

Report on the

# Jefferson County Board of Education

Jefferson County, Alabama

October 1, 2004 through September 30, 2005

Filed: June 23, 2006



## Department of Examiners of Public Accounts

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*Ronald L. Jones, Chief Examiner*







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Honorable Ronald L. Jones  
Chief Examiner of Public Accounts  
Montgomery, Alabama 36130

Dear Sir:

Under the authority of the *Code of Alabama 1975*, Section 41-5-14, we submit this report on the Jefferson County Board of Education for the period October 1, 2004 through September 30, 2005.

**SCOPE AND OBJECTIVES**

This report encompasses an audit of the financial statements of the Jefferson County Board of Education (the "Board") and a review of compliance by the Board with applicable laws and regulations of the State of Alabama and federal financial assistance programs. The audit was conducted in accordance with government auditing standards generally accepted in the United States of America for financial audits. The objectives of the audit were to determine whether the financial statements present fairly the financial position and results of financial operations and whether the Board complied with applicable laws and regulations.

**CONTENTS OF REPORT**

This report includes the following segments:

1. **Report to the Chief Examiner** – contains items pertaining to state legal compliance, agency operations and other matters.

2. **Independent Auditor's Report** – reports on whether the financial information constitutes a fair presentation of the financial position and results of financial operations.
3. **Management's Discussion and Analysis** – a component of Required Supplementary Information (RSI) prepared by the management of the Board introducing the basic financial statements and providing an analytical overview of the Board's financial activities for the year. This information is supplementary information required by the Governmental Accounting Standards Board (GASB). This information has not been audited, and as a result, no opinion is provided about the fairness of the information in accordance with generally accepted accounting principles.
4. **Financial Section** – includes basic financial statements (Exhibits 1 through 7), and notes to the financial statements.
5. **Required Supplementary Information** – includes a Budget to Actual Comparison (Exhibit 8), which contains supplementary information required by the Governmental Accounting Standards Board. The MD&A discussed above is also considered RSI.
6. **Supplementary Information** – includes the Schedule of Expenditures of Federal Awards (Exhibit 9), which details federal awards expended during the audit period and Notes to the Schedule of Expenditures of Federal Awards.
7. **Additional Information** – contains basic information related to the Board (Exhibit 10) and the following reports and items required by generally accepted government auditing standards and/or U. S. Office of Management and Budget (OMB) Circular A-133 for federal compliance audits:

**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** (Exhibit 11) – a report on internal control related to the financial statements and on whether the Board complied with laws and regulations which could have a direct and material effect on the Board's financial statements.

**Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133** (Exhibit 12) – a report on internal control over compliance with requirements of laws, regulations, contracts and grants applicable to major federal programs and an opinion on whether the Board complied with laws, regulations, and the provisions of contracts or grant agreements which could have a direct and material effect on each major program.

**Schedule of Findings and Questioned Costs** (Exhibit 13) – a report summarizing the results of the audit findings relating to the financial statements as required by **Government Auditing Standards** and findings and questioned costs for federal awards as required by OMB Circular A-133.

**Auditee Response/Corrective Action Plan** (Exhibit 14) – a response by the Board on the results of the audit and corrective action plan for federal audit findings.

### **AUDIT COMMENTS**

The Board is composed of five members who are elected by the citizens of Jefferson County. The Board is responsible for administering the schools included in the County school system. The school systems of Bessemer, Birmingham, Fairfield, Homewood, Hoover, Leeds, Midfield, Mountain Brook, Tarrant, Trussville, and Vestavia Hills are administered by separate Boards of Education appointed by their municipal governments.

### **AUDIT FINDING**

At Hueytown Elementary, Child Nutrition Program receipts were not being deposited in a timely manner. Receipts were routinely held in excess of a week, with some being held up to twenty days.

### **SUMMARY OF FEDERAL COMPLIANCE AND FEDERAL INTERNAL CONTROL**

The Board appears to have complied, in all material respects, with applicable federal laws and regulations governing its major programs.

No material weaknesses in the internal control over administration of major federal programs were noted.

### **STATUS OF PRIOR AUDIT**

Findings contained in the prior audit have been resolved.

### **RECOMMENDATION**

Deposits should be taken to the bank in a timely manner.

Sworn to and subscribed before me this  
the 25<sup>th</sup> day of April, 2006.

Regina Norris  
Notary Public

Sworn to and subscribed before me this  
the 26<sup>th</sup> day of April, 2006.

Deborah A. Morgan  
Notary Public

Respectfully submitted,

Larcus A. Fuller

Larcus A. Fuller  
Examiner of Public Accounts

David J. Lane

David J. Lane  
Examiner of Public Accounts

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## *Independent Auditor's Report*

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Jefferson County Board of Education, as of and for the year ended September 30, 2005, which collectively comprise the Jefferson County Board of Education's basic financial statements as listed in the table of contents as Exhibits 1 through 7. These financial statements are the responsibility of the Jefferson County Board of Education's management. Our responsibility is to express opinions on these financial statements based on our audit.

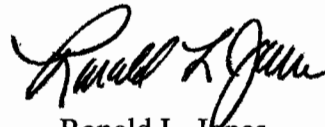
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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, each major fund, and the aggregate remaining fund information of the Jefferson County Board of Education, as of September 30, 2005, and the respective changes in financial position thereof 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 February 9, 2006 on our consideration of the Jefferson County Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying Management's Discussion and Analysis (MD&A) and the Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Exhibit 8), are not required parts of the basic financial statements but are 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 the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Jefferson County Board of Education's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 9) as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards 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.



Ronald L. Jones  
Chief Examiner

Department of Examiners of Public Accounts

February 9, 2006

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*Management's Discussion and Analysis*  
*(Required Supplementary Information)*

**Jefferson County Board of Education  
Management's Discussion and Analysis (MD&A)  
September 30, 2005**

Our discussion and analysis of the Jefferson County Board of Education's (the "Board's") financial performance provide an overview of the Board's financial activities for the fiscal year ended September 30, 2005. Please read it in conjunction with the Board's financial statements and notes to the financial statements, which immediately follow this analysis.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* issued June 1999.

**Financial Highlights: Significant Items to Note**

Our financial statements provide these insights into the results of this year's operations:

- ✓ The Board's financial status improved substantially for the 2005 fiscal year. The board's total net assets increased by approximately 9.5 percent, or \$12.43 million, over the course of the fiscal year. This increase is largely attributable to \$4.03 million received from Sixteenth Section Land Trust Fund distributions, an increase in ad valorem taxes of \$3.89 million, an increase in investment earnings of \$1.84 million, and a continuing effort to control expenditures.
- ✓ The assets of the Board exceeded its liabilities at the close of the 2005 fiscal year by \$142.70 million (net assets). Of this amount, \$86.94 million (unrestricted net assets) may be used to meet the Board's future costs of operations.
- ✓ The total cost of the Board's programs for the year was \$270.04 million. After taking away a portion of these costs paid for with charges or fees, intergovernmental aid, interest earnings and other miscellaneous sources, the net cost that required funding from Jefferson County taxpayers was \$74.64 million. (The state's Foundation Program provided \$159.02 million towards the cost of the programs.)
- ✓ For the General Fund, revenues received during the year exceeded total expenditures by over \$36.67 million.
- ✓ At the end of the current fiscal year, the unreserved fund balance for the General Fund was \$34.38 million, or 17 percent of the total General Fund expenditures, before other financing uses and special items.
- ✓ Major capital outlay projects consisted of one (1) Public School and College Authority (PSCA)-funded building project, which was still in progress at year's end.
- ✓ The Board reduced its outstanding long-term debt by \$18.59 million or 11.8 percent. However, offsetting this positive effect was a net reduction in capital assets of \$22.42 million. Both capital assets and long-term debt of the Board were materially affected by the July 1, 2005, formation of the Trussville City Board of Education.

## Using the Financial Statements - An Overview for the User

As a result of the implementation of the GASB 34 reporting model, the financial section now consists of five parts - *management's discussion and analysis* (this section), the *independent auditors' report*, the *basic financial statements*, *required supplementary information*, and *other supplementary information*.

The Board's basic financial statements are comprised of three components: 1) *government-wide financial statements*, 2) *fund financial statements*, and 3) *notes to the basic financial statements*.

***Government-wide financial statements*** - The focus of these statements is to provide readers with a broad overview of the Board's finances as a whole instead of on an individual fund basis, in a manner similar to a private-sector business, indicating both long-term and short-term information about the Board's overall financial status. It is important to note that all of the activities of the board reported in the *government-wide financial statements* are classified as governmental activities. These activities include the following:

Instruction includes teacher salaries and benefits, teacher aides, substitute teachers, textbooks, depreciation of instructional buildings, professional development, and classroom instructional materials, supplies and equipment.

Instructional support includes salaries and benefits for school principals, assistant principals, librarians, counselors, school secretaries, school bookkeepers, speech therapists, and school nurses, as well as professional development expenses.

Operation and maintenance includes utilities, security services, janitorial services, maintenance services, and depreciation of maintenance vehicles.

Auxiliary services includes student transportation expenses, such as bus driver salaries and benefits, mechanics, bus aides, vehicle maintenance and repair expenses, vehicle fuel, depreciation of buses and bus shops, and fleet insurance, and food service expenses such as lunchroom managers, cooks, cashiers and servers' salaries and benefits as well as donated and purchased food, food preparation and service supplies, kitchen and lunchroom equipment and depreciation of food service equipment and facilities.

General administration and central support includes salaries and benefits for the superintendent, assistants, clerical and financial staff, and other personnel that provide system-wide support for the schools. Also included are legal expenses, liability insurance, training for board members and general administrative staff, printing costs, and depreciation of central office equipment and facilities.

Interest and fiscal charges includes interest, but not principal payments, on long-term debt issues and other expenses related to the issuance and continuance of debt issues.

Other includes the salaries and benefits for adult and continuing education teachers, preschool teachers and aides, extended day personnel, and community education instructors. Also included are the materials, supplies, equipment, related depreciation, and other expenses for operating programs outside of those for educating students in the kindergarten through 12<sup>th</sup> grade instructional programs.

*Government-wide statements* report the capitalization of capital assets and depreciation of all exhaustible capital assets and the outstanding balances of long-term debt and other obligations. These statements report all assets and liabilities perpetuated by these activities using the accrual basis of accounting. The accrual basis takes into account all of the Board's current year revenues and expenses regardless of when received or paid. This approach moves the financial reporting method for governmental entities closer to the financial reporting methods used in the private sector. The following *government-wide financial statements* report on all of the governmental activities of the Board as a whole.

The *statement of net assets* (on page 1) is most closely related to a balance sheet. It presents information on all of the board's assets (what it owns) and liabilities (what it owes), with the difference between the two reported as net assets. The net assets reported in this statement represent the accumulation of changes in net assets for the current fiscal year and all fiscal years in the past combined. Over time, the increases or decreases in net assets reported in this statement may serve as a useful indicator of whether the financial position of the school board is improving or deteriorating.

The *statement of activities* (on page 2) is most closely related to an income statement. It presents information showing how the Board's net assets changed during the current fiscal year only. 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. This statement shows gross expenses and offsetting program revenues to arrive at net cost information for each major expense function or activity of the Board. By showing the change in net assets for the year, the reader may be able to determine whether the Board's financial position has improved or deteriorated over the course of the current fiscal year. The change in net assets may be financial or non-financial in nature. Non-financial factors which may have an impact on the Board's financial condition include: age and condition of facilities, mandated educational programs for which little or no funding is provided, and increases or decreases in funding from state and federal governments, to name a few.

***Fund financial statements*** - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Board has used fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The reporting model still requires the Board to present financial statements on a fund basis, but with some modifications. All of the funds of the Board can be classified into two categories: governmental funds and fiduciary funds.

***Governmental Funds*** - Governmental *fund financial statements* begin on page 4. These statements account for basically the same governmental activities reported in the *government-wide financial statements*. As required under the reporting model, the *fund financial statements* presented herein display information on each of the Board's most important governmental funds or *major funds*. This is required in order to better assess the Board's accountability for significant governmental programs or certain dedicated revenue. The Board's *major funds* are the General Fund and Local Capital Projects Fund.

