

WAKE COUNTY BOARD OF EDUCATION
Raleigh, North Carolina

For the fiscal year ended June 30, 2003

COMPREHENSIVE ANNUAL

Annual



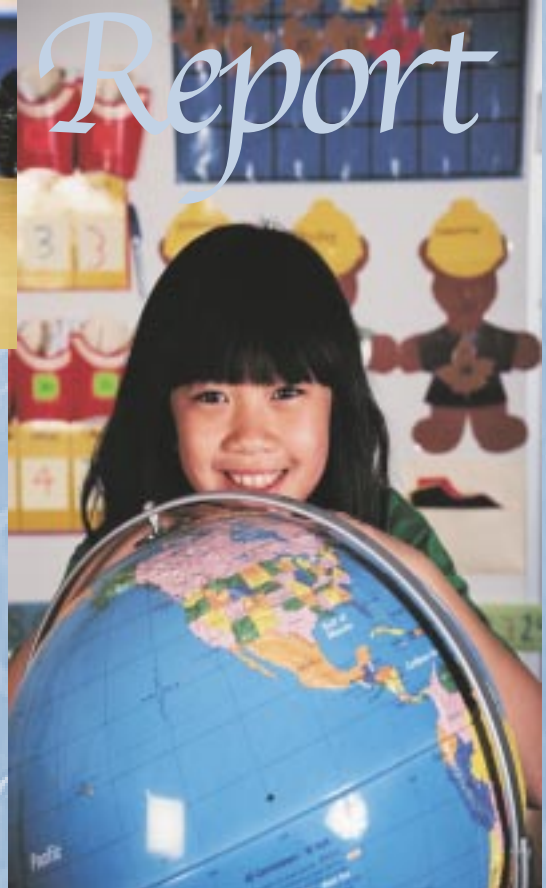
FINANCIAL

Financial



REPORT

Report



Prepared by the Finance Department



WAKE COUNTY
PUBLIC SCHOOL SYSTEM

WAKE COUNTY BOARD OF EDUCATION
COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2003

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November 1, 2003

To the Members of the Wake County Board of Education and the Citizens of Wake County, North Carolina:

The comprehensive annual financial report of the Wake County Board of Education (Board) for the year ended June 30, 2003, is hereby submitted as mandated by both local ordinances and state statutes. These ordinances and statutes require that the Board issue annually a report on its financial position and activity and that an independent firm of certified public accountants will audit this report. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that presents fairly the financial position and results of operations of the various funds of the Board. All disclosures necessary to enable the reader to gain an understanding of the Board's activities have been included.

The comprehensive annual financial report is presented in four sections: introductory, financial, statistical, and single audit. The introductory section, which is unaudited, includes this letter of transmittal, an organizational chart, a list of the Board's principal elected and appointed officials, and copies of the Certificates of Achievement for Excellence in Financial Reporting awarded by the Government Finance Officers Association (GFOA) and the Association of School Business Officials (ASBO) International. The financial section includes the management's discussion and analysis, district-wide financial statements, fund financial statements and schedules, as well as the independent auditor's report on these financial statements and schedules. The statistical section, which is unaudited, includes selected financial and demographic information, generally presented on a multi-year basis. Further discussion of the financial statements and financial standing of the Board can be found in the management's discussion and analysis.

The Board is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996, the U. S. Office of Management and Budget's Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the North Carolina Single Audit Implementation Act. Information related to this single audit, including a schedule of expenditures of federal and state awards, the report on compliance and on internal control, reports on compliance with requirements applicable to each major federal and state program, and a schedule of findings and questioned costs are included in the single audit section of the comprehensive annual financial report.

The financial reporting entity includes all the funds of the Board. The members of the Board are elected by the public and corporately have decision-making authority. Although Wake County levies all taxes, the Board determines how the school system will spend the funds generated for schools. The County cannot modify the school system's budget nor is the County entitled to share in any surpluses or required to finance any deficits of the school system. For these reasons, the Board is not fiscally dependent on the County and therefore is recognized as a primary government, as defined by the Governmental Accounting Standards Board. The Board also receives funding from state and federal government sources and must comply with the concomitant requirements of those funding entities.

