029,787
System-wide support services	7,617,704	8,068,376	7,583,426	484,950	4,519,267	5,082,681	4,994,617	88,064
Ancillary services	97,981	120,514	111,697	8,817	-	5,358	358	-
Nonprogrammed charges	93,642	123,641	115,877	7,764	-	-	-	-
Total expenditures	15,293,993	17,618,798	15,919,040	1,699,758	51,416,078	53,456,541	52,333,690	1,122,851
Revenues over (under) expenditures	(850,000)	(1,729,150)	(39,967)	1,689,183	-	-	-	-
Fund balance appropriated	850,000	1,729,150	-	(1,729,150)	-	-	-	-
Net change in fund balance	\$ -	\$ -	(39,967)	\$ (39,967)	\$ -	\$ -	\$ -	\$ -
Fund balances:								
Beginning of year			2,783,229					
Increase (decrease) in reserve for inventory			26,963					
End of year			\$ 2,770,225				\$ -	

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, 2008

	Enterprise Major Fund School Food Service
Assets	
Current assets:	
Cash and cash equivalents	\$ 723,016
Due from other governments	93,853
Receivables (net)	7,436
Inventories	179,178
Total current assets	<u>1,003,483</u>
Noncurrent assets:	
Capital assets:	
Equipment, furniture, and vehicles, net	555,953
Total capital assets	<u>555,953</u>
Total assets	<u>1,559,436</u>
Liabilities	
Current liabilities:	
Accounts payable and accrued liabilities	4,531
Due to other funds	1,632
Compensated absences	94,830
Total current liabilities	<u>100,993</u>
Noncurrent liabilities:	
Compensated absences	<u>3,661</u>
Total liabilities	<u>104,654</u>
Net assets	
Invested in capital assets	555,953
Unrestricted	<u>898,829</u>
Total net assets	<u>\$ 1,454,782</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, 2008

	Enterprise Major Fund School Food Service
Operating revenues:	
Food sales	\$ 1,247,547
Other	<u>2,200</u>
Total operating revenues	<u>1,249,747</u>
Operating expenses:	
Business support services:	
Purchase of food	1,529,018
Salaries and benefits	2,164,642
Indirect costs	330,172
Materials and supplies	249,095
Repairs and maintenance	131,707
Depreciation	133,489
Other	<u>15,042</u>
Total operating expenses	<u>4,553,165</u>
Operating loss	<u>(3,303,418)</u>
Nonoperating revenues:	
Federal reimbursements	2,512,589
Federal commodities	276,634
State reimbursements	3,771
Indirect costs not paid	115,560
Interest earned	<u>37,622</u>
Total nonoperating revenues	<u>2,946,176</u>
Change in net assets	(357,242)
Net assets, beginning of year	<u>1,812,024</u>
Net assets, end of year	<u>\$ 1,454,782</u>

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, 2008

	Enterprise Major Fund School Food Service
Cash flows from operating activities:	
Cash received from customers	\$ 1,249,747
Cash paid for goods and services	(1,869,910)
Cash paid to employees for services	(2,151,159)
Net cash used by operating activities	(2,771,322)
Cash flows from noncapital financing activities:	
Federal reimbursements	2,441,006
Due to other funds	(47,594)
Net cash provided by noncapital financing activities	2,393,412
Cash flows from investing activities:	
Interest earned on investments	37,622
Acquisition of capital assets	(43,050)
Net cash used by investing activities	(5,428)
Net decrease in cash and cash equivalents	(383,338)
Cash and cash equivalents, beginning of year	1,106,354
Cash and cash equivalents, end of year	\$ 723,016
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (3,303,418)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	133,489
Donated commodities consumed	276,634
Indirect costs not paid	115,560
Loss on disposal of fixed assets	3,610
Changes in assets and liabilities:	
Decrease in accounts receivable	(190)
Decrease in inventories	(15,021)
Increase in accounts payable and accrued liabilities	605
Increase in compensated absences payable	17,409
Total adjustments	532,096
Net cash used by operating activities	\$ (2,771,322)

NONCASH OPERATING AND NONCAPITAL FINANCING ACTIVITIES:

The School Food Service Fund received donated commodities with a value of \$276,634 during the fiscal year. receipt of these commodities is reflected as a nonoperating revenue on Exhibit 8.

Indirect costs of \$115,560 that would be due to the General Fund were not paid. These unpaid costs are 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 NET ASSETS AND LIABILITIES
FIDUCIARY FUND
June 30, 2008**

Flexible
Benefits
Fund

Assets

Cash and cash equivalents

\$ 64,545

Liabilities

Benefits payable

64,545

Net assets

Net assets

\$ -

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

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 fund. Separate statements for each fund category – *governmental*, *proprietary*, and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. The fiduciary fund is presented separately.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities. 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, 2008**

Capital Outlay Fund. The Capital Outlay Fund accounts for financial resources to be used for the acquisition and construction of major capital facilities (other than those financed by proprietary funds and trust funds). It is mandated by State law [G.S.115C-426]. Capital projects are funded by 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.

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

E. Assets, Liabilities, and Fund Equity

1. Deposits and Investments

All deposits of the Board are made in board-designated official depositories and are secured as required by State law [G.S. 115C-444]. The Board may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Board may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit. The Board also has money credited in its name with the State Treasurer and may issue State warrants against these funds.

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

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

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.

**LEE COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008**

4. Capital Assets

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

It is the policy of the Board to capitalize 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.

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

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

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, 2008 is recorded in the government-wide and proprietary fund financial statements on a FIFO basis. An estimate has been made based on prior years' records of the current portion of compensated absences.

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

**LEE COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008**

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 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.

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 2008-2009 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)	\$129,581,697
Less accumulated depreciation	<u>(35,144,120)</u>
Net capital assets	94,437,577

LEE COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008

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:

Lease and installment financing	(591,266)
Compensated absences	<u>(3,381,452)</u>
Total adjustment	<u>\$ 90,464,859</u>

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

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

<u>Description</u>	<u>Amount</u>
Capital outlay expenditures recorded in the fund statements but capitalized as assets in the statement of activities	\$ 8,874,339
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	(2,470,640)
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.	(331,988)
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	647,013
Compensated absences are accrued in the government-wide statements but not in the fund statements because they do not use current resources	(260,434)
Revenues reported in the statement of activities that do not provide current resources are not recorded as revenues in the fund statements:	
Loss on disposal of capital assets	(78,594)
Adjustment due to the use of the consumption method of recording inventory in the government-wide statements	<u>26,963</u>
Total adjustment	<u>\$ 6,406,659</u>

NOTE 2 - DETAIL NOTES ON ALL FUNDS

A. Assets

1. Deposits

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

At June 30, 2008, the Board had deposits with banks and savings and loans with a carrying amount of \$2,642,069 and none with the State Treasurer. The bank balances with the financial institutions and the State Treasurer were \$3,057,294 and \$548,010, respectively. Of these balances, \$100,000 was covered by federal depository insurance and \$3,505,304 was covered by collateral held by authorized escrow agents in the name of the State Treasurer.

