

Report on the

Marion County Board of Education

Marion County, Alabama

October 1, 2004 through September 30, 2005

Filed: June 16, 2006



Department of Examiners of Public Accounts

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Ronald L. Jones, Chief Examiner

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Ronald L. Jones
Chief Examiner

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 Marion 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 Marion 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 generally accepted government auditing standards for financial audits. Objectives of this 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 (MD&A)** – 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 8), and notes to the financial statements.
5. **Required Supplementary Information (RSI)** – includes Budget to Actual Comparisons (Exhibits 9 through 11), which contain 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 12), 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 13) and the following reports and item 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 14) – 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 15) – 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 16) – 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.

AUDIT COMMENTS

The Marion County Board of Education is governed by a separately elected board composed of five members elected by the qualified electors of Marion County. The Board is responsible for the general administration and supervision of the public schools for the educational interests of Marion County.

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. There were no material weaknesses noted in the internal controls related to major programs.

Sworn to and subscribed before me this
the 31st day of May, 2006.

Alexis W. Jones
Notary Public

My Commission Expires July 21, 2008.

Sworn to and subscribed before me this
the 31st day of May, 2006.

Jill Farris
Notary Public

rb

MY COMMISSION EXPIRES MARCH 16th, 2007

Respectfully submitted,

Randy L. Dodd

Randy L. Dodd
Examiner of Public Accounts

Brian P. Wray

Brian P. Wray
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 Marion County Board of Education, as of and for the year ended September 30, 2005, which collectively comprise the Marion County Board of Education's basic financial statements as listed in the table of contents as Exhibits 1 through 8. These financial statements are the responsibility of the Marion 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 Marion 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 April 6, 2006 on our consideration of the Marion 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 Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Exhibits 9 through 11) 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the Marion County Board of Education's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 12) 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

April 6, 2006

Management's Discussion and Analysis
(Required Supplementary Information)

Marion County Board of Education
Management's Discussion and Analysis (MD&A)
September 30, 2005
(Required Supplementary Information)

Introduction

The Management's Discussion and Analysis (MD&A) of the Marion County Board of Education's (the "Board's") financial performance provides an overview of the Board's financial activities for the fiscal year ended September 30, 2005. The MD&A is intended to further clarify and enhance the user's understanding of the Board's financial performance as a whole. Please use it in conjunction with the Board's financial statements and notes to the financial statements, which immediately follow this analysis.

The MD&A is an element of the new 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 in June 1999. This MD&A will include prior year comparative information as required by GASB Statement No. 34.

User's Overview of the Financial Statements

As a result of the implementation of the new GASB 34 reporting model, the financial section of this year's annual report will look slightly different from the Board's previous annual reports published prior to the Fiscal Year 2003 report. The financial section now consists of the Management's Discussion and Analysis (MD&A), the Independent Auditor's Report, the Basic Financial Statements, Required Supplementary Information, and Other Supplementary Information.

This discussion and analysis serves as an introduction to the Board's basic financial statements which are comprised of three components including, *government-wide financial statements, fund financial statements, and notes to the basic financial statements.*

The first two statements are *government-wide financial statements*. The *Statement of Net Assets* and the *Statement of Activities* provide both long-term and short-term information about the Board's overall financial status. These statements report all assets and liabilities 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 of the Board closer to the financial reporting methods used in the private sector.

The **Statement of Net Assets** (Exhibit 1) presents information on all of the Board's assets (what it owns) less liabilities (what it owes), which results in 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 and decreases in net assets reported in this statement may serve as a useful indicator of whether the Board's financial position is improving or deteriorating.

The **Statement of Activities** (Exhibit 2) is most clearly related to an income statement. The statement uses the accrual basis of accounting where revenues and expenses are reported regardless of the timing of when cash is received or paid. The statement identifies the extent to which each expenditure function draws from general revenues of the Board, primarily local taxes, or is financed through charges for services, such as meals sold, and intergovernmental aid, such as federal, state, and municipal appropriations. 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 fund financial statements provide more detailed information about the Marion County Board of Education's most significant funds, not the Board as a whole. A fund is a grouping of related accounts that is used to keep track of specific sources of funding and spending for particular purposes. The Board uses fund accounting to ensure and demonstrate fiscal accountability. All of the funds of the Board can be classified into two categories: governmental funds and fiduciary funds.

Governmental funds statements report most of the Board's activities and focus on how money flows into and out of those funds and the expendable balances left at the end of the year. The governmental funds statements include the **Balance Sheet - Governmental Funds** (Exhibit 3) and the **Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds** (Exhibit 5). These statements are reported using the modified accrual method which measures cash and all other financial assets that can readily be converted into cash. The governmental fund statements provide a detailed short-term view that helps the user determine whether there are more or less financial resources that can be spent in the near future to finance the Board's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information that reconciles them (Exhibit 4 and Exhibit 6).

The fiduciary funds statements include the **Statement of Fiduciary Net Assets** (Exhibit 7) and the **Statement of Changes in Fiduciary Net Assets** (Exhibit 8). These statements report on the activities of those funds in which the Marion County Board of Education serves only as a trustee or fiduciary. These funds are not available to the Board to finance its operations, and therefore, are 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 purpose. As exhibits 7 and 8 demonstrate, the activity is extremely small and attributed to the *Edward L. Pearce Scholarship Fund for Marion County High School* and the *Ann Ruble Needy Children Fund*.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements follow the basic financial statements and should be considered an integral part of the statements, not an appendage to them.

In addition to the basic financial statements and accompanying notes, this annual report also presents certain *Required Supplementary Information* (RSI) other than the MD&A consisting of a budgetary comparison schedule for the general fund and each major special revenue fund that has a legally adopted annual budget. The schedule includes an accompanying note explaining the differences between actual amounts as reported on the basis of budgeting and the GAAP basis of reporting.

Financial Analysis of the Board as a Whole

The Marion County Board of Education has no business-type activities, therefore, all of the Board's net assets are reported as Governmental Activities.

Marion County Board of Education Net Assets

	Governmental Activities	
	FY 2004	FY 2005
Current and other assets	\$ 3,084,131.56	\$ 3,971,507.08
Capital Assets	<u>\$12,310,493.37</u>	<u>\$12,395,909.67</u>
Total assets	\$15,394,624.93	\$16,367,416.75
Current and other liabilities	\$ 2,388,109.50	\$ 2,338,414.12
Long-term liabilities	<u>\$ 3,138,285.86</u>	<u>\$ 2,594,378.27</u>
Total liabilities	\$ 5,526,395.36	\$ 4,932,792.39
Net assets:		
Invested in capital assets, net of related debt	\$ 9,264,652.75	\$ 9,865,502.28
Restricted	\$ 35,301.30	\$ 1,106,688.78
Non-restricted	<u>\$ 568,275.52</u>	<u>\$ 462,433.30</u>
Total Net Assets	\$ 9,868,229.57	\$11,434,624.36

The Marion County Board of Education's assets exceed liabilities by \$11,434,624.36 at the close of the fiscal year. The majority of the Board's net assets are invested in capital assets (land, buildings, busses, and equipment) owned by the Board. These assets are not available for future expenditures since they will not be sold in the foreseeable future. Unrestricted net assets are the assets that can be used to finance day-to-day operations without constraints established by enabling legislation, debt covenants, or other legal requirements. At the close of the fiscal year the non-restricted assets were \$462,433.30.