The *fund financial statements* are still measured on the modified-accrual basis of accounting as reported in the previous fiscal years, where revenues and expenditures are recorded when they become measurable and available. As a result, the *fund financial statements* focus more on the near term use and availability of spendable resources. The information provided in these statements is useful in determining the Board's immediate financial needs. This is in contrast to the accrual-based *government-wide financial statements* which focus more on overall long-term availability of spendable resources. The relationship between governmental activities reported in the *government-wide financial statements* and the governmental funds reported in the *fund financial statements* are reconciled on pages 6 and 9 of these financial statements. These reconciliations are useful to readers in understanding the long-term impact of the Board's short-term financing decisions.

*Fiduciary Funds* - The Board is the trustee, or fiduciary, for some of its booster and parent organization activity funds which are under the control and administration of its schools. However, balances of these funds are not considered material to the financial statements and therefore have been included in the governmental funds. Fiduciary funds also include the balances of agency funds, such as accounts payable clearing and payroll clearing funds. All of the Board's fiduciary activities, with the exception of the immaterial balances referred to above, are reported in a separate *Statement of Fiduciary Net Assets* on page 10 of this section. These funds are not available to the Board to finance its operations, and therefore not included in the *government-wide financial statements*. The Board is responsible for ensuring that the assets reported by these funds are used for their intended purposes.

*Notes to the Basic Financial Statements* - The *notes to the basic financial statements* provide additional information that is essential for the statements to fairly represent the Board's financial position and its operations. The notes contain important information that is not part of the basic financial statements. However, the notes are an integral part of the statements, not an appendage to them. The *notes to the basic financial statements* begin on page 11 in this section.

After the presentation of the basic financial statements, the reporting model requires additional required supplementary information to be presented following the notes to the basic financial statements. The required supplementary information beginning on page 32 provides a comparison of the original adopted budget to the final amended budget of the Board's General Fund, which is then further compared to the actual operating results for the fiscal year. The comparison of this data allows users to assess management's ability to project and plan for its operations throughout the year.

## **Analysis of the School Board's Overall Financial Position**

As indicated earlier, net assets may serve over time as a useful indicator of a government's financial position. Refer to *Table 1* when reading the following analysis of net assets. The Board's assets exceeded liabilities by \$142.70 million at September 30, 2005.

- ✓ Of this figure, 29.8 percent or \$42.54 million reflects the Board's investment in capital assets (e.g., land, buildings, improvements other than buildings, furniture and equipment, and transportation equipment), less accumulated depreciation and debt related to the acquisition of the assets. Since these capital assets are used in governmental activities, this portion of net assets is not available for future spending or funding of operations.

- ✓ Restricted net assets account for 9.3 percent or \$13.22 million of total net assets. Restricted net assets are reported separately to show the external legal constraints from debt covenants and enabling legislation that limit the Board's ability to use those net assets for day-to-day operations.
- ✓ The remaining balance of unrestricted net assets of \$86.94 million may be used at the Board's discretion to meet ongoing obligations to citizens and creditors and for future operations.

**Table 1: Summary of Net Assets**

As of September 30, 2005  
(in millions)

	Governmental Activities	
	9/30/2005	9/30/2004 As Restated
Current and other assets	\$ 177.72	\$ 169.77
Capital assets	181.02	203.45
<b>Total Assets</b>	<b>\$ 358.74</b>	<b>\$ 373.22</b>
Current and other liabilities	83.35	84.80
Long-term liability	132.70	158.17
<b>Total Liabilities</b>	<b>\$ 216.05</b>	<b>\$ 242.97</b>
<b>Net Assets:</b>		
Invested in Capital Assets, Net of Related Debt	\$ 42.54	\$ 49.94
Restricted	13.22	12.89
Unrestricted	86.94	67.42
<b>Total Net Assets</b>	<b>\$ 142.70</b>	<b>\$ 130.27</b>

At the end of the current fiscal year, the Board is able to report positive balances in all three categories of net assets: invested in capital assets-net of related debt, restricted and unrestricted. This means that the Board has enough available resources to cover all outstanding obligations, including non-capital liabilities (such as compensated absences) as of September 30, 2005, with resources left over to use for next year's operations.

The Board's improved financial position is the product of many factors. But most significantly, this is the result of the following:

- \$4.03 million received from Sixteenth Section Land Trust Fund distributions,
- additional local ad valorem revenue of \$3.89 million received as a result of property reappraisal,
- an increase in investment earnings of \$1.84 million, and
- controlling expenditures.

The results of this fiscal year's operations as a whole are reported in detail in the *Statement of Activities* on page 2. *Table 2* below condenses the results of operations for the fiscal year into a format where the reader can easily see the total revenues of the Board for the year. It also shows the impact the operations had on changes in net assets as of September 30, 2005.

**Table 2: Summary of Changes in Net Assets From Operating Results**

	Governmental Activities	
	9/30/2005	9/30/2004 As Restated
(in millions)		
Revenues		
Program Revenues:		
Charges for services	\$ 26.99	\$ 26.83
Operating grants and contributions	179.09	160.16
Capital grants and contributions	9.40	7.98
General Revenues:		
Local property taxes	72.79	68.90
Alcohol beverage tax	0.89	0.82
Other taxes	0.97	0.96
Other	11.75	6.00
Special and Extraordinary Items:		
Loss on Transfer of Assets	(26.76)	
Gain on Transfer of Debt	7.35	
Total Revenues, Special and Extraordinary Items	<u>\$ 282.47</u>	<u>\$ 271.65</u>
Expenses		
Instructional services	\$ 155.89	\$ 148.99
Instructional support services	36.38	33.58
Operation and maintenance services	20.46	19.28
Auxiliary services	33.30	30.90
General administrative services	7.26	10.44
Interest and fiscal charges	7.85	8.31
Other expenses	8.90	7.99
Total Expenses	<u>\$ 270.04</u>	<u>\$ 259.49</u>
Increase in Net Assets	12.43	12.16
Net Assets - Beginning	130.25	116.38
Prior Period Restatements	0.02	1.71
Net Assets - Beginning (as restated)	130.27	118.09
Net Assets - Ending	<u>\$ 142.70</u>	<u>\$ 130.27</u>

Governmental Activities - As shown in *Table 2*, the cost of services rendered from the Board's governmental activities for the year ended September 30, 2005 was \$270.04 million. It is important to note that not all of these costs were borne by the taxpayers of Jefferson County:

- ✓ Some of the cost, \$26.99 million, was paid by users who benefited from services provided during the year, such as school lunches, summer school, driver's education instruction, and transfer tuition.
- ✓ State and federal governments subsidized certain programs with grants and contributions totaling \$188.49 million.

- ✓ Other general revenue sources, such as interest earnings, sale of surplus property, proceeds from Sixteenth Section Land Trust Fund distributions, etc., provided for \$11.76 million in revenues.
- ✓ \$74.64 million of the Board's total costs of \$270.04 million was financed by district and state taxpayers, as follows: \$72.79 million in property taxes, \$0.89 million in alcohol beverage tax, and \$.97 million in other taxes (business privilege tax, mineral lease documentary tax, helping-school vehicle tags, and manufactured home registration fees).
- ✓ Net capital assets transferred to the Trussville City Board of Education on July 1, 2005, totaled \$26.76 million representing a loss. Outstanding indebtedness transferred to the Trussville City Board of Education on July 1, 2005, totaled \$7.35 million representing a gain.

Table 3 is a condensed statement taken from the Statement of Activities on page 2 showing the total cost for providing identified services for six major Board activities. Total cost of services is compared to the net cost of providing these services. The net cost of services is the remaining cost of services after subtracting grants and charges for services that the Board used to offset the program's total cost. In other words, the net cost shows the financial burden that was placed on all taxpayers for each of these activities. This information allows citizens to consider the cost of each program in comparison to the benefits they believe are provided.

**Table 3: Net Cost of Governmental Activities**

	(in millions)			
	Total Cost of Services		Net Cost of Services	
	2005	2004	2005	2004
Instructional services	\$ 155.89	\$ 148.99	\$ 11.87	\$ 18.96
Instructional support services	36.38	33.58	8.36	9.08
Operation and maintenance services	20.46	19.28	14.36	13.42
Auxiliary services	33.30	30.90	3.85	3.72
General administrative services	7.26	10.44	6.48	9.31
Interest and fiscal charges	7.85	8.31	7.85	8.31
Other expenses	8.90	7.99	1.79	1.71
<b>Total</b>	<b>\$ 270.04</b>	<b>\$ 259.49</b>	<b>\$ 54.56</b>	<b>\$ 64.51</b>

## Performance of School Board Funds

As noted earlier, the Board uses fund accounting to control and manage resources in order to ensure compliance with finance-related legal requirements. Using funds to account for resources for particular purposes helps the reader to determine whether the Board is being accountable for the resources provided by taxpayers and other entities, and it may also help to provide more insight into the Board's overall financial health. The following analysis of the Board's funds should be read in reference to the fund financial statements which begin on page 4.

**Governmental Funds** - The focus of the Board's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Board's financial requirements (Note that the relationship between the *fund financial statements* and the *government-wide financial statements* are reconciled on pages 6 and 9). The strong financial performance of the Board as a whole is reflected in its governmental funds as well. At the end of the fiscal year, the Board's governmental funds reported combined ending fund balances of \$101.91 million.

- ✓ Approximately \$34.38 million of this amount constitutes unreserved fund balance of the General Fund which is available as of the end of the fiscal year for spending on future operations.
- ✓ The Debt Service Fund ended the year with a reserved balance of \$14.57 million, which is consistent with the prior year ending balance.
- ✓ The Special Revenue Funds have an unreserved fund balance of \$15.33 million, and a reserved fund balance of \$.58 million for encumbrances and inventories, totaling \$15.91 million.
- ✓ The Local Capital Projects Fund have a total fund balance of \$26.55 million, of which \$1.44 million was encumbered for various locally funded building projects at yearend.
- ✓ The remaining Capital Projects Funds (included in Other Governmental Funds) have a reserved fund balance of \$9.41 million made up of \$5.38 million in the state funded Public School Fund, \$17,431 in remaining proceeds of the PSCA Capital Improvement Pool Bonds, Series 1999-D, \$4.01 million from the sale of fixed assets in prior years, and \$1,886 for bus fleet renewal.

**General Fund** - The General Fund is the primary operating fund of the Board. The \$11.24 million net change in General Fund balance as a result of operations this year was primarily from the following:

- ✓ \$4.03 million received from Sixteenth Section Land Trust Fund distributions,
- ✓ additional local ad valorem revenues of \$3.89 million received as a result of property reappraisal,
- ✓ an increase in investment earnings of \$1.84 million, and
- ✓ controlling expenditures.

Also, management is conservatively planning for increases in recurring costs to be realized in future periods, such as funding needed for capital needs and the increasing employer share of salary-related benefits.

Overall, the Board's governmental funds had more revenues than expenditures at the end of the fiscal year, thereby contributing to the \$16.12 million increase in the total fund balance.

**Fiduciary Funds** - The Fiduciary Fund or Agency-Type financial statements appear on page 10. Only a *Statement of Fiduciary Net Assets* is presented, as the Board serves as the custodian of these funds which are held in school accounts.

## **Budgetary Highlights of Major Funds**

On or before October 1 of each year, the Board is mandated by state law to prepare and submit to the State Superintendent of Education the annual budget adopted by the Board. The original 2005 fiscal year budget, adopted on August 4, 2004, was based on a conservative approach that reflected current revenues and expenditures. The original budget figures were amended when revenues or expenditures exceeded ten percent. Over the course of the year, the Board revised the annual operating budgets three times on November 18, 2004, April 28, 2005, and June 23, 2005. For purposes of this budgetary analysis, only the General Fund of the Board is discussed in accordance with the GASB 34 reporting model.