GOVERNMENTAL STRUCTURE, LOCAL ECONOMIC CONDITION, AND OUTLOOK

The Wake County Public School System is one comprehensive school district serving the entire county; including Raleigh, Cary, Apex, Wendell, Fuquay-Varina, Garner, Knightdale, Rolesville, Wake Forest, Holly Springs, Morrisville, and Zebulon. The system was created through a merger of the former Wake County and Raleigh City public school systems in July 1976. The school system is the 24th largest system in the nation (2002-03) and the second largest in North Carolina. For 2002-03 it served over 104,000 students from kindergarten through 12th grade in 79 elementary schools, 25 middle schools, 16 high schools, and 3 special/optional schools.

At the helm of the school system are the Wake County Board of Education and the superintendent. The Board consists of nine members, elected in districts by the public, who serve four-year terms. The superintendent is selected by the Board and serves as chief executive officer of the system. The Board is responsible for setting policy, while the superintendent and his administrative team are charged with managing the operations of the school system.

A principal charged with the responsibility of the total school operations administers each individual school. Appropriate instructional and support personnel based on pupil enrollment staff the schools. The school principal and faculty work cooperatively with instructional specialists and central administrative staff in developing and implementing effective instructional programs.

The school system has over 14,000 full-time and part-time employees and is the third largest employer in the Raleigh-Durham area. The system has nearly 7,600 regular classroom teachers, not including media specialists, counselors, psychologists, etc., and allots regular classroom teachers at a teacher/student ratio of 1:20.5 for kindergarten and grade 1, 1:23 for grade 2, 1:25.5 for grades 3-5, 1:22.5 for grades 6-8, and 1:24 for grades 9-12. Most students are assigned to and attend their "base school" -- the school assigned based on the parent's or guardian's home address. In some instances, the base school may be a magnet school since these schools have base populations in addition to accepting applications. Transportation is provided for students living at least 1-½ miles from the base school. For the magnet program, the same guidelines apply if the child is accepted into the program.

Forty-four of the school system's 123 schools are magnet schools, which offer unique educational alternatives. All students are eligible to apply, and the network features 14 distinct programs: creative arts and science, international studies, gifted and talented, language explorations, global communications, Montessori, museum, year-round school, accelerated studies, leadership, IB Programme, university connection, Centennial Campus, and community model. The magnet network was established 20 years ago to offer a choice in instructional opportunities, to fill inner-city schools, and to help racially balance schools. The program has proven to be highly successful and contributes to Wake County's stature as a leader in education.

The recurring publicity of Wake County as one of the most desired places to live and work in the United States, as evidenced by past surveys in magazines such as Money and Fortune, has continued to turn the spotlight on quality of life enjoyed by Wake County citizens. While quality of life is an intangible asset, there are also many tangible attributes that we can point to in explaining the County's attractiveness.

Chartered in 1771, Wake County covers an area of 864 square miles and is the second most populous county in the state. Twelve municipalities reside in Wake County including Raleigh, the county seat and state capital. A unique mix of urban and rural areas with small towns distinguishes Wake County from other counties in the state and provides something for everyone in choosing a lifestyle. Located in the north central section of the state on the piedmont plateau, Wake County is approximately half way between Washington, D. C., and Atlanta. As well as being a part of that major industrial corridor, Wake County is also convenient to the recreation of the beautiful North Carolina mountains and serene North Carolina beaches. The County's topography is characterized by low rolling hills in the northwest changing gradually to level land in the southeast. The central North Carolina climate is relatively mild with moderate winters and warm summers. The location, geography, and climate make Wake County an enjoyable place to live and work while also contributing significantly to the economic viability of the region.

The economy of the area is stabilized by the presence of state and local government employment markets, the college and university employment markets, and the Research Triangle Park research facilities, all of which offer substantial employment opportunities to the County's population. No major specialized industry dominates the economy of the County.

The Research Triangle Park, straddled on the Wake and Durham County line, was organized in 1959. It encompasses 6,800 acres of land set aside for research and research-oriented manufacturing. With the attractiveness of the Research Triangle Park and its proximity to three major research universities, it is no accident that medical and electronic industries flourish in the region. Glaxo Smithkline leads the medical research with IBM, Northern Telecom, and Microelectronics Center of North Carolina leading the electronics research and production industry, giving both industries major presence in the region. It is expected that these major corporations and centers will continue to thrive and offer employment opportunities to the County's citizens.