The Marion County Board of Education's total revenues and expenditures are reflected in the following chart:

Marion County Board of Education Changes in Net Assets

	Governmental Activities	
	FY 2004	FY2005
Revenues		
Program Revenues:		
Charges for services	\$ 2,686,977.70	\$ 2,840,948.59
Operating grants and contributions	\$17,575,154.55	\$18,838,808.08
Capital grants and contributions	\$ 857,409.00	\$ 1,001,866.00
General Revenues:		
Property taxes	\$ 1,015,292.39	\$ 1,031,427.65
Sales tax	\$ 1,120,226.83	\$ 1,303,916.90
Miscellaneous taxes	\$ 126,456.40	\$ 126,950.19
Non-restricted grants and contributions	\$ 124,848.21	\$ 193,375.02
Interest	\$ 15,832.72	\$ 21,707.07
Sixteenth Section Land Settlement		\$ 1,043,094.07*
Miscellaneous	\$ 747,486.13	\$ 755,146.62
Extraordinary Gain on Early Extinguishment of Debt	<u>\$ 0.00</u>	<u>\$ 343,467.05**</u>
Total Revenues and Extraordinary Gain	\$24,269,683.93	\$27,500,707.24
Expenses		
Instructional services	\$14,582,270.27	\$15,897,094.76
Instructional support services	\$ 3,270,628.76	\$ 3,294,119.47
Operations & maintenance services	\$ 1,668,520.40	\$ 1,697,135.75
Student transportation services	\$ 1,650,880.41	\$ 1,372,252.37
Food services	\$ 1,528,188.38	\$ 1,639,336.82
General administrative services	\$ 884,797.40	\$ 1,019,497.81
Interest and fiscal charges	\$ 174,635.52	\$ 120,213.99
Other expenses	<u>\$ 842,197.68</u>	<u>\$ 894,661.48</u>
Total expenses	\$24,602,118.82	\$25,934,312.45
Change in net assets	(\$ 332,434.89)	\$ 1,566,394.79
Net assets, beginning	\$10,200,664.46	\$ 9,868,229.57
Net assets, ending	\$ 9,868,229.57	\$11,434,624.36

(See Note #13 – Unusual or Infrequent Significant Transactions not within Control of Management) The Board received a settlement in the amount of \$1,043,094.07 as a result of a lawsuit (CV-02-192) against the State of Alabama regarding the distribution of monies that had accumulated in the School Indemnity Land Trust Fund and the Sixteen Section Land Trust Fund of the State Treasury.

** (See Note #8 – QZAB Agreement) An extraordinary gain on the early extinguishment of debt was recognized when the Board made a one time lump-sum payment to defease a QZAB issuance in FY2005.

Program revenues are the largest component of total revenues (83%).

- Charges for services include USDA reimbursements for meals served, lunch and breakfast sales, and local school revenues.
- Operating grants and contributions contribute 83% of program revenues and 69% of total revenues. The major sources of revenues in this category are State Foundation Program funds, State Transportation Operations funds, and state and federal funds restricted for specific programs.
- Capital grants and contributions include State Capital Outlay funds, and State Fleet Renewal funds.

General revenues of \$3,432,523.45, not including extraordinary gain on early extinguishment of debt and Sixteenth Section Land funds, consist mainly of local property taxes and sales taxes and are used to cover expenses not covered by program revenues.

Instructional services expenses, primarily salaries and benefits for classroom teachers, are the largest expense function of the Board representing 62% of total expenditures.

- In addition to teacher salaries and benefits, instructional services include teacher aides, substitute teachers, textbooks, depreciation of instructional buildings, professional development, and classroom instructional materials, supplies, and equipment.
- Instructional support services include salaries and benefits for school principals, assistant principals, librarians, counselors, school secretaries, school bookkeepers, speech therapists, the school nurse, and professional development expenses.
- Operation and maintenance services include utilities, security services, janitorial services, maintenance services, and depreciation of maintenance vehicles.
- In addition to bus driver salaries and benefits, student transportation services include mechanics, bus aides, vehicle maintenance and repair expenses, vehicle fuel, depreciation of buses and bus shops, and fleet insurance.
- Food services include salaries and benefits for cooks, servers, lunchroom assistant managers, and managers, as well as donated and purchased food, food preparation and service supplies, kitchen and lunchroom equipment, and depreciation of equipment and facilities.
- General administrative services include salaries and benefits for the superintendent, assistant superintendent, 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.
- Debt service includes interest and principal payments on long-term debt issues and other expenses related to the issuance and continuance of debt issues.

- Other expenses include the salaries and benefits for adult and continuing education programs, preschool teachers and aides, extended day personnel, and community education programs. Also included are the materials, supplies, equipment, related depreciation, and other expenses for operating programs outside of those for educating students in kindergarten through the twelfth grade.

Financial Analysis 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 contained in Exhibits 3 through 8.

Governmental Funds – The focus of the Board's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Board's financial requirements. The financial performance of the Board as a whole is reflected in its governmental funds as well. At the end of the fiscal year, the Marion County Board of Education's governmental funds reported combined ending fund balances of \$1,577,196.33.

General Fund – The General Fund is the primary operating fund of the Board. During Fiscal Year 2005, revenues in the General Fund exceeded expenditures by \$848,216.54. The General Fund balance increased by \$194,522.40 during the course of the fiscal year.

During FY2005 the Marion County Board of Education received \$1,043,094.07 as part of the court ordered settlement of a class action lawsuit filed by the Covington County Board of Education against the State of Alabama. The lawsuit dealt with the disbursement of Sixteenth Section Land funds by the State of Alabama. The settlement included disbursement of revenues held and collected by the State, as well as, ongoing disbursements as revenues are generated in future years.

Child Nutrition Program Fund - This fund accounts for all transactions related to student meal services with the exception of lunchroom building repairs and construction. FY2005 expenditures, including all payroll expenditures, exceeded program revenues, primarily meal sales and USDA reimbursements, by \$541,520.48. This deficiency was partially offset by the General Fund transfer of \$515,786.65 to cover CNP payroll fringes and raises as mandated. The net effect of operations and the transfer in from the General Fund was to decrease the CNP fund balance by \$25,733.83.

Local Schools Fund – This fund is comprised of the operating funds of Brilliant Elementary, Brilliant High, Hackleburg School, Hamilton Elementary, Hamilton Middle, Hamilton High, Guin Elementary, Marion County High, Phillips Elementary and Phillips High. The total assets of the Local Schools Fund are primarily cash and short-term investments held by Hackleburg School and Brilliant High School. Total Assets for FY2005 were \$686,137.18 while liabilities were zero. Total revenues exceeded total expenditures by \$264,227.39 and the Local Schools Fund balance increased by \$62,184.54.

Qualified Zone Academy Bonds – This fund accounts for the transactions related to the issuance of Qualified Zone Academy Bonds (QZAB) during FY2005 after the Board received State approval to designate Hamilton High School as a Qualified Zone Academy. The proceeds from the bond issue will be used to finance a renovation project scheduled for completion in late FY2006 or early FY2007. From the initial proceeds of \$1,000,000.00, renovation expenditures of \$266,513.94 and administrative costs related to the issuance of the bonds of \$50,000.00 were deducted. Interest revenues of \$913.65 were earned during the fiscal year and the ending balance was \$684,399.71.