**General Fund** - The comparison of the General Fund original budget to the final amended budget is on page 32. The differences between the original budget and the final amended budget of the Board were relatively minor (\$12.05 million increase in overall revenue appropriations and \$7 million increase in expenditure appropriations) and can be briefly summarized as follows:

Amendment #1 was necessary to budget federal programs carryover, increase the local capital projects budgeted expenditures by \$4.71 million, add \$.02 million for county commission appropriations and \$.34 million in state high school graduation exam remediation allocations, add \$.25 million in revenue and expenditures for National Board for Professional Teaching Standards certification allocations, and amend the budgeted beginning balances to reflect the actual ending fund balances from fiscal year 2004.

Amendment #2 was necessary to add \$4.03 million received from Sixteenth Section Land Trust Fund distributions, amend local revenues for \$.8 million additional interest, add \$.19 million for additional state allocation for the Alabama Reading Initiative and \$1.58 million for current units revenue, add \$.06 million in additional county commission appropriations, add \$.10 million in additional revenues and expenditures for National Board Certified Teacher allocations, add an additional \$1.11 million in locally funded capital projects, and budget final federal program changes.

Amendment #3 was necessary to amend local revenues for \$2.4 million in district ad valorem revenue projected to be received as a result of property reappraisal, add additional state allocation for the Alabama Reading Initiative of \$.57 million, add an additional \$.41 million in locally funded capital projects, add a locally funded allocation of \$7,500 to each local school, and increase the classroom instructional support material and supply budget to provide early access to funds in August.

The positive variance between budgeted and actual expenditures was primarily the result of conservative spending throughout the school system.

Overall, the final amended budget is reflective of the actual operating activity for the year. Although actual revenues were slightly higher than budgetary estimates (\$2.94 million) and actual expenditures were significantly less than budgetary estimates (\$7.16 million), the yearend transfer of \$14 million from the General Fund to the Local Capital Projects Fund offset these variances and the resulting \$9.65 million net change in fund balance reflects the overall improvement in the General Fund during fiscal year 2005.

## Capital Assets and Debt Administration

**Capital Assets** - The Board's investment in capital assets for its governmental activities for the year ended September 30, 2005, amounted to \$42.54 million, net of accumulated depreciation, restricted net assets and debt related to the acquisition of the assets. The Board's investment in capital assets includes land at estimated historical cost, buildings and improvements at estimated historical cost, equipment and furniture at estimated historical cost, buildings and improvements under capital lease, and construction in progress, and is shown in *Table 4*.

**Table 4: Capital Assets (net of accumulated depreciation)**  
(in Millions)

	Governmental Activities	
	2005	2004 As Restated
Land and land improvements	\$ 9.45	\$ 8.23
Construction in progress	6.88	1.89
Buildings & Improvements	105.61	131.71
Equipment and Furniture	18.11	15.74
Buildings and Improvements Under Capital Lease	40.97	45.88
	<u>\$ 181.02</u>	<u>\$ 203.45</u>

A \$13,738.56 restatement of beginning accumulated depreciation of capital assets as of October 1, 2004 was necessary to correct prior year errors.

Net capital assets decreased by \$22.42 million for the 2005 fiscal year. The Board expended available resources to acquire \$13.33 million in capital asset additions during the year. These additions are reduced by the current year's depreciation expense of \$8.60 million and \$36.05 million in net capital assets taken out of service during the year. Net capital assets transferred to the Trussville City Board of Education totaled \$26.76 million. Approximately 4.5 acres of Gardendale Elementary property was sold for \$34,000 (\$19,147 gain) and the Alliance School property consisting of 10 acres and buildings was sold for \$225,000 (\$24,565 gain). See additional information on the Board's capital assets presented in the notes to the financial statements.

The additions to capital assets were primarily for the following:

Land was purchased for the new Irondale Middle School costing \$2 million, funded from the proceeds of the sale of Cahaba Heights Community School to the City of Vestavia Hills in 2003. Land improvements, financed with local funds, consisted of \$.24 million for slope stabilization and a retaining wall at Gardendale High, \$.23 million for a track facility at Clay-Chalkville High, and \$.77 million for site improvements at Chalkville Elementary.

Building construction (paid for with state leveraged funds and local funds) was completed on fourteen schools as follows:

Brookville Elementary	\$ 52,342.00
Crumley Chapel	60,870.00
Erwin High	169,418.08
Fultondale High	138,614.19
Greenwood Elementary	75,167.73
Hueytown Elementary	71,270.00
Hueytown Middle	83,535.00
Minor High	430,545.88
North Jefferson Middle	443,832.94
Oak Grove High	102,187.58
Paine Intermediate	100,000.00
Pleasant Grove High	59,800.00
Shades Valley High	1,058,303.33
Warrior Elementary	104,388.66
<b>Total</b>	<b>\$ 2,950,275.39</b>

Construction in progress at year-end reflected the following projects paid for with state leveraged P.S.C.A. funds, and state and local capital outlay funds:

Clay Chalkville Middle	\$ 371,115.48	Roofing
Corner High	50,235.65	Bleachers
Gresham Middle	122,860.00	Fire Alarm
McAdory High	6,060,034.12	Renovation
Pinson Valley High	146,668.12	Fire Alarm
Pleasant Grove High	134,157.26	Cafeteria Renovation
<b>Total</b>	<b>\$6,885,070.63</b>	

In addition, one cafeteria was renovated with Child Nutrition funds at the following school:

Bragg Middle	\$ 82,085.00
--------------	--------------

The Board purchased \$.96 million in new vehicles, including thirteen (13) new buses (eight financed with fleet renewal funds, five financed locally), two transportation service vehicles (purchased with state transportation operations funds), two maintenance vehicles and one vehicle for new construction (purchased with local funds), and three drivers' education vehicles (purchased with local and state driver education funds).

Equipment purchases totaling \$.66 million were primarily funded with Child Nutrition at various cost centers.

**Long-Term Debt** - At year-end, the Board had \$139.58 million in capital outlay warrants, capital lease contracts payable, and other long-term debt outstanding. This is a reduction of 11.8 percent in debt from last year, as shown in *Table 5* below.

**Table 5: Outstanding Long-Term Debt**  
(in millions)

	Fiscal Year Ended September 30, 2005		
	Beginning Balance	Net Change	Ending Balance
<b>Governmental Activities:</b>			
Bonds and warrants payable	\$ 106.95	\$ (11.95)	\$ 95.00
Other liabilities			
Capital leases	50.06	(6.56)	43.50
Compensated absences	1.16	(0.08)	1.08
Total other liabilities	<u>\$ 51.22</u>	<u>\$ (6.64)</u>	<u>\$ 44.58</u>
Governmental activities long-term debt	<u>\$ 158.17</u>	<u>\$ (18.59)</u>	<u>\$ 139.58</u>

Long-term debt activity for the year consisted of the following:

- ✓ The Board continued to pay down its capital outlay warrants issued in 1997 and 1999, retiring \$4.6 million in outstanding bonds during the fiscal year 2005. In addition, Trussville City Board of Education assumed \$7.35 million of the Board's outstanding indebtedness as of July 1, 2005, referable to school buildings located within the corporate limits of the City of Trussville.
- ✓ The Board continued to make lease payments on its two prior years' existing capital lease agreements (the 2000 Jefferson County Commission Sale Leaseback Agreement and the 2002 Trane Lease), in addition to paying off the 2003 bus lease, resulting in a net decrease of \$6.56 million in capital lease contracts payable.
- ✓ The net decrease in compensated absences payable in the 2005 fiscal year primarily resulted from the removal of the immaterial current portion of the liability.

(More detailed information about the Board's long-term liabilities is presented in the notes to the basic financial statements.)

## Economic Factors and Next Year's Budget

The following are currently known Jefferson County economic factors considered while going into the 2005-2006 fiscal year.

- ✓ The unemployment rate in Jefferson County for September 2005 is 3.9 percent, which is a decrease from last year's rate of 5.3 percent in September 2004, indicating a positive economic recovery trend in this area. Jefferson County's unemployment rate ranks 28th out of 67 counties and continues to compare favorably to the state's average unemployment rate of 4.0 percent and the national rate of 5.1 percent for September 2005.
- ✓ The population in Jefferson County as of the year 2000 census grew slightly since the last ten-year census taken in 1990. The population grew by approximately 10,522 people or 1.6 percent over a ten-year period for a total estimated population of 662,047. However, the latest annual population estimate published by the Census Bureau, 2004 American Community Survey, reports Jefferson County at 642,956, a decrease of 19,091 from the 2000 census.
- ✓ The property tax base in Jefferson County, based on the 2005 tax levy, shows an increase in assessed value of property in the county by approximately 5.39 percent or \$378 million from the 2004 tax levy.
- ✓ The Birmingham Regional Chamber of Commerce recently published key points in its Economic Analysis and Inventory of Development Projects study. One of these reported, "Housing construction soared over the past year and housing prices have risen sharply."
- ✓ Also, according to the study, among the 8,700 jobs estimated to develop in the Birmingham-Hoover metropolitan area in 2006 are 100 jobs at Confederate Motorcycles' manufacturing plant, 40 jobs at Wachovia Corporation's data center, 400 jobs at Trinity Glass distribution facility in Moody, 500 jobs at the Bankhead Marketplace retail center in Pell City, 100 jobs at Precoat Metals in Hueytown, and 50 jobs at Jenkins Brick in Moody.

According to the Alabama Legislative Fiscal Office January 6, 2006, presentation to the Legislature on Alabama's Financial Condition, economic recovery was obvious in the State Education Trust Fund's FY2005 income tax (up 11.37%) and sales tax (up 6.16%) revenue increases. The latest reports on the U.S. economy are almost unanimously positive, with some national economists predicting 3.4% growth in 2006, slowing to 3.1% growth in 2007. Alabama's economy continues an impressive recovery with an increase of 19,900 non-farm jobs in November 2005 over November 2004, a total increase of 55,300 jobs since November 2003, and Alabama's personal income rose by 6.8% and 6.3% in the first two quarters of 2005. Questions being asked as the Alabama Legislative Fiscal Office projected revenues for FY2007 were:

will the economic recovery be sustained and

at what level of growth.

- ✓ Because of these concerns at the state level and increasing expenditures in the areas of retirement, health insurance, pay increases and a statutory requirement of the state to repay the Rainy Day Account, the Board continues to budget for cautious spending for the 2006 fiscal year.

At the time these financial statements were prepared and audited, the Board was aware of the following circumstances that could significantly affect the Board's financial health in the future:

**Establishment of Independent City School Districts** - At the present time, there are twelve public school systems operating within Jefferson County--the Board and school boards for the following municipalities in the County: Bessemer, Birmingham, Fairfield, Homewood, Hoover, Leeds, Midfield, Mountain Brook, Tarrant, Trussville, and Vestavia Hills (collectively, the "City Boards"). Under existing Alabama law, a city with a population in excess of 5,000 is entitled to establish a separate public school system within its jurisdiction with its own board of education, members of which are elected by the governing body of such city. If an additional city system is established in the County, the State and County revenues for general educational purposes and all county-wide school property taxes would be apportioned among all school systems in the County including the Board, the existing city school systems in the County and the new city school system. Any district school property tax then being levied in the district in which a system is established shall be distributed as follows: (1) that part of the district tax collected in the city forming the independent system shall be apportioned to the independent city system and (2) that part of the district tax collected in the County outside the city forming the independent system shall be apportioned to the county board of education. Other than the municipalities operating the City Boards, the municipalities in the County that have a population of at least 5,000 are the Cities of Adamsville, Fultondale, Gardendale, Hueytown, Irondale, and Pleasant Grove. Reports in the news media would indicate that the establishment of independent city boards of education by other municipalities is considered from time to time.