The quantity and quality of the instructional programs of the school system are directly dependent on the funding provided and on effective management and efficient use of those funds. We recognize the important trust and responsibility we are given in the management of public resources and continue to be vigilant and trustworthy in fulfilling that responsibility. During the course of 2002-03 we aggressively pursued ways to reduce costs and improve efficiency by eliminating administrative overtime and out-of-system travel, moving purchasing deadlines to earlier dates, restricting special projects that cross fiscal years and implementing workers' compensation self-insurance. Such efforts have allowed the school system to end the 2002-03 fiscal year in a strong financial position. We believe that continuation of these financial management practices coupled with appropriate planning should result in continued strong financial position and provide appropriate fiscal accountability to the public and continued improvement of programs and outcomes for our students.

MAJOR INITIATIVES

Wake County Public School System Mission and Board Goal

The Wake County Board of Education has adopted a mission for the school system and goals and strategies to achieve the mission. Reaching these high standards involves concentrated effort and determination by all employees of the school system. The following list provides the mission, goal, objectives, strategies, and measurements.

Mission: The Wake County Public School System will educate each student to be a responsible and productive citizen who can effectively manage future challenges.

Goal: By 2003, 95% of all students tested will be at or above grade level as measured by NC End-of-Grade testing at grades 3 and 8.

Objective One: Reduce the gap between all students' actual achievement and their potential achievement.

Strategies:

- Secure and allocate resources to accelerate the learning of students at all achievement levels who are not reaching their full potential.
- Use effective and efficient operations to maximize instructional time. Seek input on providing the most efficient transportation program possible by discussing the three-tiered system with Board Advisory Councils and principals. A highly efficient system gets students to school on time and saves money.
- Reinvent the magnet program to keep all schools strong.
- Use technology to aid student learning.
- Use a system of continuous improvement to ensure that decision-making processes are data driven and student focused.

Outcome Measurement:

- High ABC's growth for every subgroup. (Results will be disaggregated by gender, gifted and/or Level IV status, and 10 other subgroups established by federal "No Child Left Behind" legislation).

- Improved disaggregated SAT scores with increased participation of under-represented groups.
- Increased percentage of students from all subgroups taking advanced courses.
- Increased cohort graduation rates.
- Decreased annual dropout rates.
- Improved academic success in grades 6 and 9 (grades, test scores, dropouts, and retentions in grades).
- Meet AYP (Average Yearly Progress) standards for all subgroups.

Objective Two: Recruit, develop, and retain quality employees whose vision, potential, and abilities support leaving no child behind.

Strategies:

- Provide an adequate compensation package for all employees.
- Ensure that the district has an adequate pool of high quality substitute teachers.
- Use systematic processes for getting feedback from staff about job satisfaction, working conditions, and support systems.
- Make more time available for teachers to teach and to grow professionally in order to improve achievement of all students.
- Support and expand the recruitment and training of mentors.

Outcome Measures:

- Decreased rates of voluntary turnover.
- Increase in Quality Index for applicant pool (size of pool, weighted by quality for specific positions).
- Increased percentage of teachers who report that staff development led to changes in teaching practice, their work environment is positive, and their planning periods are protected.
- Improved overall job satisfaction determined by surveys of instructional and support staff.
- Teacher Qualification Index will show equity across schools.

Objective Three: Broaden public support for the school system.

Strategies:

- Develop and implement a system-wide strategic communications plan.
- Develop and implement individual work plans in alignment with the system-wide communications plan to promote and share progress on student achievement with the community.
- Communicate system initiatives to all employees.
- Standardize system-wide internal communications processes and procedures.

Outcome Measures:

- Increase the percentage of respondents on Wake Educational Partnership (WEP) public surveys who give favorable responses to key questions.
- Increase the percentage of staff who agree on annual surveys that the school district has a clear direction.
- Parent and student surveys will show positive changes in satisfaction levels over time.

Objective Four: Manage growth and diversity to keep all schools strong.