2. Investments

At June 30, 2008, the Board of Education had \$2,263,601 invested with the State Treasurer in the Short Term Investment Fund (STIF). The STIF is unrated and had a weighted average maturity of 2.9 years at June 30, 2008.

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. The Board has no policy regarding credit risk.

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

LEE COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008

3. Accounts Receivable

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

	<u>Due from other funds (Internal Balances)</u>	<u>Due from other governments</u>	<u>Other</u>	<u>Total</u>
Governmental activities:				
General Fund	\$ 1,632	\$ 94,016	\$ 204,535	\$ 300,183
Other governmental activities	-	1,725,393	-	1,725,393
Total	<u>\$ 1,632</u>	<u>\$1,819,409</u>	<u>\$ 204,535</u>	<u>\$ 2,025,576</u>
Business-type activities:				
School Food Service	<u>\$ (1,632)</u>	<u>\$ 93,853</u>	<u>\$ 7,436</u>	<u>\$ 99,657</u>

Due from other governments consists of the following:

Governmental activities:		
State Public School Fund	1,569,350	Operating funds from DPI
General Fund	94,016	Sales tax and county appropriations
Capital Outlay Fund	22,401	PSBCF – Lottery Proceeds
Federal Grants Fund	133,642	Federal grant funds
	<u>\$1,819,409</u>	
Business-type activities:		
School Food Service	<u>\$ 93,853</u>	USDA reimbursement

4. Capital Assets

Capital asset activity for the year ended June 30, 2008 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	8,000,742	-	24,038,488
Total capital assets not being depreciated	<u>18,219,806</u>	<u>8,000,742</u>	<u>-</u>	<u>26,220,548</u>
Capital assets being depreciated:				
Buildings and improvements	94,053,271	310,619	74,650	94,289,240
Equipment and furniture	2,240,783	102,789	123,629	2,219,943
Vehicles	6,808,151	460,189	416,374	6,851,966
Total capital assets being depreciated	<u>103,102,205</u>	<u>873,597</u>	<u>614,653</u>	<u>103,361,149</u>

LEE COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008

Less accumulated depreciation for:				
Buildings and improvements	\$28,130,140	\$ 1,867,231	\$ -	\$ 29,997,371
Equipment and furniture	1,495,188	161,297	123,629	1,523,856
Vehicles	<u>3,584,211</u>	<u>442,112</u>	<u>412,430</u>	<u>3,613,893</u>
Total accumulated depreciation	<u>33,209,539</u>	<u>2,470,640</u>	<u>536,059</u>	<u>35,144,120</u>
 Total capital assets being depreciated, net	 <u>69,892,666</u>			 <u>68,217,029</u>
 Governmental activity capital assets, net	 <u>\$88,112,472</u>			 <u>\$ 94,437,577</u>
 Business-type activities:				
School Food Service Fund:				
Capital assets being depreciated:				
Equipment and furniture	\$ 2,250,038	43,050	39,301	\$ 2,253,787
Vehicles	<u>32,483</u>	<u>-</u>	<u>5,600</u>	<u>26,883</u>
Total capital assets being depreciated	<u>2,282,521</u>	<u>43,050</u>	<u>44,901</u>	<u>2,280,670</u>
 Less accumulated depreciation for:				
Equipment and furniture	1,600,034	133,488	35,688	1,697,834
Vehicles	<u>32,483</u>	<u>-</u>	<u>5,600</u>	<u>26,883</u>
Total accumulated depreciation	<u>1,632,517</u>	<u>133,488</u>	<u>41,288</u>	<u>1,724,717</u>
 School Food Service capital assets, net	 <u>\$ 650,004</u>			 <u>\$ 555,953</u>

Depreciation was charged to governmental functions as follows:

Unallocated depreciation	\$ 2,036,132
Technology support services	62,711
Operational support services	<u>371,797</u>
Total	<u>\$ 2,470,640</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.

**LEE COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008**

Funding Policy. Plan members are required to contribute six percent of their annual covered salary and the Board is required to contribute at an actuarially determined rate. The current rate is 7.83% of annual covered payroll. The contribution requirements of plan members and 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, 2008, 2007, and 2006 were \$3,826,480, \$3,227,582 and \$2,851,042, 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, 2008, the Board made contributions to the State for post-employment health care benefits of \$2,003,648 these contributions represented 4.10% 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-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.

**LEE COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008**

3. Accounts Payable

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

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Total</u>
Governmental activities:			
General	\$ 162,478	\$ 49,645	\$ 212,123
Other governmental	-	1,702,992	1,702,992
Total governmental activities	<u>\$ 162,478</u>	<u>\$ 1,752,637</u>	<u>\$ 1,915,115</u>
Business activities:			
School Food Service	<u>\$ 4,531</u>	<u>\$ -</u>	<u>\$ 4,531</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.

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

In accordance with G.S. 115C-442, the Board's employees who have custody of the Board's monies at any given time of the Board's funds are performance bonded through a commercial surety bond. The finance officer is bonded for \$250,000. The remaining employees that have access to funds are bonded under a blanket bond for \$175,000.

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

LEE COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008

5. Construction and Other Significant Commitments

a. Construction commitments

The Board has two construction projects outstanding as of June 30, 2008. 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>\$ 21,512,258</u>	<u>\$ 355,024</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:

June 30

2009	\$ 42,822
2010	24,900
2011	<u>24,900</u>
	<u>\$ 92,622</u>

Rental expenditures during the fiscal year ended June 30, 2008 were \$155,355.

6. Contingent Liabilities

At June 30, 2008, the Board was a defendant to various lawsuits. In the opinion of the Board's management and the Board's 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 computer and telephone systems. 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, 2008

At June 30, 2008, the assets recorded under the capital leases, net of accumulated depreciation of \$32,182, amounted to \$187,445. The following is a schedule of future minimum lease payments and the net present value of the minimum lease payments as of June 30, 2008:

<u>Year Ending June 30</u>	<u>General Long-Term Debt</u>
2009	\$ 65,975
2010	65,975
2011	46,636
2012	<u>29,800</u>
Total minimum lease payments	208,386
Less: amount representing interest	<u>19,598</u>
Present value of the minimum lease payments	<u>\$ 188,788</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 SunTrust Equipment Finance & Leasing Corporation at total payments less than the purchase price. 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, 2008 are as follows:

<u>Year Ending June 30:</u>	<u>Governmental Activities Principal</u>
2009	<u>\$ 402,478</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, 2008:

	<u>July 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2008</u>	<u>Current portion</u>
Governmental activities:					
Capital leases	\$ 200,862	\$ 57,653	\$ 69,727	\$ 188,788	\$ 65,975
Installment purchases	704,708	274,335	576,565	402,478	402,478
Compensated absences	<u>3,121,018</u>	<u>1,778,080</u>	<u>1,517,646</u>	<u>3,381,452</u>	<u>1,644,286</u>
Total	<u>\$4,026,588</u>	<u>\$2,110,068</u>	<u>\$2,163,938</u>	<u>\$3,972,718</u>	<u>\$2,112,739</u>
Business-type activities:					
Compensated absences	<u>\$ 81,082</u>	<u>\$ 95,477</u>	<u>\$ 78,068</u>	<u>\$ 98,491</u>	<u>\$ 94,830</u>

LEE COUNTY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2008

The Board entered into one capital lease agreement for a computer system in the amount of \$57,653 for the fiscal year ended June 30, 2008. The increase in installment purchases of \$274,335 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, 2008 is as follows:

<u>Receivable</u>	<u>Payable</u>	<u>Amount</u>
General Fund	School Food Service Fund	<u>\$ 1,632</u>

The above amount represents \$1,632 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.