**Proration of State Appropriations** - Applicable provisions of the Constitution of Alabama effectively prohibit the State from engaging in deficit financing--that is to say, state expenditures during any fiscal year may not exceed available revenues. State law provides procedures for delaying or, if necessary, reducing (or "prorating") appropriations of state revenues in order to maintain and enforce the constitutional ban on deficit financing. The Board received the largest share of its annual revenue from the State. Although the State revenues provided for the payment of employee salaries and benefits are prorated, State law prohibits the Board from reducing salaries and benefits paid to employees. The postponement or reduction of State appropriations to the Board as a consequence of proration may therefore result in reductions of expenditures by the Board for certain budget items other than salaries (e.g. instructional materials, supplies and maintenance). The following table sets forth the years in which proration has been enforced since 1985 and the amounts of such proration:

Fiscal Year	Percentage Proration
1985-86	4.2133%
1990-91	6.5000%
1991-92	3.0000%
2000-01	6.2000%
2002-03	4.4000%

**Estimated Capital Needs** - As of September 30, 2005, the Board's Five-Year Capital Plan, based upon critical needs and a State facility assessment, included \$386.51 million in estimated capital needs through-out the system, \$23.40 million of which will be state or locally funded, \$337.54 million will be funded by the proceeds from bonds issued by the Jefferson County Commission, discussed below, and \$25.57 million which is unfunded at this time. The Jefferson County Commission issued a total of \$1.05 billion Limited Obligation School Warrants Series 2004-A, Series 2005-A and Series 2005-B, pledging a county-wide one-cent sales tax that took effect January 1, 2005. Although the Board's portion of the proceeds from those issues has been reported as approximately \$375.76 million, such proceeds may be reduced by a distribution to the Trussville City Board of Education in accordance with the April 15, 2005, agreement between the two boards. Currently the bond proceeds are being held in escrow until the two lawsuits against the tax and bonds are resolved. If the suits are still pending on December 1, 2006, the county will repay the bonds with full interest.

**Student Enrollment** - The latest student enrollment figure as of the forty-day report in the 2005-2006 school year of 35,749, although appearing to reflect a decrease, actually indicates an increase in enrollment of approximately 338 students for the 2006 fiscal year, when the 2005 ADM is adjusted to reflect the pullout of Trussville City Schools (4,032 students). When compared with the previous year's increase, as illustrated below, this figure continues to reflect a positive trend. It should also be noted that the large decline from fiscal year 2002 to 2003 was largely a result of the loss of 274 ADM to the Vestavia City Board of Education upon transfer of the Cahaba Heights Community School, and approximately 1,265 ADM to the Leeds City Board of Education.

1st 40 day ADM	Enrollment Change	Fiscal Year
35,749	(3,694)	2006
39,443	844	2005
38,599	(107)	2004
38,706	(1,751)	2003
40,457	(406)	2002
40,863	(491)	2001
41,354	(545)	2000

**Medical and Retirement Costs** - Employee health insurance is provided through the Public Education Employees' Health Insurance Program (PEEHIP). The fiscal year 2006-2007 premium for health insurance for teachers and support personnel under PEEHIP is projected to increase from \$668 per month per employee to \$717 (an increase of 7.34%). Also, employer contributions to the Teachers Retirement System (TRS) will increase from 8.17 percent to 9.36 percent for fiscal year 2007 for an increased cost of \$28.83 million to the Education Trust Fund for grades K-12.

## CONTACTING THE SCHOOL BOARD'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Board's finances and to show the Board's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Kim McPherson, Executive Director of Business and Financial Affairs, at the Jefferson County Board of Education, 2100 18<sup>th</sup> Street South, Birmingham, Alabama 35209-1891, or by calling (205) 379-2001 during regular office hours, Monday through Friday, from 8:00 a.m. to 4:30 p.m., central standard time.

**Statement of Net Assets**  
**September 30, 2005**

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and Cash Equivalents	\$ 54,248,413.02
Investments	61,656,879.38
Property Tax Receivables	53,031,167.31
Receivables (Note 4)	3,405,103.48
Interest Receivable	276,683.52
Inventories	837,067.35
Restricted Assets	3,796,092.28
Prepaid Items	469,913.20
Capital Assets (Note 5):	
Nondepreciable	14,518,097.48
Depreciable, Net	166,503,565.31
Total Assets	<u>358,742,982.33</u>
<b>Liabilities</b>	
Payables (Note 10)	2,305,108.64
Deferred Revenue	56,103,809.63
Salaries and Benefits Payable	17,122,318.81
Accrued Interest Payable	933,197.03
Long-Term Liabilities:	
Portions Due or Payable Within One Year:	
Warrants Payable	4,461,658.86
Capital Lease Contracts Payable	2,424,756.05
Portions Due or Payable After One Year:	
Warrants Payable	90,538,248.03
Capital Lease Contracts Payable	41,075,593.94
Estimated Liability for Compensated Absences	1,082,521.76
Total Liabilities	<u>216,047,212.75</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	42,538,837.36
Restricted for:	
Debt Service	3,776,774.81
Capital Projects	4,585,685.93
Other Purposes	4,854,856.82
Unrestricted	<u>86,939,614.66</u>
Total Net Assets	<u>\$ 142,695,769.58</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

**Statement of Activities**  
**For the Year Ended September 30, 2005**

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>Governmental Activities</b>			
Instruction	\$ 155,894,998.51	\$ 5,251,606.01	\$ 131,397,883.23
Instructional Support	36,382,103.60	1,102,624.47	26,904,196.36
Operation and Maintenance	20,459,446.93	809,605.95	5,288,376.58
Auxiliary Services:			
Student Transportation	15,267,994.40	148,874.68	12,567,940.33
Food Services	18,026,666.23	14,047,048.47	701,203.24
General Administrative and Central Support	7,262,180.09	48,678.52	697,192.78
Other	8,900,928.07	5,579,937.62	1,533,540.22
Interest and Fiscal Charges	7,848,272.36		
Total Governmental Activities	<u>\$ 270,042,590.19</u>	<u>\$ 26,988,375.72</u>	<u>\$ 179,090,332.74</u>

**General Revenues:**

Taxes:
Property Taxes for General Purposes
Alcohol Beverage Tax
Other Taxes
Grants and Contributions Not Restricted for Specific Programs
Investment Earnings
Gain/Loss on Disposition of Capital Assets
Miscellaneous
Total General Revenues
Special Items (Note 15):
Loss on Transfer of Assets
Gain on Transfer of Debt
Total General Revenues and Special Items
Changes in Net Assets
Net Assets - Beginning of Year, as Restated (Note 17)
Net Assets - End of Year

The accompanying Notes to the Financial Statements are an integral part of this statement.

		<b>Net (Expenses) Revenues and Changes in Net Assets</b>	
<b>Capital Grants and Contributions</b>		<b>Total Governmental Activities</b>	
\$	7,373,624.62	\$	(11,871,884.65)
	17,283.27		(8,357,999.50)
			(14,361,464.40)
	1,975,560.00		(575,619.39)
			(3,278,414.52)
	34,967.14		(6,481,341.65)
			(1,787,450.23)
			(7,848,272.36)
<u>\$</u>	<u>9,401,435.03</u>		<u>(54,562,446.70)</u>

72,787,029.53  
889,513.22  
966,150.79

129,506.16  
6,810,356.15  
271,481.74  
4,553,279.78

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86,407,317.37

(26,761,270.45)  
7,345,802.09

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66,991,849.01

12,429,402.31

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130,266,367.27

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\$ 142,695,769.58

***Balance Sheet***  
***Governmental Funds***  
***September 30, 2005***

	<b>General Fund</b>	<b>Local Capital Projects Fund</b>
<b><u>Assets</u></b>		
Cash and Cash Equivalents	\$	\$ 26,415,105.19
Cash with Fiscal Agent		
Investments	61,056,783.67	
Property Tax Receivable	53,031,167.31	
Receivables (Note 4)	293,594.19	223,868.65
Interfund Receivables	157,491.91	
Inventories	289,848.69	
Prepaid Items	469,913.20	
Total Assets	<u>115,298,798.97</u>	<u>26,638,973.84</u>
<b><u>Liabilities and Fund Balances</u></b>		
<b><u>Liabilities</u></b>		
Cash Deficit	6,431,673.61	
Payables (Note 10)	956,848.26	86,645.88
Interfund Payables		
Deferred Revenues	56,088,973.96	
Salaries and Benefits Payable	16,354,783.14	
Total Liabilities	<u>79,832,278.97</u>	<u>86,645.88</u>
<b><u>Fund Balances</u></b>		
Reserved for:		
Encumbrances	324,115.65	1,444,165.00
Inventories	289,848.69	
Prepaid	469,913.20	
Debt Service		
Capital Projects		25,108,162.96
Unreserved, Reported in:		
General Fund	34,382,642.46	
Special Revenue Funds		
Total Fund Balances	<u>35,466,520.00</u>	<u>26,552,327.96</u>
Total Liabilities and Fund Balances	<u>\$ 115,298,798.97</u>	<u>\$ 26,638,973.84</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

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Other Governmental Funds	Total Governmental Funds
\$ 35,174,709.37	\$ 61,589,814.56
3,794,206.26	3,794,206.26
600,095.71	61,656,879.38
	53,031,167.31
2,887,640.64	3,405,103.48
	157,491.91
547,218.66	837,067.35
	469,913.20
<u>43,003,870.64</u>	<u>184,941,643.45</u>

907,841.91	7,339,515.52
1,261,614.50	2,305,108.64
157,491.91	157,491.91
14,835.67	56,103,809.63
767,535.67	17,122,318.81
<u>3,109,319.66</u>	<u>83,028,244.51</u>

835,073.69	2,603,354.34
547,218.66	837,067.35
	469,913.20
14,569,158.59	14,569,158.59
8,613,076.35	33,721,239.31
	34,382,642.46
<u>15,330,023.69</u>	<u>15,330,023.69</u>
<u>39,894,550.98</u>	<u>101,913,398.94</u>
<u>\$ 43,003,870.64</u>	<u>\$ 184,941,643.45</u>

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***Reconciliation of the Balance Sheet of Governmental Funds to the  
Statement of Net Assets  
September 30, 2005***

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Total Fund Balances - Governmental Funds (Exhibit 3) \$ 101,913,398.94

Amounts reported for governmental activities in the Statement of Net Assets  
(Exhibit 1) are different because:

Capital assets used in governmental activities are not financial resources and therefore  
are not reported as assets in governmental funds.

The Cost of Capital Assets	\$ 272,655,543.37	
Accumulated Depreciation	<u>(91,633,880.58)</u>	181,021,662.79

Interest on unmatured investments will not be collected this year and is not available  
soon enough to pay for the current period's expenditures, and therefore  
is not accrued in the funds.

Accrued Interest Receivable		276,683.52
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Long-term liabilities, including bonds payable, are not due and payable in the current  
period and therefore are not reported as liabilities in the funds.

Current Portion of Long-Term Debt	6,886,414.91	
Noncurrent Portion of Long-Term Debt	<u>\$ 132,696,363.73</u>	(139,582,778.64)

Interest on long-term debt is not accrued in the funds but rather is recognized as an  
expenditure when due.

Accrued Interest Payable		<u>(933,197.03)</u>
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Total Net Assets - Governmental Activities (Exhibit 1)		<u><u>\$ 142,695,769.58</u></u>
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The accompanying Notes to the Financial Statements are an integral part of this statement.

