WAKE COUNTY BOARD OF EDUCATION

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2001

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Wake County Board of Education (Board) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Board's accounting policies are described below:

1. Reporting Entity

The Board is a primary government local education agency empowered by North Carolina general statutes with the responsibility to oversee and control all activities related to public school education in Wake County, North Carolina. The Board receives county, state, and federal government funding and must adhere to the legal requirements of each funding entity.

2. Basis of Presentation - Fund Accounting

The accounts of the Board are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts comprised of assets, liabilities, fund equity, revenues, and expenditures or expenses as appropriate. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. In this report the various funds are grouped into three broad categories and six generic fund types consistent with legal and managerial requirements. The two account groups are not funds but are used to establish accountability over the Board's general fixed assets and general long-term debt.

Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category is divided into separate fund types. The Board's financial statements include the following funds and account groups:

Governmental Funds:

General Fund - The general fund is the Board's primary operating fund and is used to account for all financial resources of the Board except those required to be accounted for in another fund. The fund includes the local current expense fund mandated by the statutes.

Special Revenue Funds - Special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes, not including major capital projects or expendable trust funds. The Board has three special revenue funds: the state public school fund, the direct federal grants fund, and the state administered federal grants fund. Monies in the state public school fund and the state-administered federal grants fund are expended according to the provisions of the statutes.

Debt Service Fund - The debt service fund is used to account for the servicing of the Board's mortgage payable.

Capital Projects Fund - The capital projects fund accounts for the acquisition of fixed assets or construction of major capital projects not being financed by the enterprise fund. Under the statutes this fund is termed the capital outlay fund. Capital projects are funded by Wake County appropriations, by the proceeds of Wake County bonds issued for the construction of public schools, and by certain State assistance.

Proprietary Fund:

Enterprise Fund - The enterprise fund accounts for the operations of the Board's child nutrition services program, tuition programs, and print shop. Prior to fiscal year 2001, the print shop was included in the general fund. The enterprise fund operations are financed and operated in a manner similar to those found in private business, where the determination of net income is necessary or useful for capital maintenance, public policy, management control, and management accountability. The Board's intent is that the costs, including depreciation, of providing food services, tuition programs and print shop services to the individual schools be partially recovered by user charges.

Fiduciary Fund:

Expendable Trust Fund - The expendable trust fund is used to account for the revenues and expenditures of the activity funds of the individual schools. The primary revenue sources include funds of the various clubs and organizations, receipts from athletic events, proceeds from various fund-raising activities, and private donations. The primary expenditures are for instructional programs, athletics, and club activities. These school activity funds are administered by the individual schools but are under the supervision and control of the Board.

Account Groups:

General Fixed Assets Account Group - This account group is used to account for fixed assets not accounted for in the proprietary fund.

General Long-Term Debt Account Group - This account group is used to account for general long-term debt and certain other liabilities that are not specifically accounted for in the proprietary fund.

3. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and the expendable trust fund are accounted for using a current financial resources measurement focus. With this measurement focus only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

A. <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)</u>

The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of this fund are included on the balance sheet. Fund equity (net total assets) is segregated into contributed capital and retained earnings components. The proprietary fund operating statement presents increases (revenues) and decreases (expenses) in net total assets. As required for periods beginning after June 15, 2000 by Statement 33 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Nonexchange Transactions*, the Board has begun recognizing external capital contributions as revenue in the current year, rather than as contributed capital. Internal equity transfers are recognized as contributed capital. No adjustment to the balance of the contributed capital is required.

Basis of accounting determines when revenues and expenditures or expenses and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental fund types and the expendable trust fund are accounted for and presented in the financial statements on the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized in the accounting period in which they become measurable and available to pay liabilities of the current period. Expenditures are recorded in the accounting period in which a fund liability is incurred, if measurable, except for unmatured principal and interest on general long-term debt, which is recognized when due and certain compensated absences, which are recognized when the obligations are expected to be liquidated with expendable, available financial resources.

Those major revenues susceptible to accrual include revenues from state and county appropriations, certain reimbursements for federal projects, and interest revenue. Tuitions, sales of school property, and various fee revenues are not susceptible to accrual because they generally are not measurable until received in cash.