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, 2008

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
State of North Carolina:			
Smart Start	-	100,000	-
More at Four	-	328,364	-
School Nurse Funding Initiative	-	140,909	-
School Connectivity	-	122,500	-
Crime Stopper's Grant	-	3,996	-
Total State of North Carolina	<u>700,522</u>	<u>695,769</u>	<u>(4,753)</u>
Lee County appropriations	<u>13,502,134</u>	<u>13,502,134</u>	<u>-</u>
U.S. Government:			
COPS	-	29,483	-
JROTC	-	112,271	-
Total U.S. Government	<u>130,765</u>	<u>141,754</u>	<u>10,989</u>
Other:			
Tuition and fees	-	53,628	-
Medicaid reimbursements	-	95,242	-
ABC revenues	-	15,000	-
Contributions and donations	-	65,787	-
Fines and forfeitures	-	439,800	-
Interest earned on investments	-	108,454	-
Rental of school property	-	31,648	-
Indirect costs allocated	-	320,624	-
Insurance Settlement	-	14,990	-
Miscellaneous	-	394,243	-
Total other	<u>1,556,227</u>	<u>1,539,416</u>	<u>(16,811)</u>
Total revenues	<u>15,889,648</u>	<u>15,879,073</u>	<u>(10,575)</u>
Expenditures:			
Instructional programs:			
Regular	-	3,913,677	-
Special	-	752,205	-
Alternative	-	450,159	-
School leadership	-	1,375,269	-
Co-curricular	-	338,322	-
School based support	-	1,278,408	-
Total instructional programs	<u>9,306,267</u>	<u>8,108,040</u>	<u>1,198,227</u>
System-wide support services:			
Support and development	-	374,110	-
Special populations support and development	-	6,108	-
Alternative programs and services support and development	-	124,855	-

(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, 2008

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures: (Continued)			
Technology support	-	434,745	-
Operational support	-	5,661,776	-
Financial and human resource	-	626,812	-
Accountability	-	8,558	-
System-wide pupil support	-	2,013	-
Policy, leadership, and public relations	-	344,449	-
Total system-wide supporting services	<u>8,068,376</u>	<u>7,583,426</u>	<u>484,950</u>
Ancillary Services	<u>120,514</u>	<u>111,697</u>	<u>8,817</u>
Nonprogrammed charges	<u>123,641</u>	<u>115,877</u>	<u>7,764</u>
Total expenditures	<u>17,618,798</u>	<u>15,919,040</u>	<u>1,699,758</u>
Revenues over (under) expenditures	(1,729,150)	(39,967)	1,689,183
Fund balance appropriated	<u>1,729,150</u>	<u>-</u>	<u>(1,729,150)</u>
Net change in fund balance	<u>\$ -</u>	<u>(39,967)</u>	<u>\$ (39,967)</u>
Fund balance:			
Beginning of year		2,783,229	
Increase (decrease) in reserve for inventory		<u>26,963</u>	
End of year		<u>\$ 2,770,225</u>	

**LEE COUNTY BOARD OF EDUCATION
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2008**

	<u>Individual Schools</u>	<u>Federal Grant Funds</u>	<u>Totals</u>
Assets			
Cash and cash equivalents	\$ 481,331	\$ -	\$ 481,331
Due from other governments	<u>-</u>	<u>133,642</u>	<u>133,642</u>
Total assets	<u>\$ 481,331</u>	<u>\$ 133,642</u>	<u>\$ 614,973</u>
Liabilities			
Accrued salaries and wages payable	\$ -	\$ 133,642	\$ 133,642
Fund balances			
Fund balance - undesignated	<u>481,331</u>	<u>-</u>	<u>481,331</u>
Total liabilities and fund balances	<u>\$ 481,331</u>	<u>\$ 133,642</u>	<u>\$ 614,973</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, 2008

	Individual Schools	Federal Grants Fund	Totals
Revenues:			
U.S. Government	\$ -	\$ 5,055,733	\$ 5,055,733
Other	892,761	-	892,761
Total revenues	892,761	5,055,733	5,948,494
Expenditures:			
Instructional programs:			
Regular	-	730,817	730,817
Special	-	1,886,339	1,886,339
Alternative	967,795	2,037,943	3,005,738
Co-curricular	-	62	62
School-based support	-	88,674	88,674
Total instructional programs	967,795	4,743,835	5,711,630
System-wide support services			
Support and development	-	732	732
Special populations support and development	-	43,136	43,136
Alternative programs and services support and development	-	93,456	93,456
Technology support	-	21,480	21,480
Operational support	-	18,027	18,027
Financial and human resource	-	11,252	11,252
Total supporting services	-	188,083	188,083
Ancillary services	-	28,443	28,443
Nonprogrammed charges	-	95,372	95,372
Total expenditures	967,795	5,055,733	6,023,528
Net change in fund balance	(75,034)	-	(75,034)
Fund balances:			
Beginning of year	556,365	-	556,365
End of year	\$ 481,331	\$ -	\$ 481,331

LEE COUNTY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
INDIVIDUAL SCHOOLS
For the Fiscal Year Ended June 30, 2008

	Elementary Schools	Middle Schools	High Schools	Special Schools	Total
Revenues:					
General	\$ 59,566	\$ 21,833	\$ 88,863	\$ 3,729	\$ 173,991
Athletics	-	22,981	224,037	-	247,018
Fundraising (net)	62,004	1,802	(12,671)	(9,567)	41,568
Clubs, classes, and organizations	-	10,773	103,389	1,820	115,982
Contributions and grants	<u>130,736</u>	<u>28,124</u>	<u>84,435</u>	<u>70,907</u>	<u>314,202</u>
Total revenues	<u>252,306</u>	<u>85,513</u>	<u>488,053</u>	<u>66,889</u>	<u>892,761</u>
Expenditures:					
Instructional programs:					
General	118,500	50,445	116,628	6,108	291,681
Athletics	-	29,241	234,982	-	264,223
Clubs, classes, and organizations	-	12,510	98,178	1,828	112,516
Contributions and grants	<u>122,672</u>	<u>29,912</u>	<u>80,424</u>	<u>66,367</u>	<u>299,375</u>
Total expenditures	<u>241,172</u>	<u>122,108</u>	<u>530,212</u>	<u>74,303</u>	<u>967,795</u>
Net change in fund balance	11,134	(36,595)	(42,159)	(7,414)	(75,034)
Fund balances, beginning of year	<u>157,815</u>	<u>120,952</u>	<u>230,780</u>	<u>46,818</u>	<u>556,365</u>
Fund balances, end of year	<u>\$ 168,949</u>	<u>\$ 84,357</u>	<u>\$ 188,621</u>	<u>\$ 39,404</u>	<u>\$ 481,331</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, 2008