***Statement of Revenues, Expenditures and Changes in Fund Balances***  
***Governmental Funds***  
***For the Year Ended September 30, 2005***

	General Fund	Local Capital Projects Fund
<b><u>Revenues</u></b>		
State	\$ 160,949,214.36	\$
Federal	12,405.00	
Local	81,938,152.69	57,946.00
Other	262,118.33	
Total Revenues	<u>243,161,890.38</u>	<u>57,946.00</u>
<b><u>Expenditures</u></b>		
Current:		
Instruction	132,548,713.92	103,128.50
Instructional Support	30,938,647.57	
Operation and Maintenance	18,799,749.15	360,189.00
Auxiliary Services:		
Student Transportation	12,633,919.27	
Food Services		
General Administrative and Central Support	6,705,034.90	
Other	895,215.79	
Capital Outlay	756,163.90	3,165,573.82
Debt Service:		
Principal Retirement	2,835,532.09	
Interest and Fiscal Charges	377,269.04	
Total Expenditures	<u>206,490,245.63</u>	<u>3,628,891.32</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>36,671,644.75</u>	<u>(3,570,945.32)</u>
<b><u>Other Financing Sources (Uses)</u></b>		
Transfers In	1,064,873.95	14,000,000.00
Other Financing Sources	2,448,662.85	
Sale of Assets	434,608.81	247,750.00
Transfers Out	(29,380,403.66)	
Total Other Financing Sources (Uses)	<u>(25,432,258.05)</u>	<u>14,247,750.00</u>
Net Change in Fund Balances	11,239,386.70	10,676,804.68
Fund Balances - Beginning of Year, as Restated	<u>24,227,133.30</u>	<u>15,875,523.28</u>
Fund Balances - End of Year	<u>\$ 35,466,520.00</u>	<u>\$ 26,552,327.96</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Other Governmental Funds	Total Governmental Funds
\$ 9,355,530.76	\$ 170,304,745.12
24,314,507.60	24,326,912.60
23,710,553.31	105,706,652.00
776,987.16	1,039,105.49
<u>58,157,578.83</u>	<u>301,377,415.21</u>
19,345,160.63	151,997,003.05
5,144,880.10	36,083,527.67
905,478.42	20,065,416.57
388,770.85	13,022,690.12
19,248,413.96	19,248,413.96
743,930.36	7,448,965.26
7,165,564.15	8,060,779.94
9,410,772.17	13,332,509.89
8,325,848.65	11,161,380.74
7,596,190.01	7,973,459.05
<u>78,275,009.30</u>	<u>288,394,146.25</u>
<u>(20,117,430.47)</u>	<u>12,983,268.96</u>
15,671,130.28	30,736,004.23
10,102.21	2,458,765.06
	682,358.81
<u>(1,355,600.57)</u>	<u>(30,736,004.23)</u>
<u>14,325,631.92</u>	<u>3,141,123.87</u>
(5,791,798.55)	16,124,392.83
<u>45,686,349.53</u>	<u>85,789,006.11</u>
<u>\$ 39,894,550.98</u>	<u>\$ 101,913,398.94</u>

***Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended September 30, 2005***

Net Changes in Fund Balances - Total Governmental Funds (Exhibit 5) \$ 16,124,392.83

Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeds depreciation expense in the period.

Capital Outlays	\$ 13,332,509.89	
Depreciation Expense	<u>(8,603,609.94)</u>	4,728,899.95

Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities. 11,161,380.74

In the Statement of Activities, only the gain or loss on the sale or transfer of capital assets or debt is reported, whereas in the governmental funds, the proceeds from the sale of assets increase financial resources and the transfer of assets or debt have no effect on financial resources. The change in net assets differs from the change in fund balances by this amount.

Sale of Assets	(682,358.81)	
Gain on Disposition of Capital Assets	271,481.74	
Gain on Transfer of Debt	7,345,802.09	
Loss on Transfer of Capital Assets	<u>(26,761,270.45)</u>	(19,826,345.43)

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.

Accrued Interest Payable, Current Year Increase/(Decrease)	(125,186.69)	
Compensated Absences, Current Year Increase/ (Decrease) in Noncurrent Portion	<u>\$ 24,891.14</u>	100,295.55

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Accrued Interest Receivable, Current Year Increase/(Decrease)		<u>140,778.67</u>
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Change in Net Assets of Governmental Activities (Exhibit 2) \$ 12,429,402.31

The accompanying Notes to the Financial Statements are an integral part of this statement.

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***Statement of Fiduciary Net Assets***  
***Fiduciary Funds***  
***September 30, 2005***

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	<b>Agency Funds</b>
<b><u>Assets</u></b>	
Cash and Cash Equivalents	\$ 3,603,669.34
Receivables (Note 4)	<u>2,106.94</u>
Total Assets	<u><u>3,605,776.28</u></u>
<b><u>Liabilities</u></b>	
Payables (Note 10)	8,490.97
Salaries and Benefits Payable	<u>3,597,285.31</u>
Total Liabilities	<u><u>\$ 3,605,776.28</u></u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2005*

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#### **Note 1 – Summary of Significant Accounting Policies**

The financial statements of the Jefferson County Board of Education (the “Board”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental 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 government's accounting policies are described below.

#### **A. Reporting Entity**

The Board is governed by a separately elected board composed of five members elected by the qualified electors of the County. The Board is responsible for the general administration and supervision of the public schools for the educational interests of the County (with the exception of cities having a city board of education).

Generally accepted accounting principles (GAAP) require that the financial reporting entity consist of the primary government and its component units. Accordingly, the accompanying financial statements present the Board (a primary government).

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on the application of these criteria, there are no component units which should be included as part of the financial reporting entity of the Board.

#### **B. Government-Wide and Fund Financial Statements**

##### **Government-Wide Financial 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 double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues 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. The Board does not allocate indirect expenses to the various functions. Program revenues include (a) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or program 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, including all taxes, are presented as general revenues.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2005*

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#### *Fund Financial Statements*

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

The Board reports the following major governmental funds:

- ◆ **General Fund** – The general fund is the primary operating fund of the Board. It is used to account for all financial resources except those required to be accounted for in another fund. The Board primarily receives revenues from the Education Trust Fund (ETF) and local taxes. Amounts appropriated from the ETF were allocated to the school board on a formula basis.
- ◆ **Local Capital Projects Fund** – This fund is used to account for state and local financial resources used for the acquisition or construction of major capital facilities.

The Board reports the following fund types in the “Other Governmental Funds” column:

#### *Governmental Fund Types*

- ◆ **Special Revenue Funds** – These funds are used to account for the proceeds of specific revenue sources (other than those derived from special assessments or dedicated for major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.
- ◆ **Debt Service Funds** – These funds are used to account for the accumulation of resources for, and the payment of, the Board's principal and interest on governmental bonds.
- ◆ **Capital Projects Funds** – These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

The Board reports the following fiduciary fund type:

#### *Fiduciary Fund Type*

- ◆ **Agency Funds** – These funds are used to report assets held by the Board in a purely custodial capacity. The Board collects these assets and transfers them to the proper individual, private organizations, or other government.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2005*

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#### **C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the Board gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within sixty (60) days of the end of the current fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, 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. General long-term debt issued and 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, categorical block 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, followed by categorical block grants and then by general revenues.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2005***

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**D. Assets, Liabilities and Net Assets/Fund Balances**

**1. Deposits and Investments**

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Statutes authorize the Board to invest in obligations of the U. S. Treasury, obligations of any state of the United States, general obligations of any Alabama county or city board of education secured by pledge of the three-mill school tax, certificates of deposit and other obligations as outlined in Note 3.

Investments are reported at fair value, based on quoted market prices, except for money market investments and repurchase agreements, which are reported at amortized cost. The Board reports all money market investments – U. S. Treasury bills and bankers' acceptances having a remaining maturity at time of purchase of one year or less – at amortized cost.

**2. Receivables**

All property tax and motor vehicle tax receivables are shown net of an allowance for uncollectibles.

Millage rates for property taxes are levied at the first regular meeting of the County Commission in February of each year. Property taxes are assessed for property as of October 1 of the preceding year based on the millage rates established by the County Commission. Property taxes are due and payable the following October 1 and are delinquent after December 31. Amounts receivable, net of estimated refunds and estimated uncollectible amounts, are recorded for the property taxes levied in the current year. However, since the amounts are not available to fund current year operations, the revenue is deferred and recognized in the subsequent fiscal year when the taxes are both due and collectible and available to fund operations.

Receivables due from other governments include amounts due from grantors for grants issued for specific programs and capital projects.

Receivables from external parties are amounts that are being held in a trustee or agency capacity by the fiduciary funds.

**3. Inventories**

Inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2005***

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**4. Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**5. Restricted Assets**

Certain funds received from the State Department of Education for capital projects and improvements, as well as certain resources set aside for repayment of debt, are classified as restricted assets on the balance sheet because they are maintained separately and their use is limited. The Public School Capital Projects and Fleet Renewal funds are used to report proceeds that are restricted for use in various construction projects and the purchase of school buses. The Debt Service Fund is used to report resources set aside to pay the principal and interest on debt as it becomes due.

**6. Capital Assets**

Capital assets, which include property and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. The Board estimated some of the values associated with land and buildings because the original costs were not available. The estimates were based upon research into the original acquisition of the assets. Some estimates were based upon the selling prices of real property near the school during the time that they were acquired. Donated fixed assets are valued at their estimated fair market value on the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Major outlays of capital assets and improvements are capitalized as projects are constructed.

Depreciation on all assets is provided on the straight-line basis over the assets estimated useful life. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets reported in the government-wide statements are as follows:

	Capitalization Threshold	Estimated Useful Life
Buildings and Improvements	\$50,000	40 years
Buildings Under Capital Lease	\$50,000	40 years
Equipment	\$ 5,000	5 – 20 years
Equipment Under Capital Lease	\$ 5,000	10 years

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2005*

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#### **7. 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 statement of net assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

#### **8. Compensated Absences**

The Board's vacation leave policy consists of the following: Twelve-month employees with less than fifteen years service are entitled to ten days vacation leave per year, earned at the rate of .83 days per month. Twelve-month employees with fifteen years or more service are entitled to fifteen days vacation leave per year, earned at the rate of 1.25 days per month. Vacation days will be accrued from July 1 of each year through June 30 of the following year. Vacation days accrued in a vacation year may be taken during that vacation year or may be carried over for one additional year. Vacation days not taken within the additional carryover year will be lost. Accumulated vacation days are not reimbursable upon resignation, termination or retirement.

As of September 30, 2005, the liability for accrued vacation leave is approximately \$1,082,521.76. All of this amount is reported as due or payable after one year in the governmental activities on the Statement of Net Assets.

#### **9. Net Assets/Fund Equity**

Net assets are reported on the government-wide financial statements and are required to be classified for accounting and reporting purposes into the following net asset categories:

- ◆ **Invested in Capital Assets, Net of Related Debt** – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Any significant unspent related debt proceeds at year-end related to capital assets are not included in this calculation.
- ◆ **Restricted** – Constraints imposed on net asset by external creditors, grantors, contributors, laws or regulations of other governments, or law through constitutional provision or enabling legislation.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2005*

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- ◆ **Unrestricted** – Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board.

Fund equity is reported in the fund financial statements. Governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

#### **Note 2 – Stewardship, Compliance, and Accountability**

##### **Budgets**

Budgets are adopted on a basis of accounting consistent with accounting principles generally accepted in the United States of America (GAAP) for the General Fund with the exception of salaries and benefits, which are budgeted only to the extent expected to be paid rather than on the modified accrual basis of accounting. Also, ad valorem taxes and certain federal revenues are budgeted only to the extent expected to be received rather than on the modified accrual basis of accounting. The Child Nutrition Program Fund budgets on a basis of accounting consistent with GAAP with the exception of salaries and benefits, which are budgeted only to the extent expected to be paid rather than on the modified accrual basis of accounting. All other governmental funds adopt budgets on the modified accrual basis of accounting. Capital projects funds adopt project-length budgets. All appropriations lapse at fiscal year-end.

#### **Note 3 – Deposits and Investments**

##### **A. Deposits**

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Board will not be able to cover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Board's deposits at year-end were entirely covered by federal depository insurance or by the Security for Alabama Funds Enhancement Program (SAFE Program). The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the *Code of Alabama 1975*, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance. Some of the Board's investments were certificates of deposit. These certificates of deposit are classified as "Deposits" in order to determine insurance and collateralization. However, they are classified as "Investments" on the financial statements.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2005***

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**B. Investments**

Statutes authorize the Board to invest in obligations of the U. S. Treasury, obligations of any state of the United States, general obligations of any Alabama county or city board of education secured by pledge of the three-mill school tax and other obligations as outlined in the *Code of Alabama 1975*, Section 19-3-120 and Section 19-3-120.1.

The Board's investment policy states the following:

Funds not presently needed for operations should be invested. Such investments should be properly authorized, recorded and safeguarded against physical loss or misuse. The Board should invest available funds in order to maximize earnings and minimize risk during the period of availability of the funds. The Board is authorized pursuant to the *Code of Alabama 1975*, Section 19-3-120 and 19-3-120.1 to invest Board funds in investments that are backed by U. S. Government Securities. Furthermore, Section 16-13-109 provides authority for the investment of surplus funds from a warrant issue.