Capital Asset and Debt Administration

Capital Assets – As of September 30, 2005 the Marion County Board of Education had invested \$12,395,909.67 in a broad range of capital assets. Capital Assets are any land, buildings, school furniture or fixtures, buses, instructional equipment, computer equipment, vehicles, custodial equipment, lunchroom equipment and athletic equipment with an acquisition cost of \$5,000.00 or more and a life expectancy exceeding one year. The following table provides additional information of the Board’s capital assets.

Marion County Board of Education
Capital Assets
Fiscal Year Ended September 30, 2005

	FY2004	FY2005
Land	\$ 223,160.50	\$ 223,160.50
Land Improvements	\$ 105,784.67	\$ 105,784.67
Construction in Progress	\$ 588,229.15	\$ 291,736.76
Buildings and Building Improvements	\$20,228,432.80	\$21,152,302.63
Equipment and Furniture	\$ 3,199,632.18	\$ 3,408,913.33
Less: Accumulated Depreciation	(\$12,034,745.93)	(\$12,785,988.22)
Total Capital Assets, Net of Depreciation	\$12,310,493.37	\$12,395,909.67

FY2005 highlights include the following major capital projects:

- Dedication and final completion of the Hackleburg Elementary Physical Education Building occurred during FY2005. The final project cost was \$481,001.38.
- Dedication and final completion of the Brilliant Elementary Physical Education Building occurred during the fiscal year. The final project cost was \$442,868.45.
- A one million dollar, QZAB financed, renovation project at Hamilton High School began in FY2005 and is scheduled to be completed in late FY2006 or early FY2007. During the fiscal year, renovation costs totaled \$291,736.76 and were primarily funded from the FY2005 QZAB.
- Four new transportation service trucks were purchased with Sixteenth Section Land revenues during the year at a cost of \$78,978.75.
- Several capital items were purchased through the Child Nutrition Program including:

Brilliant	walk-in cooler	\$18,120.00
Phillips	dish machine with hood	\$87,500.00
Hamilton High	deep fat fryer	\$ 8,606.00
Hamilton High	cooling unit	\$ 5,170.00

Long-Term Debt – At year-end, the Marion County Board of Education had \$2,594,378.27 in long-term debt. The Board's long-term debt consists of bonds issued in 1994, a 1996 long-term capital lease, a ten-year bus loan issued in 1997, and two pooled bond issues made through the State in 2001 and 2002.

Marion County Board of Education
Long-Term Debt
Fiscal Year Ended September 30, 2005

<u>Description</u>	<u>FY 2004 Debt outstanding</u>	<u>FY 2005 Debt outstanding</u>	<u>Due within within one year</u>
1994 Bonds	\$ 840,000.00	\$ 645,000.00	\$ 205,000.00
2001A Leveraged Pool Bonds	\$ 166,481.12	\$ 160,099.41	\$ 6,699.80
2002A Leveraged Pool Bonds	\$1,187,979.17	\$1,145,193.39	\$ 44,217.27
Long-Term Notes *	\$ 901,421.58	\$ 588,188.84	\$ 324,294.95
Compensated Absences	<u>\$ 42,403.99</u>	<u>\$ 55,896.63</u>	<u>\$ 55,896.63</u>
Total	\$3,138,285.86	\$2,594,378.27	\$ 636,108.65

- Long-Term Notes includes a 10 year fixed rate loan issued by First National Bank of Hamilton, AL, for school bus fleet replacement and a 1996 Long-Term lease purchase agreement issued by LaSalle National Bank of Chicago, IL, for electric boilers and high efficiency lighting upgrades.

Budgetary Highlights

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 was adopted by the Marion County Board of Education on August 27, 2004 and the amended budget was approved by the Board on April 26, 2005. Generally, a conservative approach is taken toward planning operating revenues. Local tax trends are studied and the state of the local economy is used in the budgeting of local revenues. Expenses are conservatively budgeted based on minimum program requirements and the availability of federal, state, and local revenues.

Minor amendments to the original budget were made primarily in the areas of Instruction and Instructional Support. Actual State and Federal revenues were slightly higher than budgeted. The actual net change in fund balances for FY2005 was an increase of \$86,895.79 which was marginally better than the budgeted increase of \$58,241.00.

Economic Factors and Next Year's Budget

The following economic factors are of importance when looking forward to the Board's financial operations in Fiscal Year 2006.

- Several employee fringe benefit costs are going to increase in FY2006. Employer retirement costs will increase from 7.03% to 8.17% of gross payroll and annual employer health insurance costs will rise 14.58% from \$6,996.00 to \$8,016.00 per employee.
- Student enrollment continues to drop. The average daily membership for the first forty days of the school year is the main factor in determining State allocations for the following year. The following table indicates that allocations from the State will likely continue to decline. Beginning with FY2007 the State will calculate allocations based on average daily membership during the first twenty school days following Labor Day. This change may benefit the Board by more accurately taking into account new students coming from outside Alabama who don't typically enroll until after the Labor Day holiday.

<u>Fiscal Year</u>	<u>Funded Student ADM</u>	<u>Loss from Prior Year</u>
1999	3,968.71	
2000	3,952.61	(16.10)
2001	3,868.17	(84.44)
2002	3,838.63	(29.54)
2003	3,831.99	(6.64)
2004	3,777.28	(54.71)
2005	3,668.98	(108.30)
2006 Preliminary	3,657.15	(11.83)

- The largest single source of local funds, county sales tax, increased for the second consecutive year. While falling short of FY2000 revenues, sales tax collections increased by \$138,643.85 during fiscal year 2005. The Board's financial condition and its ability to participate in the State Foundation Program are heavily affected by both the local and State economies. Since Marion County only collects seven of the ten mills of ad valorem tax required for participation, sales tax revenue must be used to offset the shortfall.

<u>Fiscal Year</u>	<u>Total Sales Tax Revenue *</u>
1999	\$1,370,380.45
2000	\$1,341,337.67
2001	\$1,250,505.52
2002	\$1,170,061.22
2003	\$1,010,132.21
2004	\$1,141,541.10
2005	\$1,280,184.95

(* Sales tax figures from Alabama Dept. of Education Supplemental Report 2)

Contacting the School Board's Financial Management

This financial report is designated 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 questions about this report or need additional financial information, contact Clint Green, Chief Financial Officer, Marion County Schools, 188 Winchester Drive, Hamilton, Alabama, 35570 or call (205) 921-3191 during regular office hours, Monday through Friday, from 8:00 a.m. to 4:00 p.m., central time.