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
U.S. Government	<u>\$ 6,706,442</u>	<u>\$ 5,055,733</u>	<u>\$ (1,650,709)</u>
Expenditures:			
Instructional programs:			
Regular	1,013,839	730,817	283,022
Special	2,752,297	1,886,339	865,958
Alternative	2,396,072	2,037,943	358,129
Co-curricular	62	62	-
School-based support	<u>152,759</u>	<u>88,674</u>	<u>64,085</u>
Total instructional programs	<u>6,315,029</u>	<u>4,743,835</u>	<u>1,571,194</u>
System-wide supporting services			
Support and development	1,433	732	701
Special populations support and development	53,189	43,136	10,053
Alternative programs and services support and development	100,611	93,456	7,155
Technology support	25,608	21,480	4,128
Operational support	31,677	18,027	13,650
Financial and human resource	12,306	11,252	1,054
Total supporting services	<u>224,824</u>	<u>188,083</u>	<u>36,741</u>
Ancillary services	31,594	28,443	3,151
Nonprogrammed charges	<u>134,995</u>	<u>95,372</u>	<u>39,623</u>
Total expenditures	<u>6,706,442</u>	<u>5,055,733</u>	<u>1,650,709</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, 2008

	Budget	Actual	Variance Positive (Negative)
Revenues:			
State of North Carolina:			
State appropriations - buses	\$ -	\$ 576,565	\$ -
Public School Building Capital Fund - Lottery	-	403,425	-
Total State of North Carolina	<u>1,086,835</u>	<u>979,990</u>	<u>(106,845)</u>
Lee County:			
County installment purchase proceeds	-	8,000,742	-
County appropriations	-	721,812	-
Total Lee County	<u>8,802,130</u>	<u>8,722,554</u>	<u>(79,576)</u>
Other:			
Interest earned on investments	<u>15,965</u>	<u>15,851</u>	<u>(114)</u>
Total other	<u>15,965</u>	<u>15,851</u>	<u>(114)</u>
Total revenues	<u>9,904,930</u>	<u>9,718,395</u>	<u>(186,535)</u>
Expenditures:			
Capital outlay:			
Real property and buildings:			
Lee County High School - Lottery	-	326,869	-
Broadway Elementary - Lottery	-	26,417	-
Deep River Elementary - Lottery	-	50,139	-
Other real property and buildings	-	8,305,252	-
Total real property and buildings	-	<u>8,708,677</u>	-
Total furnishings and equipment	-	<u>238,040</u>	-
Total vehicles and other	-	<u>353,698</u>	-
Total expenditures	<u>9,885,525</u>	<u>9,300,415</u>	<u>585,110</u>
Debt service:			
Principal retirements	-	646,292	-
Interest and fees	-	10,570	-
Total debt service	<u>656,862</u>	<u>656,862</u>	-
Total expenditures and debt service	<u>10,542,387</u>	<u>9,957,277</u>	<u>585,110</u>
Revenues over (under) expenditures	<u>(637,457)</u>	<u>(238,882)</u>	<u>398,575</u>
Other financing sources (uses):			
Installment purchase obligations issued	274,335	274,335	-
Capital lease obligations issued	57,653	57,653	-
Fund balance appropriated	<u>305,469</u>	-	<u>(305,469)</u>
Net change in fund balance	<u>\$ -</u>	<u>93,106</u>	<u>\$ 425,094</u>
Fund balance:			
Beginning of year		<u>486,017</u>	
End of year		<u>\$ 579,123</u>	

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, 2008

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Operating revenues:			
Food sales	\$ 1,324,700	\$ 1,247,547	\$ (77,153)
Other	<u>7,000</u>	<u>2,200</u>	<u>(4,800)</u>
Total operating revenues	<u>1,331,700</u>	<u>1,249,747</u>	<u>(81,953)</u>
Operating expenditures:			
Business support services:			
Purchase of food	-	1,544,039	-
Salaries and benefits	-	2,147,721	-
Indirect costs	-	330,172	-
Materials and supplies	-	249,095	-
Repairs and maintenance	-	131,707	-
Other	-	<u>15,042</u>	-
Total operating expenditures	<u>4,667,100</u>	<u>4,417,776</u>	<u>249,324</u>
Operating income (loss)	<u>(3,335,400)</u>	<u>(3,168,029)</u>	<u>167,371</u>
Nonoperating revenues:			
Federal reimbursements	2,652,000	2,512,589	(139,411)
Federal commodities	285,000	276,634	(8,366)
State reimbursements	4,000	3,771	(229)
Indirect costs not paid	120,000	115,560	(4,440)
Interest earned	<u>40,000</u>	<u>37,622</u>	<u>(2,378)</u>
Total nonoperating revenues	<u>3,101,000</u>	<u>2,946,176</u>	<u>(154,824)</u>
Revenues over (under) expenditures	<u>(234,400)</u>	<u>(221,853)</u>	<u>12,547</u>
Fund balance appropriated	<u>234,400</u>	<u>-</u>	<u>(234,400)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (221,853)</u>	<u>\$ (221,853)</u>
Reconciliation of modified accrual to full accrual basis:			
Revenues and fund balance			
appropriated over (under) expenditures		\$ (221,853)	
Reconciling items:			
Depreciation		(133,489)	
(Increase) decrease in compensated absences payable		(16,921)	
Increase (decrease) in inventory		<u>15,021</u>	
Change in net assets		<u>\$ (357,242)</u>	

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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 Six Fiscal Years
(accrual basis of accounting)