As of September 30, 2005, the Board had the following investments and maturities:

Investment Type	Maturities	Fair Value
Federal Home Loan Mortgage Corporation	Less Than Six Months	\$ 9,964,675.08
Federal Home Loan Bank	Less Than Eleven Months	13,300,484.27
Federal National Mortgage Association	Less Than Ten Months	32,448,821.36
Total		<u>\$55,713,980.71</u>

**Interest Rate Risk** – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board's investment policy does not specifically limit investment maturities as a means of managing its exposure to fair value losses arising from increased interest rates.

**Credit Risk** – Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Board's investment policy does not specifically address its investment choices related to this risk.

**Custodial Credit Risk** – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to cover the value of its investments or collateral securities that are in the possession of an outside party. The Board's investment policy does not limit the amount of securities that can be held by counterparties.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2005*

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**Concentration of Credit Risk** – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The Board’s investment policy does not place limits on the amount the Board may invest in any one issuer.

#### **C. Cash with Fiscal Agents**

The Board’s cash with fiscal agent is to be invested in accordance with applicable statutes and its investment policy.

As of September 30, 2005, the Board’s cash with fiscal agent was invested as follows:

Investment Type	Maturities	Fair Value
Bank of New York U. S. Treasury Securities Money Market	Less Than 31 Days	\$ 631.45
JP Morgan U. S. Treasury Securities Money Market	Less Than 31 Days	12,969.13
Wachovia Capital Management Money Market	Less Than 31 Days	3,763,174.23
Alabama Public School and College Authority Pooled Deposits	Unknown	17,431.45
Total		<u>\$3,794,206.26</u>

**Interest Rate Risk** – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board’s investment policy does not specifically limit investment maturities as a means of managing its exposure to fair value losses arising from increased interest rates.

**Credit Risk** – Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Board’s investment policy does not specifically address its investment choices related to this risk.

**Custodial Credit Risk** – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to cover the value of its investments or collateral securities that are in the possession of an outside party. The Board’s investment policy does not limit the amount of securities that can be held by counterparties. The Board’s deposits with Wachovia Capital Management Money Market Account are held by the counterparty as agent for but not in the name of the Board.

**Concentration of Credit Risk** – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The Board’s investment policy does not place limits on the amount the Board may invest in any one issuer.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2005***

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**Note 4 – Receivables**

On September 30, 2005, receivables for the Board’s individual major funds, other governmental funds and fiduciary funds in the aggregate are as follows:

	General Fund	Local Capital Projects Fund	Other Governmental Funds	Total Governmental Funds	Agency Funds
<b>Receivables:</b>					
Accounts	\$ 17,130.62	\$223,868.65	\$ 725,911.66	\$ 966,910.93	\$
Intergovernmental	267,972.60		2,161,728.98	2,429,701.58	1,780.95
External Parties	8,490.97			8,490.97	325.99
Net Total Receivables	<u>\$293,594.19</u>	<u>\$223,868.65</u>	<u>\$2,887,640.64</u>	<u>\$3,405,103.48</u>	<u>\$2,106.94</u>

Governmental funds report deferred revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At September 30, 2005, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Ad Valorem Property Taxes Receivable	\$51,913,803.25	\$
Ad Valorem Motor Vehicle Taxes		4,175,170.71
Grant Funds Received but Not Earned		14,835.67
Total Deferred/Unearned Revenue for Governmental Funds	<u>\$51,913,803.25</u>	<u>\$4,190,006.38</u>

**Notes to the Financial Statements**  
**For the Year Ended September 30, 2005**

**Note 5 – Capital Assets**

Capital asset activity for the year ended September 30, 2005, was as follows:

	Balance 10/01/2004, as Restated (*)	Additions	Retirements	Balance 9/30/2005
<b>Governmental Activities:</b>				
<b>Capital Assets, Not Being Depreciated</b>				
Land and Land Improvements	\$ 7,602,755.85	\$ 2,000,924.03	\$ (1,970,653.03)	\$ 7,633,026.85
Construction in Progress	1,888,963.62	8,626,165.02	(3,630,058.01)	6,885,070.63
Total Capital Assets, Not Being Depreciated	<u>9,491,719.47</u>	<u>10,627,089.05</u>	<u>(5,600,711.04)</u>	<u>14,518,097.48</u>
<b>Capital Assets Being Depreciated:</b>				
Land Improvements	653,512.69	1,243,683.95		1,897,196.64
Buildings and Improvements	195,927,992.82	3,032,360.99	(27,884,909.22)	171,075,444.59
Buildings and Improvements Under Capital Lease	53,226,046.19			53,226,046.19
Equipment and Furniture	27,762,472.62	7,326,315.15	(3,150,029.30)	31,938,758.47
Equipment Under Capital Leases	5,300,838.00		(5,300,838.00)	
Total Capital Assets Being Depreciated	<u>282,870,862.32</u>	<u>11,602,360.09</u>	<u>(36,335,776.52)</u>	<u>258,137,445.89</u>
<b>Less Accumulated Depreciation for:</b>				
Land Improvements	(20,548.33)	(63,767.78)		(84,316.11)
Buildings and Improvements	(65,388,297.26)	(4,261,753.17)	4,182,218.97	(65,467,831.46)
Buildings and Improvements Under Capital Lease	(10,927,742.66)	(1,330,651.31)		(12,258,393.97)
Equipment and Furniture	(12,323,518.39)	(2,924,051.63)	1,424,230.98	(13,823,339.04)
Equipment Under Capital Leases	(265,041.90)	(23,386.05)	288,427.95	
Total Accumulated Depreciation	<u>(88,925,148.54)</u>	<u>(8,603,609.94)</u>	<u>5,894,877.90</u>	<u>(91,633,880.58)</u>
Total Capital Assets Being Depreciated, Net	<u>193,945,713.78</u>	<u>2,998,750.15</u>	<u>(30,440,898.62)</u>	<u>166,503,565.31</u>
Total Governmental Activities Capital Assets, Net	<u>\$203,437,433.25</u>	<u>\$13,625,839.20</u>	<u>\$(36,041,609.66)</u>	<u>\$181,021,662.79</u>
(*) The beginning balance for accumulated depreciation was restated by \$13,738.56 to correct prior year errors.				

Depreciation expense was charged to functions/programs of the primary government as follows:

	Current Year Depreciation Expense
<b>Governmental Activities:</b>	
Instruction	\$3,896,628.94
Instructional Support	284,094.27
Operation and Maintenance	390,622.77
<b>Auxiliary Services:</b>	
Food Service	793,449.33
Student Transportation	2,244,129.42
General Administrative and Central Support	149,241.86
Other	845,443.35
Total Depreciation Expense - Governmental Activities	<u>\$8,603,609.94</u>

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2005***

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**Note 6 – Defined Benefit Pension Plan**

**A. Plan Description**

The Board contributes to the Teachers' Retirement System of Alabama, a cost-sharing multiple-employer public employee retirement system for the various state-supported educational agencies and institutions. This plan is administered by the Retirement Systems of Alabama.

Substantially all employees of the Board are members of the Teachers' Retirement System. Membership is mandatory for covered or eligible employees of the Board. Benefits vest after 10 years of creditable service. Vested employees may retire with full benefits at age 60 or after 25 years of service. Retirement benefits are calculated by two methods with the retiree receiving payment under the method which yields the highest monthly benefit. The methods are (1) Minimum Guaranteed, or (2) Formula, of which the Formula method usually produces the highest monthly benefit. Under this method retirees are allowed 2.0125% of their average final salary (best three of the last ten years) for each year of service. Disability retirement benefits are calculated in the same manner. Pre-retirement death benefits in the amount of the annual salary for the fiscal year preceding death are provided to plan members.

The Teachers' Retirement System was established as of October 1, 1941, under the provisions of Act Number 419, Acts of Alabama 1939, for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by state-supported educational institutions. The responsibility for general administration and operation of the Teachers' Retirement System is vested in the Board of Control (currently 14 members). Benefit provisions are established by the *Code of Alabama 1975*, Sections 16-25-1 through 16-25-113, as amended, and Sections 36-27B-1 through 36-27B-6, as amended.

The Retirement Systems of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Teachers' Retirement System of Alabama. That report may be obtained by writing to The Retirement Systems of Alabama, 135 South Union Street, Montgomery, Alabama 36130-2150.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2005***

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**B. Funding Policy**

Employees are required by statute to contribute 5 percent of their salary to the Teachers' Retirement System. The Board is required to contribute the remaining amounts necessary to fund the actuarially determined contributions to ensure sufficient assets will be available to pay benefits when due. Each year the Teachers' Retirement System recommends to the Legislature the contribution rate for the following fiscal year, with the Legislature setting this rate in the annual appropriation bill. The percentages of the contributions and the amount of contributions made by the Board and the Board's employees equal the required contributions for each year as follows:

Fiscal Year Ended September 30,	2005	2004	2003
Total Percentage of Covered Payroll	12.03%	11.56%	10.02%
<b><u>Contributions:</u></b>			
Percentage Contributed by the Board	7.03%	6.56%	5.02%
Percentage Contributed by the Employees	5.00%	5.00%	5.00%
Contributed by the Board	\$10,409,417	\$ 9,468,967	\$ 7,538,558
Contributed by Employees	7,403,568	7,217,230	7,507,965
Total Contributions	<u>\$17,812,985</u>	<u>\$16,686,197</u>	<u>\$15,046,523</u>

**Note 7 – Other Postemployment Benefits (OPEB)**

The Public Education Employees' Health Insurance Fund (PEEHIF) was established in 1983 under the provisions of Act Number 455 to provide a uniform plan of health insurance for current and retired employees of state educational institutions. The plan is administered by the Public Education Employees' Health Insurance Board (PEEHIB). The employer's share of premiums for retired Board employees' health insurance is included as part of the premium for active employees and is funded on a pay-as-you go basis. Retirees who are eligible for Medicare benefits must pay \$1.14 per month for coverage while those who are not eligible must pay \$78.00 per month for the coverage. The estimated portion of health insurance premiums paid by the Board for retired employees was approximately \$9,428,456.67 for fiscal year 2005. The Board has no responsibility for the payment of health care benefits, beyond the payment of the premium, for retired employees.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2005***

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**Note 8 – Construction and Other Significant Commitments**

As of September 30, 2005, the Board was obligated under the following significant construction contracts:

Corner Elementary School	\$ 11,000.00
McAdory High School	6,060,034.12
Pleasant Grove High School	134,157.26
Gresham Middle School	122,860.00
Pinson Valley High School	146,668.12
Clay-Chalkville Middle School	371,115.48
Corner High School	39,235.65
Total	<u>\$6,885,070.63</u>

**Note 9 – Contingent Liabilities**

The Board is a defendant in various lawsuits. Management is unable to predict the outcome of the litigation, but believes it has strong grounds upon which to defend these proceedings. Accordingly, no provision for possible loss, if any, is included in the financial statements.

**Note 10 – Payables**

On September 30, 2005, payables for the Board's individual major funds, other governmental funds and fiduciary funds in the aggregate are as follows:

Governmental Activities	Vendors	Intergovernmental	External Parties	Total Payables
General Fund	\$ 954,407.03	\$2,115.24	\$ 325.99	\$ 956,848.26
Local Capital Projects Fund	86,645.88			86,645.88
Other Governmental Funds	1,257,440.55	4,173.95		1,261,614.50
Total – Governmental Activities	<u>\$2,298,493.46</u>	<u>\$6,289.19</u>	<u>\$ 325.99</u>	<u>\$2,305,108.64</u>
Fiduciary Funds	<u>\$</u>	<u>\$</u>	<u>\$8,490.97</u>	<u>\$ 8,490.97</u>

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2005***

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**Note 11 – Lease Obligations**

**Capital Leases**

The Board is obligated under certain leases accounted for as capital leases. Assets under capital leases totaled \$53,226,046.19 at September 30, 2005. If the Board completes the lease payments according to the schedule below, which is the stated intent of the Board, ownership of the leased property will pass to the Board. Until that time, the leased property will be identified separately on the balance sheet. The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of September 30, 2005:

Fiscal Year Ending	Governmental Activities
September 30, 2006	\$ 4,698,353.44
2007	4,697,664.68
2008	4,695,842.18
2009	4,697,872.19
2010	4,699,202.18
2011-2015	20,385,890.33
2016-2020	18,321,382.79
Total Minimum Lease Payments	62,196,207.79
Less: Amount Representing Interest	18,695,857.80
Present Value of Net Minimum Lease Payments	<u>\$43,500,349.99</u>

**Note 12 – Long-Term Debt**

The Board issued Capital Outlay Warrants, Series 1997-A to provide funds for certain capital improvements projects. The Board also issued School Refunding Warrants, Series 1999-A and 1999-B to advance refund the Board’s Capital Outlay Warrants, Series 1993 and 1995-A and to prepay a capital lease for computer software.