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Statement of Net Assets
September 30, 2005

	Governmental Activities
<u>Assets</u>	
Cash	\$ 1,847,033.04
Investments	46,387.63
Receivables (Note 4)	477,975.26
Ad Valorem Taxes Receivable	810,866.27
Accrued Interest Receivable	292.43
Inventories	50,628.26
Restricted Cash	725,458.21
Restricted Cash With Fiscal Agent	12,865.98
Capital Assets, Net (Note 5)	<u>12,395,909.67</u>
 Total Assets	 <u>16,367,416.75</u>
<u>Liabilities</u>	
Deferred Revenue	909,381.44
Salaries and Benefits Payable	1,429,032.68
Long-Term Liabilities:	
Portion Due or Payable Within One Year:	
Notes Payable	324,294.95
Warrants Payable	255,917.07
Estimated Liability for Compensated Absences	55,896.63
Portion Due or Payable After One Year:	
Notes Payable	263,893.89
Warrants Payable	<u>1,694,375.73</u>
 Total Liabilities	 <u>4,932,792.39</u>
<u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	9,865,502.28
Restricted for:	
Capital Projects	717,383.96
Other Purposes	389,304.82
Unrestricted	<u>462,433.30</u>
 Total Net Assets	 <u><u>\$ 11,434,624.36</u></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
Governmental Activities			
Instruction	\$ 15,897,094.76	\$ 633,829.89	\$ 13,343,736.62
Instructional Support	3,294,119.47	199,038.33	2,770,716.96
Operation and Maintenance	1,697,135.75	229,557.16	543,980.54
Auxiliary Services:			
Student Transportation	1,372,252.37	2,199.84	1,289,797.39
Food Services	1,639,336.82	1,302,276.26	72,787.53
General Administration and Central Support	1,019,497.81	180.60	605,533.40
Other	894,661.48	473,866.51	212,255.64
Interest and Fiscal Charges	120,213.99		
Total Governmental Activities	<u>\$ 25,934,312.45</u>	<u>\$ 2,840,948.59</u>	<u>\$ 18,838,808.08</u>

General Revenues

Taxes:
Property Taxes for General Purposes
Local Sales Tax
Other Taxes
Grants and Contributions not Restricted for Specific Programs
Investment Earnings
Sixteenth Section Land Settlement
Miscellaneous
Extraordinary Gain on Early Extinguishment of Debt
Total General Revenues and Extraordinary Gain

Change in Net Assets

Net Assets - Beginning of Year

Net Assets - End of Year

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

<u>Capital Grants and Contributions</u>	<u>Net (Expenses) Revenues and Changes in Net Assets</u>
	<u>Total Governmental Activities</u>
\$ 636,322.26	\$ (1,283,205.99)
101,483.74	(324,364.18)
264,060.00	(822,114.31)
	183,804.86
	(264,273.03)
	(413,783.81)
	(208,539.33)
	(120,213.99)
<u>\$ 1,001,866.00</u>	<u>(3,252,689.78)</u>

1,031,427.65
1,303,916.90
126,950.19
193,375.02
21,707.07
1,043,094.07
755,146.62
343,467.05
<u>4,819,084.57</u>
1,566,394.79
<u>9,868,229.57</u>
<u>\$ 11,434,624.36</u>

Balance Sheet
Governmental Funds
September 30, 2005

	General Fund	Child Nutrition Program Fund
<u>Assets</u>		
Cash	\$ 798,031.49	\$ 389,304.82
Cash With Fiscal Agent		
Investments		
Receivables (Note 4)	153,229.34	153,408.38
Ad Valorem Taxes Receivables	810,866.27	
Accrued Interest Receivable		
Inventories		50,628.26
Total Assets	1,762,127.10	593,341.46
<u>Liabilities and Fund Balances</u>		
<u>Liabilities</u>		
Cash Deficits		
Deferred Revenues	901,866.15	
Salaries and Benefits Payable	1,377,231.02	51,801.66
Estimated Liability for Compensated Absences	55,896.63	
Total Liabilities	2,334,993.80	51,801.66
<u>Fund Balances</u>		
Reserved for:		
Encumbrances	309,831.21	4,000.00
Inventories		50,628.26
Debt Service		
Capital Projects		
Unreserved: Reported in:		
General Fund	(882,697.91)	
Special Revenue Funds		486,911.54
Total Fund Balances	(572,866.70)	541,539.80
Total Liabilities and Fund Balances	\$ 1,762,127.10	\$ 593,341.46

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

Local School Fund	QZAB Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ 639,457.12	\$ 684,399.71	\$ 232,392.55	\$ 2,743,585.69
		12,865.98	12,865.98
46,387.63			46,387.63
		171,337.54	477,975.26
			810,866.27
292.43			292.43
			50,628.26
<u>686,137.18</u>	<u>684,399.71</u>	<u>416,596.07</u>	<u>4,142,601.52</u>
		171,094.44	171,094.44
		7,515.29	909,381.44
			1,429,032.68
			55,896.63
		<u>178,609.73</u>	<u>2,565,405.19</u>
105,959.91		48,888.67	468,679.79
			50,628.26
		4,791.73	4,791.73
	684,399.71	41,058.50	725,458.21
			(882,697.91)
580,177.27		143,247.44	1,210,336.25
<u>686,137.18</u>	<u>684,399.71</u>	<u>237,986.34</u>	<u>1,577,196.33</u>
<u>\$ 686,137.18</u>	<u>\$ 684,399.71</u>	<u>\$ 416,596.07</u>	<u>\$ 4,142,601.52</u>

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

Total Fund Balances - Governmental Funds (Exhibit 3) \$ 1,577,196.33

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 (Note 5).

The Cost of Capital Assets is	\$ 25,181,897.89	
Accumulated Depreciation is	<u>(12,785,988.22)</u>	
Total		12,395,909.67

Long-Term liabilities, including warrants payable, are not due and payable in the
current period and therefore are not reported as liabilities in the funds. These
liabilities at year-end consist of:

Current Portion of Long-Term Debt	580,212.02	
Noncurrent Portion of Long-Term Debt	<u>\$ 1,958,269.62</u>	
Total		<u>(2,538,481.64)</u>

Total Net Assets - Governmental Activities (Exhibit 1) \$ 11,434,624.36

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	Child Nutrition Program Fund
<u>Revenues</u>		
State	\$ 16,559,144.09	\$
Federal	2,483.14	817,486.05
Local	3,418,926.50	590,319.48
Other		36,059.96
Total Revenues	<u>19,980,553.73</u>	<u>1,443,865.49</u>
<u>Expenditures</u>		
Current:		
Instruction	12,911,854.40	
Instructional Support	2,651,740.71	
Operation and Maintenance	1,194,578.37	97,544.37
Auxiliary Services:		
Student Transportation	1,347,347.97	
Food Services		1,768,445.20
General Administration and Central Support	810,766.16	
Other	109,669.36	
Capital Outlay	85,378.75	119,396.40
Debt Service:		
Principal Retirement		
Interest and Fiscal Charges	21,001.47	
Debt Issuance Costs		
Total Expenditures	<u>19,132,337.19</u>	<u>1,985,385.97</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>848,216.54</u>	<u>(541,520.48)</u>
<u>Other Financing Sources (Uses)</u>		
Indirect Cost	183,910.97	
Transfers In	274,195.99	515,786.65
Long-Term Debt Issued		
Other Financing Sources	33,032.08	
Transfers Out	(1,144,833.18)	
Total Other Financing Sources (Uses)	<u>(653,694.14)</u>	<u>515,786.65</u>
Net Change in Fund Balances	194,522.40	(25,733.83)
Fund Balances - Beginning of Year	<u>(767,389.10)</u>	<u>567,273.63</u>
Fund Balances - End of Year	<u>\$ (572,866.70)</u>	<u>\$ 541,539.80</u>