	Fiscal Year					
	2008	2007	2006	2005	2004	2003
Governmental activities						
Invested in capital assets, net of related debt	\$ 93,846,311	\$ 87,206,902	\$ 72,129,510	\$ 72,484,255	\$ 50,639,280	\$ 51,439,751
Restricted	481,331	556,365	546,007	465,513	485,506	456,460
Unrestricted	(32,104)	147,507	143,685	743,697	241,355	691,563
Total governmental activities net assets	\$ 94,295,538	\$ 87,910,774	\$ 72,819,202	\$ 73,693,465	\$ 51,366,141	\$ 52,587,774
Business-type activities						
Invested in capital assets, net of related debt	\$ 555,953	\$ 650,004	\$ 751,907	\$ 716,521	\$ 790,336	\$ 920,388
Unrestricted	898,829	1,162,018	1,245,420	1,259,344	1,266,889	1,076,123
Total business-type activities net assets	\$ 1,454,782	\$ 1,812,022	\$ 1,997,327	\$ 1,975,865	\$ 2,057,225	\$ 1,996,511
Government-wide						
Invested in capital assets, net of related debt	\$ 94,402,264	\$ 87,856,906	\$ 72,881,417	\$ 73,200,776	\$ 51,429,616	\$ 52,360,139
Restricted	481,331	556,365	546,007	465,513	485,506	456,460
Unrestricted	866,725	1,309,525	1,389,105	2,003,041	1,508,244	1,767,686
Total government-wide net assets	\$ 95,750,320	\$ 89,722,796	\$ 74,816,529	\$ 75,669,330	\$ 53,423,366	\$ 54,584,285

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 Six Fiscal Years
 (accrual basis of accounting)

	Fiscal Year					
	2008	2007	2006	2005	2004	2003
Expenses						
Governmental activities:						
Instructional programs	\$ 61,373,844	\$ 51,066,262	\$ 48,857,183	\$ 46,135,412	\$ 43,728,609	\$ 42,107,772
Support services	13,507,983	32,333,522	15,524,447	14,109,071	13,722,341	13,657,593
Unallocated depreciation expense	2,036,132	2,082,192	1,994,089	1,549,697	1,448,206	1,366,544
Other	256,306	153,453	181,002	128,089	141,459	99,612
Total governmental activities expenses	77,174,265	85,635,429	66,556,721	61,922,269	59,040,615	57,231,521
Business-type activities:						
Child nutrition	4,553,165	4,381,775	4,174,877	3,959,035	3,588,344	3,447,142
Total government-wide expenses	81,727,430	90,017,204	70,731,598	65,881,304	62,628,959	60,678,663
Program Revenues						
Governmental activities:						
Charges for services	180,518	146,354	169,516	143,235	167,843	98,679
Operating grants and contributions	59,119,707	52,252,186	49,399,802	48,032,707	45,264,296	44,852,918
Capital grants and contributions	8,000,742	16,253,276	585,030	644,135	683,163	1,669,094
Total governmental activities program revenues	67,300,967	68,651,816	50,154,348	48,820,077	46,115,302	46,620,691
Business-type activities:						
Charges for services	1,247,547	1,286,450	1,317,207	1,355,363	1,312,672	1,367,763
Operating grants and contributions	2,908,554	2,859,708	2,836,504	2,494,529	2,320,693	2,113,441
Total business-type activities program revenues	4,156,101	4,146,158	4,153,711	3,849,892	3,633,365	3,481,204
Total government-wide program revenues	71,457,068	72,797,974	54,308,059	52,669,969	49,748,667	50,101,895
Net (Expense)	\$ (10,270,362)	\$ (17,219,230)	\$ (16,423,539)	\$ (13,211,335)	\$ (12,880,292)	\$ (10,576,768)

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 Six Fiscal Years
(accrual basis of accounting)

	Fiscal Year					
	2008	2007	2006	2005	2004	2003
Net (Expense)						
Total government-wide net (expense)	\$ (10,270,362)	\$ (17,219,230)	\$ (16,423,539)	\$ (13,211,335)	\$ (12,880,292)	\$ (10,576,768)
General revenues and transfers:						
Governmental activities:						
State of North Carolina	979,990	518,535	644,189	256,158	428,098	338,066
Lee County - unrestricted	13,502,134	12,666,167	12,171,984	9,871,984	9,127,384	8,705,974
Lee County - restricted construction proceeds	721,812	16,808,163	743,000	743,000	1,048,841	397,800
Other revenues	1,054,126	2,082,320	1,968,937	1,597,375	1,099,357	877,952
Transfers in (out)	-	-	-	-	-	-
Total governmental activities general revenues and transfers	16,258,062	32,075,185	15,528,110	12,468,517	11,703,680	10,319,792
Business-type activities:						
Other revenues	39,822	50,314	42,628	27,783	15,693	20,071
Transfers in (out)	-	-	-	-	-	-
Total business-type activities general revenues and transfers	39,822	50,314	42,628	27,783	15,693	20,071
Total government-wide general revenues and transfers	16,297,884	32,125,499	15,570,738	12,496,300	11,719,373	10,339,863
Change in Net Assets	<u>\$ 6,027,522</u>	<u>\$ 14,906,269</u>	<u>\$ (852,801)</u>	<u>\$ (715,035)</u>	<u>\$ (1,160,919)</u>	<u>\$ (236,905)</u>

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									
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
General Fund										
Reserved	\$ 645,053	\$ 1,160,174	\$ 790,428	\$ 1,148,331	\$ 815,196	\$ 546,363	\$ 369,047	\$ 424,484	\$ 376,416	\$ 664,893
Unreserved	2,125,172	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
Total general fund	<u>\$ 2,770,225</u>	<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>
All Other Governmental Funds										
Reserved	\$ -	\$ 7,120	\$ 196,675	\$ 207,737	\$ 296,149	\$ 220,072	\$ 100,142	\$ 36,397	\$ 43,505	\$ 1,270,417
Unreserved, reported in:										
Capital projects fund	579,123	478,896	220,983	190,978	82,005	108,545	87,288	51,038	409,856	(688,076)
Special revenue funds	481,331	556,365	546,007	465,513	485,506	456,460	437,587	461,595	352,276	392,277
Total all other governmental funds	<u>\$ 1,060,454</u>	<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>

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 Trend Information
Schedule 5

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Revenues:										
State of North Carolina	\$54,009,449	\$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
U. S. Government	5,197,487	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
Local sources:										
Lee County - unrestricted	13,502,134	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
Lee County - restricted	8,722,554	16,808,163	743,000	743,000	1,048,841	397,800	395,511	400,000	655,775	5,730,876
Supplemental city school tax	-	-	-	-	-	-	-	-	-	-
Local option sales tax	-	-	-	-	-	-	-	-	-	-
Other revenues	2,448,028	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
Total revenues	83,879,652	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
Expenditures:										
Instructional programs	61,158,385	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
Support services	12,766,126	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
Capital Outlay	9,300,415	18,130,594	1,255,991	1,236,904	1,120,763	725,576	284,747	744,651	1,224,468	5,921,414
Other	1,008,609	809,953	434,673	500,667	218,876	155,363	167,948	135,366	183,301	80,332
Total expenditures	84,233,535	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
Revenues over (under) expenditures	(353,883)	(1,414,185)	(220,513)	(239,492)	101,387	(14,985)	571,911	(115,443)	(256,912)	330,667
Other financing (uses)										
Installment purchase obligates issued	274,335	236,448	-	447,566	-	-	-	-	-	-
Capital lease obligations issued	57,653	1,181,024	-	21,319	19,252	-	-	-	-	40,734
Total other financing (uses)	331,988	1,417,472	-	468,885	19,252	-	-	-	-	40,734
Extraordinary item									146,341	
Net change in fund balances	\$ (21,895)	\$ 3,287	\$ (220,513)	\$ 229,393	\$ 120,639	\$ (14,985)	\$ 571,911	\$ (115,443)	\$ (110,571)	\$ 371,401