Strategies:

- Educate and engage the community in growth management discussions by establishing a Speakers' Bureau to discuss growth and diversity issues with all school staffs and central office personnel and establishing a community-based Healthy Schools Task Force to engage the community in discussion of growth and diversity issues.
- Provide maximum utilization of facilities.
- Promote a student population for every school that fosters high academic performance for all by discussing "ecosystem" issues continuously with the Board of Education and managing growth and diversity through the development of the yearly Growth Management plan and by managing the magnet/year-round selection process.
- Secure appropriate funding to provide and maintain adequate facilities.
- Strive to reduce the number of involuntary student moves while maintaining opportunities for choice.
- Create programs and calendars that support achieving our long-term vision.

Outcome Measures:

- Reduce the number of schools below 85 percent capacity and above 115 percent capacity.
- Populate new schools without creating a profile imbalance with neighboring schools.

Building Program

The school system's building program continues to be a high priority of the Board of Education with over 131,000 students expected by 2010. The public approved Plan 2000, a \$550 million school building program, in November of 2000. This plan was a result of a citizen advisory committee whose charge was to study school needs and recommend an appropriate plan for Wake County Public Schools. The plan will fund 14 new schools (11,600 new seats), 32 major renovations, and system-wide repairs and maintenance for 64 schools. In October of 2003, the citizens of Wake County voted to approve Plan 2004 which includes 13 new schools, one pre-kindergarten center, comprehensive renovations at 16 schools, and repairs and reproofing at 61 campuses. The vote was passed with a two-thirds approval margin.

SAT Scores

The average Scholastic Assessment Test (SAT) score for Wake County Public School System was 1,067, which is the same as the previous high score registered in 2002. The SAT is a national exam designed to measure a student's chance of success at the college level.

Participation of the Wake County Public School System senior class reached 80 percent. National participation was 48 percent, and the state participation rate was 68 percent.

Wake's score was 66 points above the 2003 North Carolina average of 1,001 and 41 points above the national SAT average of 1,026. Both math and verbal scores were the highest they have ever been for Wake County students. Wake students scored an average of 543 on math and 524 on verbal.

Since 1990, state, national, and local SAT averages have climbed. In North Carolina, the overall score has increased 53 points, while the national average has gained 25 points. For the same time period, Wake County has boosted SAT scores by a total of 68 points.

FINANCIAL INFORMATION

The cost of public education in North Carolina is financed primarily by the state, which establishes minimum programs. Local funds, in varying amounts by district, supplement the basic program and are appropriated by local boards of county commissioners. Local boards of education in North Carolina have no tax levying or borrowing authority and are required to maintain accounting records in a uniform format.

The management of the school system is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the school system are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of federal, state, and local financial assistance, the school system is also responsible for ensuring that an adequate internal control structure is in place to ensure and document compliance with applicable laws and regulations related to these programs. This internal control structure is subject to periodic evaluation by management and the school system's internal auditor.

The North Carolina School Budget and Fiscal Control Act mandates a uniform budget format and the adoption of an annual balanced budget resolution by July 1 each year. Budgets are adopted for all governmental funds and the proprietary funds. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget and in funds provided by the federal, state, and local governments. The final budget, as amended for the fiscal year, is reflected in the financial section.

The school system also maintains an encumbrance accounting system as one method of maintaining budgetary control. Encumbered amounts lapse at year-end. However, outstanding encumbrances considered to be continuing contracts are generally re-appropriated as part of the following year's budget.

As demonstrated by the statements and schedules included in the financial section of this report, the school system continues to meet its responsibility for sound financial management.

Cash Management Policies and Practices

Cash temporarily idle during the year was invested primarily in the North Carolina Voluntary Short-Term Investment Fund. In addition, other bank accounts that the school system maintains also earn interest. The average yield on investments in this fund was 4.24 percent during fiscal 2003. Total interest earned during the year was \$3,017,429 for the general, capital projects, debt service, enterprise, and expendable trust funds. Average yields for U. S. Treasury bills and U. S. Treasury notes were 0.89 and 1.32 percent, respectively.