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

Local School Fund	QZAB Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$	\$
		999,212.00	17,558,356.09
		2,207,150.90	3,027,120.09
1,860,847.21	913.65	631,645.13	6,502,651.97
			36,059.96
1,860,847.21	913.65	3,838,008.03	27,124,188.11
674,318.75		1,657,113.68	15,243,286.83
222,731.13		417,165.89	3,291,637.73
184,741.53		159,575.53	1,636,439.80
475.00		13,451.40	1,361,274.37
			1,768,445.20
		234,661.57	1,045,427.73
503,005.96		281,986.16	894,661.48
10,100.00	266,513.94	360,863.50	842,252.59
1,247.45		1,162,685.73	1,163,933.18
		130,735.83	151,737.30
	50,000.00		50,000.00
1,596,619.82	316,513.94	4,418,239.29	27,449,096.21
264,227.39	(315,600.29)	(580,231.26)	(324,908.10)
410,621.20		624,579.88	183,910.97
	1,000,000.00		1,825,183.72
20.00			1,000,000.00
(612,684.05)		(67,666.49)	33,052.08
(202,042.85)	1,000,000.00	556,913.39	(1,825,183.72)
62,184.54	684,399.71	(23,317.87)	1,216,963.05
623,952.64		261,304.21	892,054.95
			685,141.38
\$ 686,137.18	\$ 684,399.71	\$ 237,986.34	\$ 1,577,196.33

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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) \$ 892,054.95

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 depreciation expense exceeds capital outlays in the period.

Capital Outlays	\$	842,252.59	
Depreciation Expense		(756,836.29)	
Total			85,416.30

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. 1,163,933.18

Issuance costs on debt issuance is recorded as expenditures in the governmental funds, but are deferred and amortized in the Statement of Activities. 50,000.00

Proceeds from the issuance of debt are reported as financing sources in governmental funds and thus contribute to the change in fund balance. Issuing long-term debt increases liabilities in the Statement of Net Assets but does not affect the Statement of Activities. (1,000,000.00)

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	31,523.31
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Extraordinary Gain on Early Extinguishment of Debt	343,467.05
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Change in Net Assets of Governmental Activities (Exhibit 2)	\$ 1,566,394.79
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The accompanying Notes to the Financial Statements are an integral part of this statement.

Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2005

	Private-Purpose Trust Funds
<u>Assets</u>	
Investments	\$ 15,893.75
Receivables	18.18
Total Assets	<u>15,911.93</u>
<u>Net Assets</u>	
Held in Trust for Other Purposes	15,911.93
Total Net Assets	<u>\$ 15,911.93</u>

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

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended September 30, 2005

	Private-Purpose Trust Funds
<hr/>	
<u>Additions</u>	
Interest	\$ 337.39
Total Additions	<u>337.39</u>
<u>Deductions</u>	
Other	<u> </u>
Total Deductions	<u> </u>
Change in Net Assets	337.39
Net Assets - Beginning of Year	<u>15,574.54</u>
Net Assets - End of Year	<u>\$ 15,911.93</u>

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

Notes to the Financial Statements

For the Year Ended September 30, 2005

Note 1 – Summary of Significant Accounting Policies

The financial statements of the Marion 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.

Notes to the Financial Statements

For the Year Ended September 30, 2005

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.
- ◆ **Child Nutrition Program Fund** – This fund is used to account for the expenditures of local and federal monies restricted to lunchroom operations.
- ◆ **Local School Fund** – This fund is used to account for the expenditures of revenues and expenditures of individual schools within the system.
- ◆ **OZAB Capital Projects Fund** – This fund is used to account for the expenditures of proceeds from Qualified Zone Academy Bonds to be used for the construction of school building facilities or improvements of existing school buildings.

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 government 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.

Notes to the Financial Statements

For the Year Ended September 30, 2005

Fiduciary Fund Type

- ◆ *Private-Purpose Trust Funds* – These funds are used to report all trust agreements under which principal and income benefit individuals, private, organizations, or other governments.

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.

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

D. Assets, Liabilities and Net Assets/Fund Balances

1. Deposits and Investments

Cash includes cash on hand and demand deposits.

Investments, which consist only of certificates of deposit, are reported at cost.

2. Receivables

All ad valorem tax and sales tax receivables are shown net of an allowance for uncollectibles. Sales tax receivables are based on the amounts collected within 60 days after year-end. The allowance for uncollectibles for ad valorem taxes is based on past collection experience.

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.

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.

4. 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 PSCA Capital Project fund and the Debt Service Fund are used to report proceeds that are restricted for use in various construction projects.

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

5. Capital Assets

Capital assets, which include property, equipment, and vehicles, 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. 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
Land Improvements	\$50,000	20 years
Buildings	\$50,000	25 - 50 years
Building Improvements	\$50,000	5 - 30 years
Equipment and Furniture	\$ 5,000	5 - 20 years
Vehicles	\$ 5,000	8 - 15 years
Equipment Under Capital Lease	\$ 5,000	5 - 20 years

6. 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 recognized bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. Compensated Absences

The Board's vacation leave policy consists of the following: All administrative and supervisory personnel who are employed for twelve months are entitled to earn ten days vacation leave per year. Unused leave days may be carried over to the next year.

As of September 30, 2005, the liability for accrued vacation leave is approximately \$55,896.63, which is reported as current.

Notes to the Financial Statements

For the Year Ended September 30, 2005

8. 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.
- ◆ **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.

Note 2 – Stewardship, Compliance, and Accountability

A. Budgets

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds except the capital projects funds, which adopt project-length budgets. All annual appropriations lapse at fiscal year-end.

On or before October 1 of each year, each county board of education shall prepare and submit to the State Superintendent of Education the annual budget to be adopted by the County Board of Education. The Superintendent or County Board of Education shall not approve any budget for operations of the school for any fiscal year which shall show expenditures in excess of income estimated to be available plus any balances on hand.

B. Deficit Fund Balance/Net Assets of Individual Funds

The general fund had a deficit fund balance of \$572,866.70 at September 30, 2005 due to the recognition of accrued wages and benefits at September 30th for days worked, but not yet paid.

Notes to the Financial Statements

For the Year Ended September 30, 2005

Note 3 – Deposits and Investments

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. All of the Board's investments were in 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.