Note: The extraordinary item listed in 2000 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							
2008	2,292,577,157	1,033,165,900	1,193,221,817	120,626,826	37,898,777	4,601,692,923	0.75	4,601,692,923	100.00%
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%

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)

	2008 (1)	2007	2006	2005	2004 (1)	2003	2002	2001	2000	1999
County:										
Lee	0.750	0.790	0.790	0.670	0.670	0.780	0.780	0.750	0.750	0.710
Municipalities:										
Town of Broadway	0.440	0.470	0.490	0.490	0.490	0.530	0.530	0.530	0.530	0.590
City of Sanford	0.550	0.610	0.590	0.590	0.560	0.570	0.570	0.570	0.550	0.550
Fire Districts										
Cameron	0.080	0.067	0.068	0.068	0.071	0.066	0.070	0.086	0.095	0.078
Cape Fear	0.730	0.058	0.066	0.066	0.068	0.082	0.079	0.055	0.055	0.040
Carolina Trace	0.064	0.052	0.040	0.037	0.037	0.038	0.034	0.035	0.035	0.028
Deep River	0.086	0.068	0.082	0.076	0.076	0.085	0.081	0.081	0.073	0.053
Lemon Springs	0.067	0.065	0.072	0.072	0.070	0.053	0.056	0.056	0.047	0.042
Northview	0.071	0.064	0.060	0.077	0.070	0.061	0.064	0.065	0.039	0.044
Northwest Pocket	0.099	0.086	0.085	0.079	0.084	0.084	0.086	0.078	0.081	0.061
Tramway	0.075	0.069	0.049	0.042	0.038	0.041	0.041	0.037	0.036	0.031
West Sanford	0.086	0.091	0.082	0.082	0.088	0.103	0.087	0.083	0.051	0.099
Other Districts: (3)										
Central Business District	0.130	0.150	0.150	0.130	0.130	0.130	0.130	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.
- (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, 2008.

Source: Lee County Tax Department

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

		Fiscal Year 2008				Fiscal Year 1999			
Taxpayer	Type of Business	Taxable Assessed		Percentage of Total Taxable Assessed		Taxable Assessed		Percentage of Total Taxable Assessed	
		Value	Rank	Value	Rank	Value	Rank	Value	Rank
Wyeth	Pharmaceuticals	\$ 262,883,015	1	5.7%		\$ 43,534,123	3	1.7%	
Donald R. Simpson	Real Estate	61,857,804	2	1.3%		-		0.0%	
GKN Automotive Components, Inc.	Automotive Parts	55,368,986	3	1.2%		63,519,763	1	2.4%	
Coty, Inc.	Cosmetics	51,936,118	4	1.1%		33,229,674	6	1.3%	
Altel Carolina Inc.	Utility	42,397,238	5	0.9%		32,342,229	7	1.2%	
Progress Energy	Utility	41,803,015	6	0.9%		26,628,860	8	1.0%	
Lee Brick	Brick Manufacturing	38,018,203	7	0.8%				0.0%	
Moen, Inc.	Plumbing Fixtures	32,869,492	8	0.7%		33,943,872	5	1.3%	
Commercial Grading, Inc.	Construction	30,376,756	9	0.7%		-		0.0%	
Martin Marietta	Rock Quarry	29,551,667	10	0.6%		21,598,994	9	0.8%	
Frontier Spinning Mills LLC	Textiles	-		0.0%		45,408,449	2	1.7%	
Parkdale America LLC	Textiles	-		0.0%		36,612,491	4	1.4%	
Tyson Foods, Inc.	Food Production	-		0.0%		19,421,981	10	0.7%	
Totals		\$ 647,062,294		14.1%		\$ 356,240,436		13.5%	

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
2008	34,682,275	33,618,528	96.9%	-	\$ 33,618,528	96.9%
2007	31,896,203	30,887,929	96.8%	678,990	\$ 31,566,919	99.0%
2006	30,865,687	29,860,345	96.7%	811,144	\$ 30,671,489	99.4%
2005	24,701,551	23,797,835	96.3%	734,788	\$ 24,532,623	99.3%
2004	24,499,755	23,471,377	95.8%	879,933	\$ 24,351,310	99.4%
2003	23,574,692	22,393,187	95.0%	1,053,999	\$ 23,447,186	99.5%
2002	22,784,612	21,820,606	95.8%	832,144	\$ 22,652,750	99.4%
2001	21,266,214	20,301,075	95.5%	850,752	\$ 21,151,827	99.5%
2000	20,852,055	20,080,240	96.3%	727,099	\$ 20,807,339	99.8%
1999	19,183,266	18,569,496	96.8%	505,922	\$ 19,075,418	99.4%

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 Six Fiscal Years

Fiscal Year	Real Property		Total Primary Government	Population Estimate	Per Capita
	Capital Leases	Installment Purchases			
2008	\$188,788	\$402,478	\$591,266	57,973	10.20
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, 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			
2008	10,635,000	52,575,000	1,932,754	-	-	-	65,142,754	*	1,124
2007	13,410,000	53,075,000	2,386,899	-	-	-	68,871,899	4.18%	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

* Information not yet available

Source: County of Lee, North Carolina, Annual Financial Report for the year ended June 30, 2008.

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

(1) See Schedule 15 for personal income and population data. These ratios are calculated using personal income and population for the prior calendar year. Calendar 2007 personal income not available to calculate fiscal year 2008.

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)
2008	10,635,000	-	10,635,000	*	0.23%	183
2007	13,410,000	-	13,410,000	0.81%	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

* Information not yet available

Source: County of Lee, North Carolina, Annual Financial Report for the year ended June 30, 2008.

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

(1) See Schedule 15 for personal income and population data. These ratios are calculated using personal income and population for the prior calendar year. Calendar 2007 personal income not available to calculate fiscal year 2008.

(2) See Schedule 6 for property value data.

LEE COUNTY, NC
Direct and Overlapping Governmental Activities Debt
General Obligation Bonds
As of June 30, 2008

<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	\$ 10,635,000	100%	\$ 10,635,000
Underlying Debt:			
Town of Broadway	700,000	100%	700,000
Lee County Water & Sewer District #1	900,000	100%	900,000
City of Sanford	3,445,000	100%	3,445,000
Total direct and overlapping debt	15,680,000		\$ 15,680,000

Source: County of Lee, North Carolina, Annual Financial Report for the year ended June 30, 2008.