The proprietary fund is presented in the financial statements on the accrual basis. Under this basis revenues are recognized in the accounting period when earned, and expenses are recognized in the period when incurred. As permitted by generally accepted accounting principles, the Board elected to apply only applicable FASB Statements and Interpretations issued before November 30, 1989, in its accounting and reporting practices for its proprietary operations.

The Board reports deferred revenues on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenues also arise when resources are received by the Board before it has a legal claim to them, such as when grant monies are received prior to the incurrence of the qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the Board has legal claim to the resources, the liability for deferred revenues is removed from the balance sheet and revenue is recognized.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. Budgetary Control

The North Carolina School Budget and Fiscal Control Act mandates a uniform budget format and requires the adoption of an annual budget resolution for all funds except monies defined as special funds of individual schools and included within the expendable trust fund in the general purpose financial statements. Budgets are adopted on a basis consistent with GAAP, except for revenues and expenditures of the debt service fund being included in the budget of the capital projects fund and the enterprise fund which is budgeted on the modified accrual basis.

Legal provisions conflict with GAAP in that there is no authorization for the Board to maintain a debt service fund even though the statutes allow continuing contracts for capital outlay purchases. In accordance with governmental accounting and financial reporting standards, the Board maintains its accounts and prepares its budgetary reports on the legally prescribed budgetary (non-GAAP) basis and maintains sufficient supplemental records to permit presentation of these financial statements in conformity with GAAP. Under the legally prescribed budgetary (non-GAAP) basis, all amounts otherwise shown in the debt service fund are included in the capital projects fund.

A reconciliation for the capital projects fund from the budgetary (non-GAAP) basis to GAAP follows:

Excess of revenues and other financing sources over expenditures and other financing uses-budgetary (non-GAAP) basis	$ 37,912
Interest income included in debt service fund	(23,029)
Debt service expenditures included in debt service fund	72,000
Excess of revenues and other financing sources over expenditures and other financing uses - GAAP	$ 86,883

As required by the statutes, the Board maintains encumbrance accounts under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in the governmental funds in order to reserve that portion of the applicable appropriation. Encumbrances outstanding at year end represent the estimated expenditures ultimately to result if unperformed contracts in process at year end are completed.

Outstanding encumbrances at the end of the year do not constitute expenditures and are either charged to an appropriation in the following year or the contractual commitment is canceled. These encumbrances are reported as reservations of fund balance since the commitments will be fulfilled through subsequent years' budget appropriations.

The primary revenue sources for the general, special revenue, and capital projects funds are budgeted allocations and appropriations from the State of North Carolina, Wake County, and the federal government. Unexpended allocations lapse at the end of the fiscal year; unexpended federal program allocations lapse on the program termination date. Wake County appropriations which are unexpended at the end of the fiscal year are included in the ending fund balances of the general and capital projects funds.

The appropriations in the various funds are formally budgeted and controlled at the functional level. Expenditures may not legally exceed appropriations at the functional level for all of the Board's funds. Subject to the provisions of the statutes, the Board may amend the budget resolution at any time after its adoption. State law also requires that transfers to or from the capital outlay fund be approved by the Board and the Board of County Commissioners. By resolution of the Board, the superintendent may transfer monies from one appropriation to another within the same fund, subject to certain limitations described below. If such transfers require the Board's approval, they must be reported at the next subsequent meeting.

A budget calendar is included in the statutes and prescribes the last day on which certain steps of the budget process are to be performed. The following schedule lists the tasks to be performed and the date each is required to be completed:

May 1	The superintendent must submit the budget request along with a copy of the budget message to the Board no later than May 1.
May 15	The Board should make changes, if necessary, to the budget request submitted by the superintendent and forward an approved budget request to the Board of County Commissioners no later than May 15, unless the county commissioners have established a later date.
July 1	The Board of County Commissioners must complete its actions on the school budget no later than July 1, unless a later date is agreed upon between the Board and the county commissioners.
July 1	The Board must adopt its balanced budget resolution after the Board of County Commissioners has decided upon the amount of appropriations to be provided by the county or after the appeal procedures as set forth in the statutes.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The superintendent is authorized by the Board to transfer appropriations under the following conditions:

1. He may not transfer any amounts between funds nor from any contingency appropriation within a fund without Board approval.

2. He may transfer amounts between purpose codes and between functions within a purpose code. A summary of all such transfers must be reported to the Board within 60 days.