The statutes authorize the Board to invest in obligations of the United States; obligations of any agency of the United States if payment of interest and principal of such obligations is fully guaranteed by the United States; obligations of North Carolina; bonds and notes of any North Carolina local government public authority, subject to certain restrictions; shares of any savings and loan association organized under the laws of this state and shares in any federal savings and loan association organized under the laws of this state, to the extent that the investment is fully insured by the United States or an agency thereof or by any mutual deposit guaranty association authorized by the state; certain other federal agencies; and any form of investment allowed by law to the state treasurer.

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, in addition to loss prevention and loss reduction programs through a comprehensive safety program.

The Board was approved effective August 1, 2002, as a qualified self-insurer for workers' compensation coverage (utilizing Key Risk Management Services as third-party claims administrator) up to statutory limits for employees to the extent they are paid from federal, local, and enterprise funds with a self-insured retention of \$300 thousand per person with \$1.5 million aggregate and an employer's liability limit of \$1 million. Key Risk Management Services is the current third-party administrator of the NC State Board of Education Self-insured Workers' Compensation Program. The state provides workers' compensation coverage for employees paid from state funds. The Board also participates in the Public School Insurance Fund (Fund), a voluntary, self-funded risk financing pool 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 aggregate annually.

The Board maintains comprehensive general liability of \$1 million per occurrence, errors and omissions 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 and vehicle policy, and with \$500 physical damage deductible coverage through commercial insurance carriers. Boilers, machinery, musical instruments, public employee dishonesty, and public officials dishonesty are covered under separate commercial policies. The total insurable value of the school system's buildings and contents was \$1,578,732,874 as of June 30, 2003.

We believe that the Board carries adequate commercial coverage for all other known risks of loss. Claims have not exceeded coverage in any of the last seven fiscal years. Taken together, these coverages provide the Board with a comprehensive risk management program which management believes adequately meets the needs of the school system.

OTHER INFORMATION

Independent Audit

State statutes require an annual audit by independent certified public accountants. The firm of McGladrey & Pullen, LLP, was selected by the Board. In addition to meeting the requirements set forth in state statutes, the audit was also designed to meet the requirements of the federal Single Audit Act Amendments of 1996, as required by the U. S. Office of Management and Budget's Circular A-133, and the North Carolina Single Audit Implementation Act. The auditors conducted the engagement in accordance with auditing standards generally accepted in the United States of America and used the standards set forth in the General Accounting Office's Government Auditing Standards. The auditor's report on the general purpose financial statements and combining and individual fund statements and schedules is included in the financial section of this report.

Awards

The Government Finance Officers Association (GFOA) and the Association of School Business Officials (ASBO) awarded Certificates of Achievement for Excellence in Financial Reporting to the Board for its comprehensive annual financial report for the year ended June 30, 2002. That year was the fourteenth consecutive year that the Board received these prestigious awards. In order to be awarded Certificates of Achievement, the Board published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both accounting principles generally accepted in the United States of America and applicable legal requirements.

The Certificates of Achievement are valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the requirements for the Certificates of Achievement, and we are submitting it to the GFOA and ASBO to determine its eligibility for another certificate.

In addition, the Board also received the GFOA's Award for Distinguished Budget Presentation for its annual appropriated budget for 2002-03. This year was the tenth consecutive year for which the Board received this prestigious award. In order to qualify for the Distinguished Budget Presentation Award, the Board's budget document was judged to be proficient in several categories including policy documentation, financial

planning, and organization. The Board received the Meritorious Budget Award for three years from the Association of School Business Officials.

Other recent recognitions awarded to the school system include the State Treasurer's Governmental Accounting/Financial Management Award and the Advancement Award of the North Carolina Quality Leadership Foundation. In each instance, the Wake County Public School System was the only North Carolina school system to receive the award.

Acknowledgments

The preparation of this report could not have been accomplished without the efficient and dedicated services of the entire staff of the finance division. We would like to express our appreciation to all members of the division who assisted and contributed to the preparation of this report and to the Board's independent certified public accountants, McGladrey & Pullen, LLP, for their assistance. The contributions of all are invaluable and sincerely appreciated and clearly reflect the high standards that we have set for ourselves.

We would also like to express our appreciation to the members of the Board of Education for their interest and support in planning and conducting the financial affairs of the school system in a responsible and dedicated manner.

Respectfully submitted,

Bill McNeal
Superintendent

Del Burns
Deputy Superintendent

Mark Winters
Finance Officer