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

	<u>2008</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>
Assessed Value of Property	\$4,601,693	\$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
Debt Limit, 8% of Assessed Value Statutory Limitation	368,135	321,416	313,462	293,745	289,768	241,410	233,195	225,751	218,605	207,905
Amount of Debt Applicable to Limit										
Gross debt	65,143	68,872	44,252	47,990	60,901	38,083	43,538	40,602	43,839	46,189
Less: Debt outstanding for water and sewer purposes	-	-	-	-	9,164	9,251	13,501	9,418	9,500	9,581
Total net debt applicable to limit	65,143	68,872	44,252	47,990	51,737	28,833	30,037	31,184	34,339	36,608
Legal debt margin	<u>\$ 302,992</u>	<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>
Total net debt applicable to the limit	17.70%	21.43%	14.12%	16.34%	17.85%	11.94%	12.88%	13.81%	15.71%	17.61%

Source: County of Lee, North Carolina, Annual Financial Report for the year ended June 30, 2008.

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.

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)
2008	57,973	*	*	9,458	6.90%
2007	56,908	1,646,704	28,975	9,330	5.50%
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%

* 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 2008 (2)			Fiscal Year 2000 (1)		
	Approximate Number of Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Lee County Schools	1000-1500	1	4.97%	-	-	0.00%
Wyeth Vaccines	1000-1500	2	4.97%	-	-	0.00%
Pilgrim's Pride Corporation	1000-1500	3	4.97%	1000-1500	1	5.01%
Static Control Components, Inc.	1000-1500	4	4.97%	500-999	2	3.01%
Coty, Inc.	500-999	5	2.98%	500-999	3	3.01%
Pentair Pool Products	500-999	6	2.98%	-	-	0.00%
Central Carolina Hospital	500-999	7	2.98%	500-999	5	3.01%
The Pantry, Inc.	500-999	8	2.98%	-	-	0.00%
Caterpillar, Inc.	500-999	9	2.98%	-	-	0.00%
Tyson Foods	500-999	10	2.98%	-	-	0.00%
Magnetix Marelli USA, Inc.	-	-	0.00%	500-999	4	3.01%
Moen, Inc.	-	-	0.00%	500-999	6	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>37.76%</u>	-	-	<u>29.08%</u>

Source: NC Employment Security Commission; total county employment

Notes:

- (1) Information is actually provided for current year and eight years ago because data from nine years ago is not available.
(2) Based on March 2008 employment information provided by the NC Employment Security Commission.

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

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Instructional Programs:										
Regular	620	601	598	581	575	572	597	557	554	542
Special	228	234	230	227	218	220	204	201	192	187
Student Services	37	40	37	32	32	32	33	32	31	32
Total Instructional Programs	885	875	865	840	825	824	834	790	777	761
Support Services:										
Pupil	7	6	6	5	4	4	6	4	2	0
Instructional Staff	35	30	32	31	28	28	26	23	24	26
Administrative	15	14	13	14	16	15	16	16	16	14
School Administration	34	34	32	28	27	27	27	26	26	26
Business	83	82	80	76	76	76	67	72	72	67
Central	147	156	152	143	151	149	140	145	146	155
Total Support Services	321	322	315	297	302	299	282	286	286	288
Total	1206	1197	1180	1137	1127	1123	1116	1076	1063	1049

Source: Lee County Lee County Schools' Human Resources Department

LEE COUNTY SCHOOLS
SCHOOLS AND STUDENT PROGRAMS
Last Ten Fiscal Years

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Number of Schools										
Elementary	7	7	7	7	7	7	7	7	7	7
Middle	2	2	2	2	2	2	2	2	2	2
High	3	3	2	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	14	13	12	12	12	12	12	12	12
Child Nutrition										
Average breakfasts served daily	1995	2210	2173	2214	2186	2155	2015	1738	NA	NA
Average lunches served daily	7239	7813	7573	7273	7686	7138	7027	6267	NA	NA
Exceptional Children's Program										
Number of disabled students	1061	1057	1071	1089	1114	1107	1070	1058	NA	NA
Number of academically/ intellectually gifted students	1189	1109	1202	1269	1335	1346	1310	1323	NA	NA
English as a Second Language Program (ESL)										
Number of students served	1632	1339	1223	1202	1175	1159	1053	1087	943	841
Number of schools with ESL	13	13	12	12	12	12	12	12	12	12
Number of languages spoken	27	24	23	20	16	20	19	18	17	18
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	15	15	15	11	11	11	11	11	11	11
Women's sports	16	16	16	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	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Elementary										
B.T. Bullock										
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	621	612	616	613	539	562	570	604	612	618
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	621	619	675	672	675	672	642	630	700	692
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	652	628	519	512	523	549	616	622	597	619
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	635	631	659	625	615	613	626	625	648	729
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	638	626	625	649	629	615	639	616	603	631
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	706	713	655	613	574	582	594	609	617	641
Tramway										
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	639	645	657	661	691	680	683	649	640	494
Middle										
East 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	964	986	1,018	1,055	1,090	1,057	1,078	1,046	1,043	1,032
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	1,116	1,107	1,082	1,084	1,071	1,100	1,074	1,040	927	976

Operating Information
Schedule 19
(continued)

School	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
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	1,429	1,479	1,762	2,575	2,522	2,441	2,310	2,318	2,218	1,965
Southern Lee										
Square Feet	183,520	183,520	183,520	See	See	See	See	See	See	See
Capacity	1,400	1,400	1,400	Notes	Notes	Notes	Notes	Notes	Notes	Notes
First month membership	1,166	1,106	904	Below	Below	Below	Below	Below	Below	Below
Lee Early College										
Square Feet	N/A	N/A	See	See	See	See	See	See	See	See
Capacity	100	100	Notes	Notes	Notes	Notes	Notes	Notes	Notes	Notes
First month membership	167	73	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	41	46	34	37	41	33	32	28	26	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	71	59	61	62	58	45	45	45	60	65

Source: Information taken from District's audited financial statements

Notes: 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. In 2007-08 Lee Early College served grades 9-10.
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
2008	9396	8993	\$76,865,834	\$8,181	7.3%	87	685	13.7	95.7%	55.4%
2007	9258	8829	70,559,325	7,621	2.9%	94	674	13.7	95.4%	55.8%
2006	9133	8710	67,646,764	7,407	6.4%	81	675	13.5	95.4%	54.9%
2005	9056	8657	63,061,423	6,964	5.0%	92	650	13.9	95.6%	50.9%
2004	8924	8542	59,190,682	6,633	1.7%	94	625	14.3	95.7%	49.8%
2003	8834	8472	57,637,420	6,525	2.4%	83	639	13.8	95.9%	48.1%
2002	8778	8438	55,914,942	6,370	-0.3%	86	635	13.8	96.1%	45.4%
2001	8725	8368	55,729,665	6,387	4.7%	84	602	14.5	95.9%	42.6%
2000	8593	8224	52,438,914	6,103	7.4%	80	596	14.4	95.7%	43.1%
1999	8618	8242	48,987,777	5,684	5.7%	85	583	14.8	95.6%	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 (NC DPI). NC DPI 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>
2008	\$31,832	\$73,044	\$45,684
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