3. He may transfer any amounts in state and federal projects upon prior approval of the appropriate funding agency. If such transfers require the Board's approval under other provisions, they must be reported within 60 days.

The superintendent is authorized by the Board to accept appropriations into the budget under the following conditions:

1. He may accept all state appropriations. A summary of such appropriations must be reported to the Board within 60 days.

2. He may accept federal appropriations if the application for funding has been approved by the Board. A summary of such appropriations must be reported to the Board within 60 days.

3. He may accept categorical program appropriations if the program has been approved by the Board. A summary of such appropriations must be reported to the Board within 60 days.

4. He may accept other appropriations upon prior approval of the Board.

During the fiscal year there were budget amendments totaling $558,900,110 approved by the Board as follows:

General fund	$ 27,012,783
State public school fund	6,652,002
Federal grants funds	11,941,713
Capital projects funds	509,092,416
Enterprise fund	4,201,196
	$558,900,110

5. Deposits and Investments:

Deposits

All deposits of the Board are made in official depositories designated by the Board and are secured as required by state statutes. The Board may designate as an official depository any bank or savings and loan 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.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

All of the Board's deposits are either insured or collateralized by using one of two methods. Under the dedicated method, all deposits over the federal depository insurance coverage are collateralized with securities held by the Board's agent in the Board'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, the deposits are considered to be held by the Board's agent in the Board'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 the information with the Board or 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 undercollateralization, and this risk may increase in periods of high cash flow. However, the state treasurer of North Carolina enforces strict standards of financial stability for each pooling method depository.

At June 30, 2001, the carrying amount of the Board's deposits (overdrafts) with banks was ($4,003,686) and with the state treasurer was ($16,654). The balances with banks were $2,460,720 and with the state treasurer were $3,585,173. Of these balances, $1,496,615 were covered by federal depository insurance and $4,549,278 were covered by collateral held by authorized escrow agents in the name of the state treasurer.

Investments

The statutes authorize 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 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 fund; and the North Carolina Voluntary Short-Term Investment Fund (STIF). The STIF consists of an internal portion and an external portion in which the Board participates. The money deposited in the STIF is pooled with that of State agencies and similar institutions.

The Board's investments with a maturity of more than one year at acquisition and non-money market 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. Money market investments that have a remaining maturity at the time of purchase of one year or less and non-participating interest earning and investment contracts are reported at amortized cost.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Board's investments are categorized to give an indication of the level of custodial risk assumed by the entity at year end. Column A indicates investments that are insured or registered or for which the securities are held by the Board or its agent in the Board's name. Column B includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Board's name. Column C includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the Board's name. Investments in the NCCMT and the STIF are exempt from risk categorization because the Board does not own any identifiable securities in these mutual funds. The North Carolina State government has regulatory oversight of the STIF.

At June 30, 2001, the Board's investment balances were as follows:

	Categories			Reported	Fair
	A	B	C	Value	Value
Comm. Paper	$13,483,887	-	-	$13,483,887	$13,483,887
STIF				62,168,759	62,168,759
NCCMT				4,237	4,237
	Total Investments			$75,656,883	$75,656,883

The Board's cash and cash equivalents are cash on hand, demand deposits, and short- term investments with original maturities of three months or less from the date of acquisition. Since the Board's investments are readily convertible to cash at any time, they are considered to be cash equivalents for purposes of the statement of cash flows of the enterprise fund.

6. Funds Held by Wake County

Funds held by Wake County represent amounts to be transferred to the cash accounts of the Board on the date of release of certain payments for previously approved capital improvement projects.

7. Short-Term Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as due from other funds or due to other funds on the combined balance sheet.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

8. Inventories

Inventories are valued at cost using the first-in, first-out (FIFO) method. Governmental fund inventories consist of instructional, administrative, maintenance, and repair supplies and fuel oil and are recorded as expenditures when purchased. The general fund inventories reported on the combined balance sheet are offset by fund balance reserves which indicate that they do not constitute resources available for appropriation even though they are a component of net current assets.

Enterprise fund inventories consist of food and supplies and are recorded as expenses when consumed. Since title to the unused commodity inventories donated by the federal government does not pass to the Board until the commodities are processed for serving, the value of such inventories is reported as deferred revenue of the enterprise fund. The value of these commodities at June 30, 2001 is $438,801.