During fiscal year 2000, the Board, as part of a pooled bond issuance with other school systems within the State of Alabama, issued Capital Improvements Pool Bonds, Series 1999-D in anticipation of their Public School Fund allocations, which are received from the Alabama Department of Education. The Alabama Department of Education withholds the required debt service payments from the Board’s Public School Fund allocation. The proceeds from these bonds provided funds for the acquisition, construction and renovation of school facilities.

**Notes to the Financial Statements**  
**For the Year Ended September 30, 2005**

The following is a summary of long-term debt transactions for the Board for the year ended September 30, 2005:

	Debt Outstanding 10/1/2004	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 9/30/2005	Amounts Due Within One Year
<b>Governmental Activities:</b>					
<b>Bonds Payable:</b>					
Capital Outlay Warrants	\$106,945,556.33	\$	\$11,945,649.44	\$ 94,999,906.89	\$4,461,658.86
<b>Other Liabilities:</b>					
Capital Leases	50,061,883.38		6,561,533.39	43,500,349.99	2,424,756.05
Compensated Absences	1,164,748.73	24,891.14	107,118.11	1,082,521.76	
Total Other Liabilities	51,226,632.11	24,891.14	6,668,651.50	44,582,871.75	2,424,756.05
Governmental Activities Long-Term Liabilities	<u>\$158,172,188.44</u>	<u>\$24,891.14</u>	<u>\$18,614,300.94</u>	<u>\$139,582,778.64</u>	<u>\$6,886,414.91</u>

Payments on the warrants payable are made by the general fund with property taxes. The obligations under capital leases were paid by the general fund (11%) for a performance-based energy saving project, and property taxes (24%) for buildings. In addition, the remaining obligation under the bus capital lease was paid by the general fund (27%), fleet renewal funds (32%), and Trussville City Schools (6%).

The compensated absences liability will be liquidated by the general fund or the fund for which the employee worked. In the past approximately 98% has been paid by the general fund, with the remainder paid by the other governmental funds.

The following is a schedule of debt service requirements to maturity:

Fiscal Year Ending	Capital Outlay Warrants		Capital Lease Contracts Payable		Total Principal and Interest Requirements to Maturity
	Principal	Interest	Principal	Interest	
September 30, 2006	\$ 4,461,658.86	\$ 4,733,879.11	\$ 2,424,756.05	\$ 2,273,597.39	\$ 13,893,891.41
2007	4,685,251.02	4,610,438.45	2,546,990.75	2,150,673.93	13,993,354.15
2008	4,918,584.98	4,375,730.31	2,676,087.92	2,019,754.26	13,990,157.47
2009	5,165,900.42	4,129,164.53	2,817,140.72	1,880,731.47	13,992,937.14
2010	5,438,224.64	3,874,155.64	2,965,246.95	1,733,955.23	14,011,582.46
2011-2015	31,903,879.75	14,779,484.91	14,069,607.31	6,316,283.02	67,069,254.99
2016-2020	38,426,407.22	5,258,236.02	16,000,520.29	2,320,862.50	62,006,026.03
Totals	<u>\$94,999,906.89</u>	<u>\$41,761,088.97</u>	<u>\$43,500,349.99</u>	<u>\$18,695,857.80</u>	<u>\$198,957,203.65</u>

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2005*

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#### *Note 13 – Risk Management*

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 has insurance for its buildings and contents through the State Insurance Fund (SIF) part of the State of Alabama, Department of Finance, Division of Risk Management, which operates as a common risk management and insurance program for state owned properties and county boards of education. The Board pays an annual premium based on the amount of coverage requested. The SIF is self-insured up to \$3.5 million per occurrence and purchases commercial insurance for claims in excess of \$3.5 million. Automobile liability, general liability, and errors and omissions insurance is purchased from the Alabama Risk Management for Schools (ARMS), a public entity risk pool. The ARMS collects the premiums and purchases excess insurance for any amount of coverage requested by pool participants in excess of the coverage provided by the pool. Employee health insurance is provided through the Public Education Employees' Health Insurance Fund (PEEHIF), administered by the Public Education Employees' Health Insurance Board (PEEHIB). The Fund was established to provide a uniform plan of health insurance for current and retired employees of state educational institutions and is self-sustaining. Monthly premiums for employee and dependent coverage are determined annually by the plan's actuary and are based on anticipated claims in the upcoming year, considering any remaining fund balance on hand available for claims. The Board contributes a specified amount monthly to the PEEHIF for each employee of state educational institutions. The Board's contribution is applied against the employees' premiums for the coverage selected and the employee pays any remaining premium.

Settled claims resulting from these risks have not exceeded the Board's coverage in any of the past three fiscal years.

The Board does not have insurance coverage of job-related injuries. Board employees who are injured while on the job are entitled to salary and fringe benefits of up to ninety working days in accordance with the *Code of Alabama 1975*, Section 16-1-18.1(d). Any unreimbursed medical expenses and costs which the employee incurs as a result of an on-the-job injury may be filed for reimbursement with the State Board of Adjustment.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2005***

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**Note 14 – Interfund Receivables and Payables**

**Interfund Receivables and Payables**

The interfund receivables and payables at September 30, 2005, were as follows:

	Interfund Receivables General Fund
Interfund Payables	
Other Governmental Funds	\$157,491.91
Totals	\$157,491.91

**Interfund Transfers**

The amounts of interfund transfers during the fiscal year ended September 30, 2005, were as follows:

	Transfers In			
	General Fund	Local Capital Projects Fund	Other Governmental Funds	
<b>Transfers Out</b>				
General Fund	\$	\$14,000,000.00	\$15,380,403.66	\$29,380,403.66
Other Governmental Funds	1,064,873.95		290,726.62	\$1,355,600.57
Totals	\$1,064,873.95	\$14,000,000.00	\$15,671,130.28	\$30,736,004.23

The Board typically used transfers to fund ongoing operating subsidies and to transfer the portion from the general fund to the debt service funds to service current-year debt requirements.

In the fiscal year ended September 30, 2005, the Board additionally made a one-time transfer of \$14,000,000.00 from the General Fund to the Local Capital Projects Fund to establish reserves for future capital projects.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2005***

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**Note 15 – Unusual or Infrequent Significant Transactions Within Control of Management**

The City of Trussville, Jefferson County, Alabama, formed the Trussville City Board of Education (the “City Board”); therefore, pursuant to the *Code of Alabama 1975*, Section 16-8-20, the Jefferson County Board of Education (the “County Board”) and the City Board approved an agreement transferring the operational control of certain schools to the City Board effective July 1, 2005. The agreement also outlined the transfer of assets and associated debt to the City Board. As reflected on Exhibit 2, the County Board realized a loss in the amount of \$26,761,270.45 on the transfer of capital assets and a gain in the amount \$7,345,802.09 on the transfer of associated debt.

**Note 16 – Deficit Cash Balances**

The following funds had individual deficit cash balances at September 30, 2005. In many instances these funds are maintained in a single bank account which at year-end had a positive cash balance. Many of these funds operate on a reimbursement basis and have receivables which offset the deficit balances.

Fund	Deficit Cash Balance	Receivable as of 9/30/2005
General Fund	\$6,431,673.61	\$53,324,761.50
<u>Other Governmental Funds:</u>		
IDEA, Preschool	6,552.33	6,684.25
Other IDEA Programs	410,157.55	774,325.81
Career Technology	922.26	922.26
Title II Part A	21,639.54	23,847.32
Title II Part D	61,748.52	97,988.83
Title V - Part A	6,842.89	7,200.01
Title X - Homeless Education	2,219.13	2,324.13
E-Rate/SLC Refunds	397,759.69	397,759.69
Total	\$7,339,515.52	\$54,635,813.80

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2005***

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**Note 17 – Restatements**

The beginning net assets were restated to correct prior year capital assets.

The impact of the restatements on the fund balances/net assets as previously reported is as follows:

Net Assets Balance, September 30, 2004, as Previously Reported	\$130,252,628.71
Restatement of Capital Assets	<u>13,738.56</u>
Governmental Activities Net Assets, September 30, 2004, as Restated	<u>\$130,266,367.27</u>

**Note 18 – Subsequent Event**

In December 2005, the Board transferred ownership of the Fultondale Elementary School property and all its related facilities to the City of Fultondale (the “City”). In return the City of Fultondale has agreed to “lease back” the current school property to the Board until a new elementary school is built on a separate piece of land purchased by the City. The City has placed \$11.1 million into escrow to assure the assumption of the entire cost of the new school construction, which is projected to be \$16,759,356.00.

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*Required Supplementary Information*

***Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual - General Fund  
For the Year Ended September 30, 2005***

	Budgeted Amounts		Actual Amounts
	Original	Final	Budgetary Basis
<b><u>Revenues</u></b>			
State	\$ 156,693,018.00	\$ 161,091,243.00	\$ 160,949,214.36
Federal	10,000.00	10,000.00	12,405.00
Local	71,348,185.00	78,957,670.00	82,083,464.53
Other	267,000.00	308,327.00	262,118.33
Total Revenues	<u>228,318,203.00</u>	<u>240,367,240.00</u>	<u>243,307,202.22</u>
<b><u>Expenditures</u></b>			
Current:			
Instruction	135,722,915.00	140,771,277.00	133,337,009.31
Instructional Support	31,057,427.00	31,776,551.00	31,480,329.00
Operation and Maintenance	19,839,972.00	20,032,464.00	18,942,962.22
Auxiliary Services:			
Student Transportation	13,239,874.00	13,271,949.00	12,767,487.52
General Administration and Central Support	6,761,672.00	7,593,284.00	6,847,416.05
Other	731,103.00	908,649.00	881,313.43
Capital Outlay			756,163.90
Debt Service	1,034,803.00	1,034,803.00	3,212,801.13
Total Expenditures	<u>208,387,766.00</u>	<u>215,388,977.00</u>	<u>208,225,482.56</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>19,930,437.00</u>	<u>24,978,263.00</u>	<u>35,081,719.66</u>
<b><u>Other Financing Sources (Uses)</u></b>			
Transfers In	966,232.00	3,569,713.00	1,064,873.95
Other Financing Sources	2,448,326.00		2,448,662.85
Sale of Capital Assets	45,000.00		434,608.81
Transfers Out	(18,703,787.00)	(15,102,457.00)	(29,380,403.66)
Total Other Financing Sources (Uses)	<u>(15,244,229.00)</u>	<u>(11,532,744.00)</u>	<u>(25,432,258.05)</u>
Net Change in Fund Balances	4,686,208.00	13,445,519.00	9,649,461.61
Fund Balances - Beginning of Year, as Restated	<u>41,760,637.00</u>	<u>45,978,999.00</u>	<u>45,229,648.18</u>
Fund Balances - End of Year	<u>\$ 46,446,845.00</u>	<u>\$ 59,424,518.00</u>	<u>\$ 54,879,109.79</u>

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	\$	\$ 160,949,214.36
		12,405.00
(1)	(145,311.84)	81,938,152.69
		262,118.33
	<u>(145,311.84)</u>	<u>243,161,890.38</u>
(2)	788,295.39	132,548,713.92
(2)	541,681.43	30,938,647.57
(2)	143,213.07	18,799,749.15
(2)	133,568.25	12,633,919.27
(2)	142,381.15	6,705,034.90
(2)	(13,902.36)	895,215.79
		756,163.90
		3,212,801.13
	<u>1,735,236.93</u>	<u>206,490,245.63</u>
	<u>1,589,925.09</u>	<u>36,671,644.75</u>
		1,064,873.95
		2,448,662.85
		434,608.81
		<u>(29,380,403.66)</u>
		<u>(25,432,258.05)</u>
	1,589,925.09	11,239,386.70
(3)	<u>(21,002,514.88)</u>	<u>24,227,133.30</u>
	<u>\$ (19,412,589.79)</u>	<u>\$ 35,466,520.00</u>

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***Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual - General Fund  
For the Year Ended September 30, 2005***

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**Explanation of differences:**

- (1) The Board budgets for motor vehicles revenues as it is received, rather than on the modified accrual basis (GAAP).
- (2) The Board budgets salaries as they are actually paid, rather than on the modified accrual basis (GAAP).