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	Support Development	Special Populations	Alternative Programs	Technology Support	Operational Support	Financial/ HR	Other Policy/ Leadership	Ancillary Services	Non-Programmed Charges	Total
2008	\$38,321,437	\$8,947,146	\$13,889,802	\$1,001,878	\$148,219	\$219,262	\$717,719	\$8,717,102	\$1,117,529	\$844,417	\$140,498	\$211,249	\$74,276,258
Fiscal Year	Regular Instructional	Special Instructional	Other Instructional	Pupil Support	Instructional Support	General Administration	School Administration	Business Support	Central Support	Support Services	Community Services	Other	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: 2007-08 was the first year the revised chart of accounts was in effect.
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
2008	\$8,708,677	\$238,040	\$1,010,560	\$9,957,277
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>2008</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>
Food Sales	\$1,249,747	\$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
USDA Reimbursement	2,512,589	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
Donated Commodities	276,634	233,931	217,270	220,617	220,747	197,879	196,594	276,032	165,213	195,863
Other	156,953	149,610	137,833	146,359	132,390	49,064	119,242	140,414	181,797	155,810
Local Reimbursement	-	-	-	-	3,638	-	-	-	-	-
Total	\$4,195,923	\$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
Food Sales	30%	31%	33%	35%	36%	39%	40%	41%	43%	43%
USDA Reimbursement	60%	60%	58%	56%	55%	54%	51%	47%	46%	46%
Donated Commodities	7%	6%	5%	6%	6%	6%	6%	8%	5%	6%
Other	4%	4%	3%	4%	4%	1%	3%	4%	6%	5%
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.

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 Lee County Board of Education (BOE), North Carolina, as of and for the year ended June 30, 2008, which collectively comprise the BOE's basic financial statements and have issued our report thereon dated October 23, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the 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

Southern Pines, North Carolina
October 23, 2008



DIXON HUGHES PLLC

Certified Public Accountants and Advisors

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

To the 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, 2008. The BOE's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the BOE's management. Our responsibility is to express an opinion on the BOE's compliance based on our audit.

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

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

Internal Control Over Compliance

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

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

Southern Pines, North Carolina
October 23, 2008



DIXON HUGHES PLLC

Certified Public Accountants and Advisors

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

To the 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, 2008. The BOE's major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major state programs is the responsibility of the BOE's management. Our responsibility is to express an opinion on the BOE's compliance based on our audit.

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

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

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

Internal Control Over Compliance

The management of the BOE is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to state programs. In planning and performing our audit, we considered the BOE's internal control over compliance with requirements that could have a direct and material effect on a major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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

Southern Pines, North Carolina
October 23, 2008

**LEE COUNTY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2008**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued *Unqualified*

Internal control over financial reporting:

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

Noncompliance material to financial statements noted *No*

Federal Awards

Internal control over major federal programs:

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

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

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

Identification of major federal programs:

CFDA Numbers	Names of Federal Program or Cluster
	Child Nutrition Cluster
10.553	School Breakfast Program
10.555	National School Lunch Program

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

Auditee qualified as low-risk auditee? *Yes*

(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
More at Four Program
Public School Building Capital Fund – Lottery Proceeds

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, 2008**

There were no findings or questioned costs related to our audit of federal and state awards for the fiscal year ended June 30, 2007.

LEE COUNTY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Fiscal Year Ended June 30, 2008

<u>Grantor/Pass-through</u> <u>Grantor/Program Title</u>	<u>Federal</u> <u>CFDA</u> <u>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	\$ 512,307
National School Lunch Program	10.555	2,000,282
Total Child Nutrition Cluster		<u>2,512,589</u>
Total U.S. Department of Agriculture		<u>2,512,589</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	1,784,594
Migrant Education	84.011	176,875
Even Start	84.253	113,041
Passed through the N.C. Department of Public Instruction:		
Title IV, Part A, Safe and Drug Free Schools and Communities	84.186	20,876
Title VI, Federal, State, and Local Partnership for Innovative Programs	84.298	20,659
Improving Teacher Quality	84.367A	489,011
Language Acquisition - LEP	84.365	125,851
Educational Technology - Formula	84.318X	28,951
Education for Homeless Children and Youth	84.196	20,440
Reading First Grant	84.357	284,236
Office of Special Education and Rehabilitative Services		
Passed through the N.C. Department of Public Instruction:		
Special Education - State Personnel Development	84.323	992
Special Education Cluster		
Individuals with Disabilities Education Act		
Special Education - Grants to States	84.027	1,704,723
Title VI, Part B, Capacity Building and Improvement Grant	84.027A	14,937
Title VI, Part B, Children with Disabilities - Risk Pool Program	84.027A	39,005
Special Education - Preschool Grants	84.173	85,750
Total Special Education Cluster		<u>1,844,415</u>

(Continued)

LEE COUNTY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Fiscal Year Ended June 30, 2008

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA 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	\$ 138,113
Abstinence Education	93.235	<u>7,679</u>
Total U.S. Department of Education		<u>5,055,733</u>
Other Federal Assistance:		
U.S. Department of Defense		
Direct Program:		
JROTC	None	<u>112,271</u>
U.S. Department of Justice		
Direct Program:		
COPS Grant	16.710	<u>29,483</u>
Total Federal Cash Assistance		<u>7,710,076</u>
Noncash Assistance:		
U.S. Department of Agriculture		
Passed through the N.C. Department of Agriculture:		
Food Distribution Program	10.550	<u>276,634</u>
Total Federal Assistance		<u>7,986,710</u>
State Grants:		
Cash Assistance:		
N.C. Department of Public Instruction:		
State Public School Fund		48,159,784
Driver Training		228,613
Vocational Education		
State Months of Employment		2,291,438
Program Support Funds		170,782
Textbooks		623,371
State Appropriations - buses		576,565
School Connectivity		122,500
School Technology		<u>859,702</u>
Total N.C. Department of Public Instruction		<u>53,032,755</u>

(Continued)

LEE COUNTY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Fiscal Year Ended June 30, 2008

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
State Grants: (Continued)		
Cash Assistance:		
N.C. Department of Health and Human Services:		
Division of Child Development		
Smart Start		\$ 100,000
More at Four		328,364
School Nurse Funding		<u>140,909</u>
Total N.C. Department of Health and Human Services		<u>569,273</u>
N.C. Department of Crime Control and Public Safety:		
Crime Stopper's Grant		<u>3,996</u>
N.C. Department of Agriculture		
State Kindergarten Breakfast Program		<u>3,771</u>
Office of the Governor		
Passed-through Lee County:		
Public School Building Capital Fund - Lottery Revenues		<u>403,425</u>
Total State Assistance		<u>54,013,220</u>
Total Federal and State Assistance		<u>\$ 61,999,930</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.