9. Fixed Assets

General fixed assets are not capitalized in the governmental funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. All purchases or constructed assets in the general fixed asset account group acquired since July 1, 1989, are valued at cost. The costs of certain fixed assets acquired before July 1, 1989, are recorded at estimated historical cost. Fixed assets in the enterprise fund are valued at historical cost. All donated fixed assets are valued at their estimated fair market value on the date received.

The Board's policy is to capitalize all fixed assets costing $1,000 or more with an estimated useful life in excess of two years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Assets in the general fixed assets account group are not depreciated. Depreciation of equipment and vehicles in the enterprise fund is computed using the straight-line method over the estimated useful lives of the assets estimated at 4 to 12 years. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

10. Compensated Absences

The Board follows the state's policy for vacation and sick leave. Employees may accumulate up to 30 days earned vacation, and such leave is fully vested when earned. Accumulated earned vacation at June 30, 2001 amounted to $31,121,550 of which $30,766,224 relates to the governmental funds and $355,326 relates to the enterprise fund. The Board's liability for accumulated earned vacation and the salary related payments is recorded in the general long-term debt account group. The expense and the liability for compensated absences and the salary related payments of the enterprise fund are recorded in that fund itself as the leave is earned. The current portion of the accumulated vacation pay is not considered to be material.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

10. Compensated Absences (Continued)

The sick leave policy of the Board provides for an unlimited accumulation of sick leave. Sick leave does not vest, but 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 the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

11. Long-Term Obligations

Long-term obligations are not recognized in the governmental funds. They are reported as liabilities in the general long-term debt account group. Long-term liabilities expected to be financed from enterprise fund operations are accounted for in that fund.

12. Fund Equity

Reservations or restrictions of equity represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of equity represent tentative management plans that are subject to change. The proprietary fund's contributed capital represents equity acquired through grants and capital contributions from other funds.

The North Carolina School Budget and Fiscal Control Act restricts 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 as these amounts stand at the close of the fiscal year preceding the budget year.

The fund balances of the governmental fund types are classified as follows:

Reserved:

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

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

Reserved by state statute - portion of fund balance not available for appropriation after remaining reserves not available for appropriation have been segregated. The amount is usually comprised of accounts receivable and due from other funds.

Reserved for special projects - portion of fund balance not available for appropriation because it represents the excess of revenues over expenditures of certain special projects. This excess is designated for expenditure only for these projects.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reserved for debt service - portion of fund balance reserved for future debt service appropriations.

Unreserved:

Designated for flexible benefits plan - portion of total fund balance available for appropriation which has been designated for future loss contingencies of the flexible benefits plan.

Designated for subsequent year's expenditures - portion of total fund balance available for appropriation which has been designated for the adopted 2001-2002 budget ordinance.

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

13. Public School Building Bond Act of 1996

The General Assembly passed the Public School Building Bond Act of 1996 to provide for the issuance of $1.8 billion in State bonds to be used for making grants to counties for qualified public school capital outlay projects. The Department of Public Instruction is responsible for project approval and the distribution of funds. The principal amounts of bonds or notes issued by the State in any twelve month period may not exceed $450 million.

Of the total $1.8 billion authorized, $30 million will be allocated as grants to counties that have small county school systems, after considering whether the counties demonstrate both greater than average school construction needs and high property tax rates. The primary allocation of $1.77 billion will be distributed to all counties based on the average daily membership, the ability to pay, and the growth rate of the school administrative units located within each county.

The distribution of the primary allocation is subject to the satisfaction of certain match requirements by the counties. Match requirements may be satisfied by non-State expenditures for public school facilities made on or after January 1, 1992. Wake County's matching requirement of $.50 for each dollar of allocated bond proceeds has been fulfilled.

Because the County has met its matching requirement, the Board recognizes revenues equal to the liabilities incurred for approved project expenditures. Wake County requests bond funds by project to be transferred to an account established by Wake County Board of Education for payment of invoices. To date, the Board of Education has expended $100,993,681 of their total allocation of $123,000,000.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

School Facilities Finance Act of 1987

The General Assembly passed the School Facilities Finance Act of 1987 (Act) to assist county governments in meeting their public school facility capital needs. The Act created two state-funded programs for the construction and renewal of school facilities: the Public School Building Capital Fund administered by the Office of State Budget and Management (OSBM) and the Critical School Facilities Needs Fund administered by the State Board of Education.