Note 4 – Receivables

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

	General Fund	Child Nutrition Program Fund	Other Governmental Funds	Total
Receivables:				
Sales Tax	\$121,074.33	\$	\$	\$121,074.33
Due from Other Governments	32,155.01	153,408.38	171,337.54	356,900.93
Total Receivables	\$153,229.34	\$153,408.38	\$171,337.54	\$477,975.26

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

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	\$810,866.27	\$
Ad Valorem Motor Vehicle Taxes		90,999.88
Grant Drawdowns Prior to Meeting all Eligibility Requirements		7,515.29
Total Deferred/Unearned Revenue for Governmental Funds	\$810,866.27	\$98,515.17

Note 5 – Capital Assets

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

	Balance 10/1/2004	Additions	Deletions	Balance 9/30/2005
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 223,160.50	\$	\$	\$ 223,160.50
Construction in Progress	588,229.15	291,736.76	(588,229.15)	291,736.76
Total Capital Assets, Not Being Depreciated	811,389.65	291,736.76	(588,229.15)	514,897.26
Capital Assets Being Depreciated:				
Land Improvements - Exhaustible	105,784.67			105,784.67
Building and Building Improvements	20,228,432.80	923,869.83		21,152,302.63
Equipment and Furniture	3,199,632.18	214,875.15	(5,594.00)	3,408,913.33
Total Capital Assets Being Depreciated	23,533,849.65	1,138,744.98	(5,594.00)	24,667,000.63
Less Accumulated Depreciation for:				
Land Improvements - Exhaustible	(41,824.86)	(5,289.24)		(47,114.10)
Building and Building Improvements	(10,004,239.72)	(446,691.23)		(10,450,930.95)
Equipment and Furniture	(1,988,681.35)	(304,855.82)	5,594.00	(2,287,943.17)
Total Accumulated Depreciation	(12,034,745.93)	(756,836.29)	5,594.00	(12,785,988.22)
Total Capital Assets Being Depreciated, Net	11,499,103.72	381,908.69		11,881,012.41
Total Governmental Activities Capital Assets, Net	\$ 12,310,493.37	\$ 673,645.45	\$ 588,229.15	\$ 12,395,909.67

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

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

	Current Year Depreciation Expense
Governmental Activities:	
Instruction	\$653,807.93
Instructional Support	2,481.74
Operation and Maintenance	60,695.95
Auxiliary Services:	
Transportation	10,978.00
Food Service	27,429.61
General Administration and Central Support	1,443.06
Total Depreciation Expense - Governmental Activities	<u>\$756,836.29</u>

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.

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

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.

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%
Contributions:			
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	\$ 998,206.12	\$ 914,378.49	\$ 703,911.94
Contributed by Employees	709,959.57	696,936.84	701,104.28
Total Contributions	<u>\$1,708,165.69</u>	<u>\$1,611,315.33</u>	<u>\$1,405,016.22</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 \$834,332.25 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.

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

Note 8 – QZAB Agreement

A Trustee issued Certificates of Participation in Qualified Zone Academy Bonds (QZAB's) which were to be sold to one or more commercial banks. The ratable portion of the proceeds of the sale of the Certificates of Participation allocable to the Marion County Board of Education, \$1,000,000 less issuance costs of \$50,000.00, were deposited in a separate account of the Project Fund and are available for use only for the Marion County Board of Education and its QZAB projects. The Alabama School Finance Cooperative (the "Cooperative") and the Trustee (with written endorsement of the each Board of Education) entered into a guaranteed investment contract that will provide for the investment of moneys sufficient to pay each Board's payment at the maturity date of the QZAB's.

The Marion County Board of Education chose to make a one time lump-sum payment of \$606,532.95 that together with interest thereon will be sufficient to make the base payment at the maturity date (based on bids received for the guaranteed investment contract). The agreement states that the obligation of the Board to pay the base payment to the Cooperative on the base payment date shall be deemed to have been fully provided for and defeased when there shall have been irrevocably deposited with the Trustee for the payment thereof the entire base payment on its due date. While the obligation is considered defeased, the QZAB Agreement shall not terminate until the Board, or the Trustee at the direction of the Board, shall have paid the base payment of \$1,000,000 to the Cooperative on the base payment date of July 12, 2021. None of the base payment represents the payment of interest.

Because the obligation is considered defeased, the liability has been removed from the Board's government-wide financial statements.

The early extinguishment resulted in a difference between the reacquisition price and the net carrying amount of the QZAB Agreement of \$343,467.05. This difference was recognized as an extraordinary gain on the early extinguishment of debt in the government-wide financial statements.

Note 9 – Long-Term Debt

During the current fiscal year, the Board entered into the QZAB Agreement as described in Note 8 and immediately defeased the obligation. The proceeds of the QZAB Agreement are to be used for various school renovation projects.

Notes to the Financial Statements

For the Year Ended September 30, 2005

In a prior year, the Board issued Special School Tax Refunding Warrants entitled Series 1994 to provide funds for the refinancing of Special School Tax Refunding Warrants entitled Series 1990. During the fiscal year 2002, as part of a pooled bond issuance with other school systems within the State of Alabama, the Board issued Capital Improvement Pool Bonds, Series 2001-A and Series 2002-A 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 for the acquisition, construction and renovation of school facilities. Long-Term Notes Payable were issued to provide funds for the acquisition of energy efficient lighting system, electric boilers and school bus purchases.

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

	Debt Outstanding October 1, 2004	Issued/ Increased	Repaid/ Decreased	Debt Outstanding September 30, 2005	Amounts Due Within One Year
<u>Governmental Activities:</u>					
Warrants:					
Series 1994 Special School Tax Refunding Warrants	\$ 840,000.00	\$	\$ 195,000.00	\$ 645,000.00	\$205,000.00
Series 2001-A Capital Improvement Pool Bonds	166,481.12		6,381.71	160,099.41	6,699.80
Series 2002-A Capital Improvement Pool Bonds	1,187,979.17		42,785.78	1,145,193.39	44,217.27
QZAB 2005 Series		1,000,000.00	1,000,000.00		
Total Warrants	2,194,460.29	1,000,000.00	1,244,167.49	1,950,292.80	255,917.07
Other Liabilities:					
Long-Term Notes Payable	901,421.58		313,232.74	588,188.84	324,294.95
Compensated Absences	42,403.99	13,492.64		55,896.63	55,896.63
Total Other Liabilities	943,825.57	13,492.64	313,232.74	644,085.47	380,191.58
Total Governmental Activities Long-Term Liabilities	\$3,138,285.86	\$1,013,492.64	\$1,557,400.23	\$2,594,378.27	\$636,108.65

Payments on the warrants payable are made by the capital projects fund with state funds and local taxes. Payments on the Capital Improvement Pool Bonds, Series 2001-A and Series 2002-A, are made by the Series 2001-A and Series 2002-A Pooled Bond funds with Public School Funds withheld from the Board's allocation from the Alabama Department of Education. The long-term notes payable are paid by the Capital Projects Fund and Fleet Renewal Fund. The one time lump-sum payment on the QZAB agreement was paid from the 16th Section Land settlement.

The compensated absences liability is being liquidated by the General Fund.

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

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

Fiscal Year Ending	Special School Tax Warrants Series 1994		Long-Term Notes Payable	
	Principal	Interest	Principal	Interest
September 30, 2006	\$205,000.00	\$34,307.50	\$324,294.95	\$28,161.08
2007	215,000.00	23,545.00	263,893.89	17,239.77
2008	225,000.00	12,150.00		
2009				
2010				
2011-2015				
2016-2020				
2021-2022				
Totals	\$645,000.00	\$70,002.50	\$588,188.84	\$45,400.85

Note 10 – 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 insurance 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.

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

Capital Improvement Pool Bonds Series 2001-A		Capital Improvement Pool Bonds Series 2002-A		Total Principal and Interest Requirements to Maturity
Principal	Interest	Principal	Interest	
\$ 6,699.80	\$ 8,127.02	\$ 44,217.27	\$ 55,719.15	\$ 706,526.77
7,037.77	7,783.59	46,194.47	53,901.03	634,595.52
7,385.69	7,423.00	48,411.32	51,535.89	351,905.90
7,753.48	7,044.52	50,867.84	49,053.91	114,719.75
8,141.15	6,647.15	53,504.10	46,444.61	114,737.01
47,296.23	26,435.29	311,677.85	188,133.10	573,542.47
61,501.00	11,849.10	400,172.30	99,595.20	573,117.60
14,284.29	357.11	190,148.24	9,700.71	214,490.35
\$160,099.41	\$75,666.78	\$1,145,193.39	\$554,083.60	\$3,283,635.37

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.