Net Increase in Fund Balance - Budget to GAAP

- (3) The amount reported as "fund balance" on the budgetary basis of accounting derives from the basis of accounting used in preparing the Board's budget (See Note 2 for description of the Board's budgetary accounting method). This amount differs from the fund balance reported in the Statement of Revenues, Expenditures and Changes in Fund Balances because of the cumulative effect of transactions such as those described above.

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\$ (145,311.84)

1,735,236.93

\$ 1,589,925.09

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*Supplementary Information*

***Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2005***

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>
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**U. S. Department of Education**

**Passed Through Alabama Department of Education**

Title I Grants to Local Educational Agencies (M)	84.010	
Safe and Drug Free Schools and Communities - State Grants	84.186	
Education for Homeless Children and Youth	84.196	
State Grants for Innovative Programs	84.298	
Vocational Education - Basic Grants to States	84.048	
Special Education Cluster:		
Special Education - Grants to States	84.027	
Special Education - Preschool Grants	84.173	
Sub-Total Special Education Cluster		
Education Technology State Grants	84.318	
Advanced Placement Program	84.330	
Comprehensive School Reform Demonstration	84.332	
Reading First State Grants	84.357	
English Language Acquisition Grants	84.365	
Improving Teacher Quality State Grants	84.367	
Total U. S. Department of Education		

**U. S. Department of Agriculture**

**Passed Through Alabama Department of Education**

Child Nutrition Cluster:		
National School Lunch Program	10.555	
School Breakfast Program	10.553	
Sub-Total Child Nutrition Cluster (M)		
Food Donation (N)	10.550	
Total U. S. Department of Agriculture		

Sub-Total Forward

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
10/01/2004-09/30/2005	\$ 4,227,007.43	\$ 4,227,007.43	\$ 3,664,668.15	\$ 3,664,668.15
10/01/2004-09/30/2005	165,538.31	165,538.31	164,302.35	164,302.35
10/01/2004-09/30/2005	22,254.58	22,254.58	18,682.26	18,682.26
10/01/2004-09/30/2005	241,114.01	241,114.01	182,692.97	182,692.97
10/01/2004-09/30/2005	339,976.00	339,976.00	339,976.00	339,976.00
10/01/2004-09/30/2005	11,549,207.48	11,549,207.48	10,496,638.97	10,496,638.97
10/01/2004-09/30/2005	590,636.44	590,636.44	576,450.97	576,450.97
	<u>12,139,843.92</u>	<u>12,139,843.92</u>	<u>11,073,089.94</u>	<u>11,073,089.94</u>
10/01/2004-09/30/2005	197,136.61	197,136.61	153,989.27	153,989.27
10/01/2004-09/30/2005	572.00	572.00	572.00	572.00
10/01/2004-09/30/2005	285,000.00	285,000.00	269,007.87	269,007.87
10/01/2004-09/30/2005	108,215.00	108,215.00	103,092.98	103,092.98
10/01/2004-09/30/2005	119,904.63	119,904.63	79,818.37	79,818.37
10/01/2004-09/30/2005	1,629,293.17	1,629,293.17	1,343,219.78	1,343,219.78
	<u>19,475,855.66</u>	<u>19,475,855.66</u>	<u>17,393,111.94</u>	<u>17,393,111.94</u>
10/01/2004-09/30/2005	4,782,669.54	4,782,669.54	4,782,669.54	4,782,669.54
10/01/2004-09/30/2005	1,407,700.72	1,407,700.72	1,407,700.72	1,407,700.72
	<u>6,190,370.26</u>	<u>6,190,370.26</u>	<u>6,190,370.26</u>	<u>6,190,370.26</u>
10/01/2004-09/30/2005	708,742.13	708,742.13	708,742.13	708,742.13
	<u>6,899,112.39</u>	<u>6,899,112.39</u>	<u>6,899,112.39</u>	<u>6,899,112.39</u>
	\$ 26,374,968.05	\$ 26,374,968.05	\$ 24,292,224.33	\$ 24,292,224.33

***Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2005***

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>
Sub-Total Brought Forward		
<b><u>Social Security Administration</u></b>		
<b><u>Passed Through Alabama Department of Education</u></b>		
Social Security - Disability Insurance	96.001	
<b><u>U. S. Department of Health and Human Services</u></b>		
<b><u>Passed Through Alabama Department of Education</u></b>		
Child Care and Development Block Grant	93.575	
<b><u>U. S. Department of Environmental Protection</u></b>		
<b><u>Agency - Office of Air and Radiation</u></b>		
<b><u>Direct Program</u></b>		
Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034	XA-96417004-0
Total Expenditures of Federal Awards		

(M) = Major Program  
(N) = Non-Cash Assistance

The accompanying Notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
	\$ 26,374,968.05	\$ 26,374,968.05	\$ 24,292,224.33	\$ 24,292,224.33
10/01/2004-09/30/2005	12,405.00	12,405.00	12,405.00	12,405.00
10/01/2004-09/30/2005	5,000.00	5,000.00	5,000.00	5,000.00
10/01/2004-08/31/2005	29,970.00	29,970.00	17,283.27	17,283.27
	<u>\$ 26,422,343.05</u>	<u>\$ 26,422,343.05</u>	<u>\$ 24,326,912.60</u>	<u>\$ 24,326,912.60</u>

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***Notes to the Schedule of Expenditures  
of Federal Awards  
For the Year Ended September 30, 2005***

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**Note 1 – Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Jefferson 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***. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the financial statements.

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## *Additional Information*

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***Board Members and Administrative Personnel***  
***October 1, 2004 through September 30, 2005***

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<b>Board Members</b>			<b>Term Expires</b>
Hon. Ronald Rhodes	President	3350 Nail Road Warrior, AL 35180	November 2006
Hon. Karen Smith Nix	Vice-President	2249 Pinehurst Drive Gardendale, AL 35071	November 2006
Hon. Jacqueline Smith	Board Member	1844 St. Charles Court, SW Birmingham, AL 35211	November 2010
Hon. Jennifer Parsons	Board Member	5794 Birmingport Road Sylvan Springs, AL 35118	November 2010
Hon. Tommy Little	Board Member	6940 Woodvale Lane Trussville, AL 35173	November 2008

**Administrative Personnel**

Dr. Phillip B. Hammonds	Superintendent	2100 18 <sup>th</sup> Street South Birmingham, AL 35209	January 1, 2004 - June 30, 2007
Dr. Yancy E. Morris	Deputy Superintendent	2100 18 <sup>th</sup> Street South Birmingham, AL 35209	
Dr. Jerry L. Mitchell	Deputy Superintendent	2100 18 <sup>th</sup> Street South Birmingham, AL 35209	
Mrs. Kimberly G. McPherson	Executive Director of Business and Financial Affairs, Chief School Finance Officer	2100 18 <sup>th</sup> Street South Birmingham, AL 35209	

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***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***

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We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Jefferson County Board of Education as of and for the year ended September 30, 2005, which collectively comprise the Jefferson County Board of Education's basic financial statements and have issued our report thereon dated February 9, 2006. 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 Jefferson County Board of Education's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Jefferson County Board of Education's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item 2005-1.

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 misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

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***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***

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**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Jefferson County Board of Education'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*.

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



Ronald L. Jones  
Chief Examiner

Department of Examiners of Public Accounts

February 9, 2006

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# ***Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133***

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## **Compliance**

We have audited the compliance of the Jefferson County Board of Education with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2005. The Jefferson County Board of Education's major federal programs are identified in the Summary of Examiner's 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 Jefferson County Board of Education's management. Our responsibility is to express an opinion on the Jefferson County Board of Education'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*. Those standards and OMB Circular A-133 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 Jefferson County Board of Education'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 Jefferson County Board of Education's compliance with those requirements.

In our opinion, the Jefferson County Board of Education 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 September 30, 2005.

## **Internal Control Over Compliance**

The management of the Jefferson County Board of Education 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 Jefferson County Board of Education'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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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***Report on Compliance With Requirements Applicable to Each  
Major Program and on Internal Control Over Compliance in  
Accordance With OMB Circular A-133***

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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 federal 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, other state officials, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Ronald L. Jones  
Chief Examiner

Department of Examiners of Public Accounts

February 9, 2006

***Schedule of Findings and Questioned Costs***  
***For the Year Ended September 30, 2005***

**Section I - Summary of Examiner's Results**

**Financial Statements**

Type of opinion issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ Yes     X  No

Reportable condition(s) identified that are not considered to be material weakness(es)?  X  Yes    \_\_\_\_\_ None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes     X  No

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified? \_\_\_\_\_ Yes     X  No

Reportable condition(s) identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes     X  None reported

Type of opinion issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? \_\_\_\_\_ Yes     X  No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010	Title I Grants to Local Educational Agencies
10.553 and 10.555	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$729,807.38

Auditee qualified as low-risk auditee?  X  Yes    \_\_\_\_\_ No

***Schedule of Findings and Questioned Costs***  
***For the Year Ended September 30, 2005***

**Section II – Financial Statement Findings (GAGAS)**

Ref. No.	Type of Finding	Finding/Noncompliance	Questioned Costs
2005-1	Internal Control	<p><b><u>Finding:</u></b>            At Hueytown Elementary, Child Nutrition Program receipts were not being deposited in a timely manner. Receipts were routinely held in excess of a week, with some being held up to twenty days.</p> <p><b><u>Recommendation:</u></b>            Deposits should be taken to the bank in a timely manner.</p>	

**Section III – Federal Awards Findings and Questioned Costs**

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
			No matters were reportable.	

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*Auditee Response/Corrective Action Plan*



**JEFCOED**

**Jefferson County Board Of Education**

2100 18th Street South  
Birmingham, Alabama 35209-1891  
Telephone 205/379-2000  
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BOARD OF EDUCATION

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Mr. Tommy L. Little  
*Vice-President*

Ms. Jacqueline A. Smith  
Mrs. Jennifer H. Parsons  
Mr. Ronald A. Rhodes

Dr. Phillip B. Hammonds  
*Superintendent*

April 26, 2006

Mr. Ronald L. Jones, Chief Examiner  
Examiners of Public Accounts  
P.O. Box 302251  
50 North Ripley  
Montgomery, AL 36130-2251

Dear Mr. Jones:

Enclosed you will find our auditee response letter for the FY05 audit report. Please do not hesitate calling me at (205) 379-2225 if there are any questions or needed additional information regarding the responses.

Thank you.

Yours truly,

Phil Hammonds  
Superintendent

CC: Mr. Mike Scroggins



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***Corrective Action Plan***  
***For the Year Ended September 30, 2005***

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As required by the Office of Management and Budget (OMB) Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section .315(c), the Jefferson County Board of Education has prepared and hereby submits the following Corrective Action Plan for the finding included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2005.

**Finding**

**Ref.**

**No.**

**Corrective Action Plan Details**

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05-1 **Finding:** "At Hueytown Elementary School, Child Nutrition Program receipts were not being deposited in a timely manner. Receipts were routinely held in excess of a week, with some being held up to twenty days."

**Response:** Banking procedures at Hueytown Elementary have been modified to require the Child Nutrition Program deposit to be made by the principal or his/her designee. Internal control improvements have been addressed system-wide by requiring the principals to review and initial the bank encoded deposit slips daily and the Child Nutrition Program Bookkeeper at the central office to compare the encoded deposit slips with the 104 Report.

**Contact:** Child Nutrition Director and Principal, Hueytown Elementary School

**Anticipated Completion Date:** Complete

  
\_\_\_\_\_  
Dr. Phillip Hammonds  
Superintendent