Public School Building Capital Fund

This program is funded using a portion of the corporate income taxes which are imposed on corporations doing business in the State. Each calendar quarter, the Department of Revenue shall remit to the State Treasurer for credit in the fund, an amount equal to the applicable fraction provided by the following table of the net collections of corporate income taxes received during the previous quarter minus $2.5 million, which it deposits into the Critical School Facilities Needs Fund.

Period	Fraction
Prior to 10/1/97	Two thirty-firsts (2/31)
10/1/97 to 9/30/98	One-fifteenth (1/15)
10/1/98 to 9/30/99	Two twenty-ninths (2/29)
10/1/99 to 9/30/00	One fourteenth (1/14)
After 9/30/00	Five sixty-ninths (5/69)

The corporate income taxes deposited into the fund are allocated to Wake County on the basis of its average daily membership (ADM) as determined by the State Board of Education. The OSBM establishes and maintains an ADM allocation account for Wake County. At June 30, 2001, the balance of the county's ADM allocation account was $1,270,622. Funds in the allocation and disbursing accounts are considered State monies until the county issues warrants to disburse them, at which time revenues and expenditures are recognized.

After approving a school capital project authorized by the Act, the OSBM will transfer funds from the county's ADM allocation account to its disbursing account maintained with the State Treasurer. Wake County must match this transfer amount on the basis of one dollar for every three dollars of state funds.

The Board recognizes revenues in the capital projects fund as Wake County transfers funds to the Board. At June 30, 2001, the OSBM had approved $49,263,680 of capital projects for Hilburn Elementary School, Crosstimbers Elementary School, Hodge Road Elementary School, Jones Dairy Elementary School, Leesville Road Middle School, Leesville Road High School, Southeast Raleigh High School, Weatherstone Elementary School, Carver Elementary School, Lufkin Road Middle School, Wildwood Forest Elementary School, Wakefield Elementary School and Wakefield High School. Costs incurred and revenue recognized on these projects for year ended June 30, 2001, were $8,000,000.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

14. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

15. Totals (Memorandum Only) – Columns

The total columns on the accompanying general purpose financial statements are captioned as "Totals (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in accordance with GAAP. Neither are such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

16. Comparative Data

Comparative data for the prior year have been presented in selected sections of the accompanying general purpose financial statements in order to provide an understanding of the changes in the Board's financial position and operations. Comparative totals have not been included on the statements where their inclusion would not provide enhanced understanding of the Board's financial position and operations or would cause the statements to be unduly complex or difficult to understand.

17. Use Of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

B. FIXED ASSETS

The following is a summary of changes in the general fixed assets account group during the fiscal year:

	Balance June 30, 2000	Additions	Transfers	Retirements	Balance June 30, 2001
Land and Land Improvements	$ 50,861,662	$ 2,720,192	$ -	$ -	$ 53,581,854
Buildings	799,349,088	-	98,935,600	-	898,284,688
Equipment	91,432,394	13,050,054	-	1,542,651	102,939,797
Construction in Progress	255,811,585	94,539,095	(98,935,600)	-	251,415,080
Capital Leases	7,861,815	2,456,150	-	4,767,546	5,550,419
Total	$1,205,316,544	$112,765,491	$ -	$ 6,310,197	$1,311,771,838

Schedule of General Fixed Asset Additions:

Description	Cost
Expenditures:	
Land	$ 2,720,192
Vehicles	334,126
Equipment	11,149,194
Library books	1,251,732
Construction in progress	94,539,095
Leases	2,456,150
Equipment purchased by General Fund	602,122
Equipment purchased by Expendable Trust Fund	1,770,579
Equipment purchased by Special Revenue Funds	2,651,783
Donations	1,000
Less:	
Equipment expenditures not capitalized	(4,710,482)
Total additions	$112,765,491

The following is a summary of the proprietary fund type fixed assets at June 30, 2001:

	Child Nutrition Program	Tuition Program	Print Shop	Total
Equipment and vehicles	$12,747,141	$686,808	$108,930	$13,542,879
Accumulated depreciation	9,816,805	160,050	94,807	10,071,662
Net	$ 2,930,33	$526,758	$ 14,123	$ 3,471,217

C. RISK MANAGEMENT

Since the Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters, the Board maintains a comprehensive risk management plan. The plan consists primarily of coverage from third parties.