Note 11 – Interfund Transactions

Interfund Transfers

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

	Transfers In				Total
	General Fund	Child Nutrition Program Fund	Local School Fund	Other Governmental Funds	
Transfers Out					
General Fund	\$206,529.50	\$515,786.65	\$410,621.20	\$ 11,895.83	\$1,144,833.18
Local School Fund				612,684.05	612,684.05
Other Governmental Funds	67,666.49				67,666.49
Totals	\$274,195.99	\$515,786.65	\$410,621.20	\$624,579.88	\$1,825,183.72

The Board typically used transfers to fund ongoing operating subsidies and to recoup certain expenditures paid on-behalf of the local schools.

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

Note 12 – 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 has a position 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
IDEA Part B	\$ 68,738.82	\$ 68,738.82
Title I	94,520.81	94,520.81
Title IV	7,043.06	7,043.06
Title V	223.47	223.47
Title VI	568.28	568.28
Total	\$171,094.44	\$171,094.44

Note 13 – Unusual or Infrequent Significant Transactions not Within Control of Management

The Covington County Board of Education, as plaintiff in Case Number CV-02-192, sued the State of Alabama on behalf of itself and a class of county school boards, of which the Marion County Board of Education was a member, regarding the distribution of monies that had accumulated in the School Indemnity Land Trust Fund and the Sixteenth Section Land Trust Fund of the State Treasury. This action, taken in the Circuit Court of Covington County, resulted in an order dated September 30, 2002, to the State of Alabama to pay \$24,753,249.50 into the Court as a partial settlement to be apportioned among various boards of education in a manner determined by the Court. During fiscal year 2005, the Board received its portion of the settlement in the amount of \$1,043,094.07.

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
<u>Revenues</u>			
State	\$ 16,501,369.00	\$ 16,501,369.00	\$ 16,559,144.09
Federal	7,900.00	7,900.00	2,483.14
Local	2,056,590.00	3,374,434.00	3,402,392.20
Total Revenues	<u>18,565,859.00</u>	<u>19,883,703.00</u>	<u>19,964,019.43</u>
<u>Expenditures</u>			
Current:			
Instruction	12,772,194.00	12,943,006.00	13,027,205.83
Instructional Support	2,514,625.00	2,554,429.00	2,618,089.68
Operation and Maintenance	1,062,899.00	1,090,116.00	1,196,172.95
Auxiliary Services:			
Student Transportation	1,311,382.00	1,408,382.00	1,355,144.33
General Administration and Central Support	672,758.00	682,475.00	810,766.16
Other	140,305.00	115,611.00	109,670.33
Capital Outlay		840,567.00	85,378.75
Debt Service			21,001.47
Total Expenditures	<u>18,474,163.00</u>	<u>19,634,586.00</u>	<u>19,223,429.50</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>91,696.00</u>	<u>249,117.00</u>	<u>740,589.93</u>
<u>Other Financing Sources (Uses)</u>			
Indirect Cost	181,916.00	205,124.00	183,910.97
Transfers In			274,195.99
Other Financing Sources			33,032.08
Transfers Out	(396,000.00)	(396,000.00)	(1,144,833.18)
Total Other Financing Sources (Uses)	<u>(214,084.00)</u>	<u>(190,876.00)</u>	<u>(653,694.14)</u>
Net Change in Fund Balances	(122,388.00)	58,241.00	86,895.79
Fund Balances - Beginning of Year	<u>491,950.00</u>	<u>716,064.00</u>	<u>716,018.82</u>
Fund Balances - End of Year	<u>\$ 369,562.00</u>	<u>\$ 774,305.00</u>	<u>\$ 802,914.61</u>

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	\$	\$ 16,559,144.09
		2,483.14
(1) (2)	16,534.30	3,418,926.50
	<u>16,534.30</u>	<u>19,980,553.73</u>
(3)	115,351.43	12,911,854.40
(3)	(33,651.03)	2,651,740.71
(3)	1,594.58	1,194,578.37
(3)	7,796.36	1,347,347.97
		810,766.16
(3)	0.97	109,669.36
		85,378.75
		21,001.47
	<u>91,092.31</u>	<u>19,132,337.19</u>
	<u>107,626.61</u>	<u>848,216.54</u>
		183,910.97
		274,195.99
		33,032.08
		<u>(1,144,833.18)</u>
		<u>(653,694.14)</u>
	107,626.61	194,522.40
(4)	<u>(1,483,407.92)</u>	<u>(767,389.10)</u>
	<u>\$ (1,375,781.31)</u>	<u>\$ (572,866.70)</u>

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

Explanation of differences:

- (1) The Board budgets sales tax revenue as it was received, rather than on the modified accrual basis.
- (2) The Board budgets motor vehicle ad valorem tax revenue as it was received, rather than on the modified accrual basis.
- (3) The Board budgets for salaries and benefits only to the extent expected to be paid, rather than on the modified accrual basis.

Net Increase in Fund Balance - Budget to GAAP

- (4) 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 a 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.

\$ 23,731.95

(7,197.65)

91,092.31

\$ 107,626.61

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>
<u>Revenues</u>			
Federal	\$ 745,000.00	\$ 745,000.00	\$ 817,486.05
Local	542,400.00	542,400.00	590,319.48
Other	21,000.00	21,000.00	36,059.96
Total Revenues	<u>1,308,400.00</u>	<u>1,308,400.00</u>	<u>1,443,865.49</u>
<u>Expenditures</u>			
Current:			
Operation and Maintenance	122,600.00	122,600.00	97,544.37
Auxiliary Services:			
Food Services	1,774,360.00	1,779,238.00	1,772,397.72
Capital Outlay			119,396.40
Total Expenditures	<u>1,896,960.00</u>	<u>1,901,838.00</u>	<u>1,989,338.49</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(588,560.00)</u>	<u>(593,438.00)</u>	<u>(545,473.00)</u>
<u>Other Financing Sources (Uses)</u>			
Transfers In	396,000.00	396,000.00	515,786.65
Total Other Financing Sources (Uses)	<u>396,000.00</u>	<u>396,000.00</u>	<u>515,786.65</u>
Net Change in Fund Balances	(192,560.00)	(197,438.00)	(29,686.35)
Fund Balances - Beginning of Year	<u>302,000.00</u>	<u>570,870.00</u>	<u>623,027.81</u>
Fund Balances - End of Year	<u>\$ 109,440.00</u>	<u>\$ 373,432.00</u>	<u>\$ 593,341.46</u>

Explanation of differences:

- (1) The Board budgets for salaries and benefits only to the extent expected to be paid, rather than on the modified accrual basis.

Net Increase in Fund Balance - Budget to GAAP

- (2) 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 a 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.