The Board places local workers' compensation coverage through Key Risk Insurance Company due to quality of service, current third party administrator of state's workers' compensation program, and the inclusion of part B employers liability. The state provides workers' compensation coverage for employees paid from state funds. The Board also participates in the Public School Insurance (Fund), a voluntary, self-funded risk financing fund administered by the North Carolina Department of Public Instruction. The Fund provides property coverage up to $30 million per location annually and is reinsured for losses in excess of $10 million per occurrence and $20 million in aggregate annually, $400 million maximum per occurrence for any one flood, and $1 billion per occurrence for any other catastrophe.

The Board also participates in the Teachers' and State Employees' Comprehensive Major Medical Plan (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 $2 million lifetime limit. In addition, employees have the option of receiving health care benefits through one of the health maintenance organizations (HMOs). The Board pays the full cost of coverage for employees enrolled in the Plan and makes an equal contribution for employees enrolled in one of the available HMO plans.

The Board maintains comprehensive general liability of $1 million per occurrence, errors and omission insurance coverage of $1 million per occurrence, and $1 million vehicle liability and physical damage coverage through commercial insurance carriers. Additional liability coverage is provided by a $1 million umbrella policy. Boilers, machinery, musical instruments, and personal computers with peripheral equipment are covered under separate commercial policies.

The Board believes that it carries adequate commercial coverage for all other known 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 last eight fiscal years.

D. OPERATING LEASES

The Board leases certain office facilities and equipment under operating leases. Total costs for such leases were $1,144,779 for the year ended June 30, 2001. The future minimum lease payments for leases are as follows:

Year Ending June 30,	Amount
2002	$1,094,765
2003	1,088,825
2004	638,825
2005	479,119
	$3,301,534

E. CAPITAL LEASES

The Board has entered into equipment lease agreements as lessee that qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. Capitalized leases for equipment included in the general fixed assets account group amounted to $5,550,419 at June 30, 2001.

The future minimum lease obligations and the net present value of these minimum lease payments at June 30, 2001, were as follows:

Year Ending June 30,	Amount
2002	$ 1,770,567
2003	644,741
2004	290,681
2005	298,352
Total minimum lease payments	$ 3,004,341
Less amount representing interest	367,005
Present value of minimum lease payments	$ 2,637,336

F. LONG-TERM DEBT

1. General Long-Term Debt

During the year ended June 30, 2001, the following changes occurred in liabilities reported in the general long-term debt account group:

	Balance July 1, 2000	Additions	Reductions	Balance June 30, 2001
Compensated absences	$ 27,708,498	$ 3,057,726	$ -	$ 30,766,224
Capital leases	3,366,324	2,456,150	3,185,138	2,637,336
Mortgage payable	412,357	-	48,971	363,386
	$ 31,487,179	$ 5,513,876	$3,234,109	$ 33,766,946

The mortgage is payable in monthly installments of $6,000, including accrued interest. The Board received related revenues from Wake County and deposited these funds in the STIF maintained by the treasurer of the State of North Carolina. The interest paid to the seller is at the interest rate earned on the STIF account. The average interest rate earned on the STIF account for the year ended June 30, 2001, was 5.8920%.

F. LONG-TERM DEBT (CONTINUED)

Because the interest paid to the seller varies monthly, the requirements below do not include interest related to the mortgage payable. Further, the requirements below have been estimated using the STIF interest rate at June 30, 2001, of 5.0623%.

Year Ending June 30,	Mortgage Payable
2002	$ 56,478
2003	57,799
2004	60,792
2005	63,940
2006	67,252
Thereafter	57,125
	$363,386

2. Enterprise Fund Long-Term Obligations

The long-term obligation of $355,326 in the enterprise fund is related to accrued compensated absences.

G. COMMITMENTS FOR CONSTRUCTION

The Board has commitments for construction of capital projects at June 30, 2001, totaling approximately $86,953,000. These commitments will be funded by future revenues from Wake County.

H. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The following is a schedule of interfund receivable and payable balances at June 30, 2001:

Fund	Due From	Due To
State Public School Fund	$ 14,390	$ -
General Fund	133	176,283
State Administered Federal Grants Fund	1,620	-
Capital Projects Fund	82,898	-
Tuition Program	23,310	267
Individual School Fund	52,899	-
Direct Federal Grants Fund	1,300	-
	$ 176,550	$ 176,550

The following is a summary of operating transfers for the year ended June 30, 2001:

Transfers From:	Transfers To:		
	General Fund	Capital Projects Fund	Total
Capital Projects Fund	$ 2,252,418	$ -	$ 2,252,418
General Fund	-	911,091	911,091
	$ 2,252,418	$ 911,091	$ 3,163,509

I. SEGMENT INFORMATION – ENTERPRISE FUND

The Board maintains three enterprise funds which are intended to be self-supporting through user fees charged for services to the public. Financial segment information as of and for the year ended June 30, 2001 is presented below.

	Child Nutrition Program	Tuition Programs	Print Shop	Total
Operating revenues	$16,548,073	$5,298,301	$ 757,519	$22,603,893
Depreciation expense	567,876	128,901	4,868	701,645
Operating income(loss)	(10,014,306)	598,661	10,534	(9,405,111)
Federal reimbursements	7,518,059	-	-	7,518,059
Federal commodities received	1,176,275	-	-	1,176,275
Net income(loss)	(820,488)	650,242	10,618	(159,628)
Current capital contributions	101,802	-	18,991	120,793
Property, plant and equipment additions	114,294	279,400	-	393,694
Net working capital	6,362,976	3,029,491	24,013	9,416,480
Total assets	10,256,863	3,618,684	38,136	13,913,683
Total equity	8,985,836	3,516,926	29,609	12,532,371

J. CONTRIBUTED CAPITAL

During the year ended June 30, 2001, contributed capital in the enterprise fund decreased as follows:

Balance, July 1, 2000		$ 2,480,199
Contributed fixed assets	(internal)	120,793
Depreciation expense		(449,526)
Balance, June 30, 2001		$ 2,151,466

K. DEFERRED REVENUES

The $1,138,502 in the General Fund, $30,656 in the Special revenue Funds, $156,000 in the Capital Projects Fund, and the $438,801 in the Enterprise Fund resulted from the receipt of federal, local or private grants before the amounts are earned.

L. CLAIMS AND LEGAL ACTIONS

The Board is a defendant in various lawsuits. Although outcome of most of these lawsuits is not presently determinable, in the opinion of the Board's management and the Board's attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the Board.

M. 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.

N. RETIREMENT PLAN

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

Funding Policy. Plan members are required to contribute six percent of their annual covered salary and the Board is required to contribute at an actuarially determined rate. The rate for fiscal year 2001 is 7.13% of annual covered payroll. The contribution requirements of plan members and Wake 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, 2001, 2000, and 1999 were $30,193,469, $33,825,251, and $34,934,516, respectively, equal to the required contributions for each year.

O. SUPPLEMENTAL RETIREMENT INCOME PLAN

All permanent, full-time employees of the Board may participate in a supplemental retirement income plan 401(K), a defined contribution plan. Covered payroll for the year ended June 30, 2001, was $121,933,870, total payll was $423,471,852. Participation is optional, and all contributions to the plan are made by the employees. All participants are immediately vested in their contributions.

The voluntary contributions by employees amounted to $5,695,009 (4.67% of covered payroll) for the year ended June 30, 2001.

P. POSTEMPLOYMENT BENEFITS

In addition to providing pension benefits, the Board provides postretirement health care benefits, death benefits, and disability benefits in accordance with the statutes to certain employees. These 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 provided to retirees of the Teachers' and State Employees' Retirement System (System) who have at least five years of creditable service under the System. The Board makes monthly contributions to the System for postretirement health benefits. The System pays the full cost of coverage for all retirees enrolled in the state's self-funded Teachers' and State Employees' Comprehensive Major Medical Plan and makes similar contributions for retirees enrolled in one of the state health maintenance organization (HMO) plans. 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.

Retirees and the aforementioned surviving spouses pay for the additional cost of HMO coverage and for the entire cost of coverage of their dependents. The health benefit plans are funded by the state on a pay-as-you-go basis.

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 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 but must be at least $25,000 and no more than $50,000.

Short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (Disability Income Plan), a multiple-employer, state administered, cost-sharing plan, which also is funded on a one year term cost basis. Long-term disability benefits are payable from the Disability Income Plan after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. An employee is eligible to receive long-term disability benefits provided the following requirements are met: 1) the employee has five years of contributing membership service in the System earned within 96 months prior to the end of the short-term disability period; 2) the employee must make application to receive long-term benefits within 180 days
after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later; 3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his or her occupation; 4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; and 5) the employee must not be eligible to receive an unreduced retirement benefit from the System. In addition, recipients of long-term disability benefits are eligible to receive state paid health insurance coverage. The monthly long-term disability benefit is equal to 65 percent of one-twelfth of an employee's annual base rate of compensation. When an employee qualifies for an unreduced service retirement allowance from the System, the benefits payable from the Disability Income Plan will cease, and the employee will commence retirement under the Teachers' and State Employees' Retirement System.

P. POSTEMPLOYMENT BENEFITS (CONTINUED)

All short-term benefit payments are made by the various state administered plans. The Board has no liability beyond payment of monthly contributions except for short-term disability benefits, which are paid by the Board during the first six months of the short-term period. Contributions are determined as a percentage of covered monthly payroll. Annually, the state sets monthly contribution rates for postretirement health care benefits, death benefits, and disability benefits, which are the same for all school boards across the state. For the fiscal year ended June 30, 2001, the Board made contributions to the state for postretirement health care benefits of $5,420,440 and disability benefits of $2,202,054. These contributions represented 1.28 percent and .52 percent of covered payroll, respectively. The 2000 Session of the General Assembly set the employer contribution for postretirement health care benefits for the 2000/2001 fiscal year at 1.28% of covered payroll and suspended the 0.16% employer contribution for the death benefit. The 0.16% employee contribution for the death benefit is scheduled to be reinstated effective July 1, 2001. The contributions for death benefits and disability benefits cannot be separated between the postemployment benefit amounts and the other employee benefit amounts. Because the benefit payments are made by the various state administered plans and not by the Board, the Board does not determine the number of eligible participants.

Q. PENDING GASB STATEMENTS

At June 30, 2001, the Governmental Accounting Standards Board (GASB) has issued a statement not yet implemented by the Board. The statement which will impact the Board is as follows:

Number 34, "Basic Financial Statements - and Management Discussion and Analysis – For State and Local Governments", issued June 1999, will be effective for the Board, based on its revenues, for the fiscal year ending June 30, 2002. Statement Number 34, summarized below, imposes new standards for financial reporting. Management has not yet completed their assessment of this statement, however, it will have a material effect on the overall financial statement presentation for the Board.

The new financial statement guidelines embodied in Statement 34 are the culmination of many years of study and deliberation by the GASB.

For the first time, financial managers will be required to share their insights in a management's discussion and analysis (MD&A) that gives readers an analysis of the government's overall financial position and results of the previous year's operations.

Financial statements will be presented under an integrated model – a government-wide perspective (new) and a fund level perspective. For the first time, the annual report will include government-wide financial statements prepared using full accrual accounting for all the government's activities, not just those that cover costs by charging a fee for services, as was previously required. Governments will report all capital assets, including infrastructure, in a government-wide statement of net assets and will report depreciation expense, the cost of using up capital assets, in the statement of activities. Infrastructure assets will be reported, but may not be required to be depreciated under certain circumstances. The net assets of a government will be broken down into three categories: invested in capital assets, net of related debt; restricted; and unrestricted. A statement of activities will be presented in at least the same level of detail provided in the governmental fund statements; generally, expenses and program revenues by function. Program expenses will include all direct expenses; governments that allocate overhead and other indirect expenses to individual programs will show the allocation in a separate column. Special and extraordinary items will be reported separately from other revenues and expenses. This way, users will see if the government's conventional, recurring revenues and expenses balanced.

Q. PENDING GASB STATEMENTS (CONTINUED)

Statement 34 requires governments to continue to present fund level financial statements with information about funds. The focus of these fund-based statements has been sharpened, however, by requiring governments to report information about their most important or major funds (those whose revenues, expenditure/expenses, assets, or liabilities are at least 10 percent of the total for their fund category or type (governmental or enterprise) and at least 5 percent of the aggregate amount for all governmental and enterprise funds, including a government's general fund. Fund-based statements for governmental activities (generally, those supported by tax revenues) will continue to report the flow of current financial resources (generally, cash and other assets that can easily be converted to cash).

To help users understand and assess the relationship between fund-based and government-wide financial statements, governments will present a summary reconciliation that will show the interplay between the two types of statements.

Governments will continue to provide budgetary comparison information in their annual reports – as required supplementary information. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.