Budget to GAAP Differences	Actual Amounts GAAP Basis
\$	\$ 817,486.05
	590,319.48
	36,059.96
	<u>1,443,865.49</u>
	97,544.37
(1) 3,952.52	1,768,445.20
	119,396.40
	<u>1,985,385.97</u>
<u>3,952.52</u>	<u>(541,520.48)</u>
	515,786.65
	<u>515,786.65</u>
3,952.52	(25,733.83)
(2) <u>(55,754.18)</u>	<u>567,273.63</u>
<u>\$ (51,801.66)</u>	<u>\$ 541,539.80</u>
<u>\$ 3,952.52</u>	
<u>\$ 3,952.52</u>	

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

	Budgeted Amounts		Actual Amounts
	Original	Final	Budgetary Basis
<u>Revenues</u>			
Local	\$ 1,334,950.00	\$ 1,334,950.00	\$ 1,860,847.21
Total Revenues	1,334,950.00	1,334,950.00	1,860,847.21
<u>Expenditures</u>			
Current:			
Instruction	427,663.00	427,663.00	674,318.75
Instructional Support	166,370.00	166,370.00	222,731.13
Operation and Maintenance	104,100.00	104,100.00	184,741.53
Auxiliary Services:			
Student Transportation	250.00	250.00	475.00
Other	388,320.00	388,320.00	503,005.96
Capital Outlay			10,100.00
Debt Service			1,247.45
Total Expenditures	1,086,703.00	1,086,703.00	1,596,619.82
Excess (Deficiency) of Revenues Over Expenditures	248,247.00	248,247.00	264,227.39
<u>Other Financing Sources (Uses)</u>			
Transfers In			410,621.20
Other Sources			20.00
Transfers Out			(612,684.05)
Total Other Financing Sources (Uses)			(202,042.85)
Net Change in Fund Balance	248,247.00	248,247.00	62,184.54
Fund Balances - Beginning of Year	216,850.00	623,952.00	623,952.64
Fund Balances - End of Year	\$ 465,097.00	\$ 872,199.00	\$ 686,137.18

Budget to GAAP Differences	Actual Amounts GAAP Basis
\$	\$ 1,860,847.21
	<u>1,860,847.21</u>
	674,318.75
	222,731.13
	184,741.53
	475.00
	503,005.96
	10,100.00
	1,247.45
	<u>1,596,619.82</u>
	<u>264,227.39</u>
	410,621.20
	20.00
	(612,684.05)
	<u>(202,042.85)</u>
	62,184.54
	<u>623,952.64</u>
\$	\$ 686,137.18

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Supplementary Information

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

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number
<u>U. S. Department of Education</u>	
<u>Direct Program</u>	
Impact Aid	84.041
<u>Passed Through Alabama Department of Education</u>	
Vocational Education - Basic Grants to States	84.048
Title I Grants to Local Educational Agencies (M)	84.010
State Grants for Innovative Programs	84.298
Special Education Cluster:	
Special Education - Grants to States	84.027
Special Education - Preschool Grants	84.173
Sub-Total Special Education Cluster	
Reading First State Grants	84.357
Rural Education	84.358
Improving Teacher Quality State Grants	84.367
Safe and Drug-Free Schools and Communities - State Grants	84.186
Education Technology State Grants	84.318
Total U. S. Department of Education	
<u>U. S. Department of Agriculture</u>	
<u>Passed Through Alabama Department of Education</u>	
Child Nutrition Cluster:	
School Breakfast Program	10.553
National School Lunch Program	10.555
Sub-Total Child Nutrition Cluster	
Food Donation (N)	10.550
Total U. S. Department of Agriculture	
<u>U. S. Department of Health and Human Services</u>	
<u>Passed Through Alabama Department of Education</u>	
Social Security - Disability Insurance	96.001
Total Expenditures of Federal Awards	

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

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

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
10/01/2004-09/30/2005	\$ 1,523.14	\$ 1,523.14	\$ 1,523.14	\$ 1,523.14
10/01/2004-09/30/2005	69,589.00	69,589.00	69,589.00	69,589.00
10/01/2004-09/30/2005	1,115,165.09	1,115,165.09	983,831.92	983,831.92
10/01/2004-09/30/2005	16,963.00	16,963.00	15,144.92	15,144.92
10/01/2004-09/30/2005	817,882.54	817,882.54	626,721.02	626,721.02
10/01/2004-09/30/2005	17,496.00	17,496.00	17,252.90	17,252.90
	835,378.54	835,378.54	643,973.92	643,973.92
10/01/2004-09/30/2005	55,545.00	55,545.00	54,851.56	54,851.56
10/01/2004-09/30/2005	139,867.00	139,867.00	134,568.07	134,568.07
10/01/2004-09/30/2005	283,169.00	283,169.00	252,872.89	252,872.89
10/01/2004-09/30/2005	30,301.11	30,301.11	27,020.32	27,020.32
10/01/2004-09/30/2005	25,908.00	25,908.00	25,298.30	25,298.30
	2,573,408.88	2,573,408.88	2,208,674.04	2,208,674.04
10/01/2004-09/30/2005	132,607.17	132,607.17	132,607.17	132,607.17
10/01/2004-09/30/2005	612,091.35	612,091.35	612,091.35	612,091.35
	744,698.52	744,698.52	744,698.52	744,698.52
10/01/2004-09/30/2005	72,787.53	72,787.53	72,787.53	72,787.53
	817,486.05	817,486.05	817,486.05	817,486.05
10/01/2004-09/30/2005	960.00	960.00	960.00	960.00
	\$ 3,391,854.93	\$ 3,391,854.93	\$ 3,027,120.09	\$ 3,027,120.09

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

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Marion 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 basic financial statements.

Additional Information

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

Board Members			Term Expires
Hon. Stephen Pike	Chairman	2575 County Highway 79 Phil Campbell, AL 35581	2008
Hon. Belinda McRae	Vice-Chairman	P. O. Box 185 Hamilton, AL 35570	2010
Hon. Hubert Junkin	Member	P. O. Box 750 Guin, AL 35563	2006
Hon. Glendon Gibbs	Member	13785 State Highway 129 Brilliant, AL 35548	2006
Hon. L. C. Fowler	Member	153 Red Ridge Drive Hamilton, AL 35570	2010
Hon. James Murray	Member	7130 County Highway 94 Hamilton, AL 35570	2004
<u>Administrative Personnel</u>			
Hon. Bravell Jackson	Superintendent	479 North Riverside Drive Hamilton, AL 35570	2008
Clint Green	Custodian of Funds	P. O. Box 2259 Hamilton, AL 35570	

***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***

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Marion County Board of Education (the "Board") as of and for the year ended September 30, 2005, which collectively comprise the Board's basic financial statements and have issued our report thereon dated April 6, 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 Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

***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***

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

April 6, 2006

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

Compliance

We have audited the compliance of the Marion County Board of Education (the “Board”) 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 its major federal program for the year ended September 30, 2005. The Board’s major federal program is 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 its major federal program is the responsibility of the Board’s management. Our responsibility is to express an opinion on the Board’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 Board’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 Board’s compliance with those requirements.

In our opinion, the Board complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2005.

Internal Control Over Compliance

The management of the Board 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 Board’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.

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

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

April 6, 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)? _____ Yes X 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

Dollar threshold used to distinguish Between Type A and Type B programs: \$300,000.00

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
		No matters were reportable.	

Section III – Federal Awards Findings and Questioned Costs

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