

Report on the

# Marion County Board of Education

Marion County, Alabama

October 1, 2003 through September 30, 2004

Filed: November 18, 2005



## Department of Examiners of Public Accounts

50 North Ripley Street, Room 3201

P.O. Box 302251

Montgomery, Alabama 36130-2251

Website: [www.examiners.state.al.us](http://www.examiners.state.al.us)

*Ronald L. Jones, Chief Examiner*







---

---

## *Table of Contents*

---

---

	<i>Page</i>
<b><u>Supplementary Information</u></b>	37
Exhibit #12 Schedule of Expenditures of Federal Awards	38
<b>Notes to the Schedule of Expenditures of Federal Awards</b>	40
<b><u>Additional Information</u></b>	41
Exhibit #13 Board Members and Administrative Personnel	42
Exhibit #14 Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	43
Exhibit #15 Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	45
Exhibit #16 Schedule of Findings and Questioned Costs	47

---





State of Alabama  
Department of  
**Examiners of Public Accounts**

P.O. Box 302251, Montgomery, AL 36130-2251  
50 North Ripley Street, Room 3201  
Montgomery, Alabama 36104-3833  
Telephone (334) 242-9200  
FAX (334) 242-1775

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, I submit this report on the Marion County Board of Education for the period October 1, 2003 through September 30, 2004.

**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 has 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). 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 items required by generally accepted government auditing standards and/or U. S. Office of Management and Budget (OMB) Circular A-133 for federal compliance audits:

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards** (Exhibit 14) – a report on internal control related to the financial statements and on whether the Board has 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 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 4 day of Oct, 2005.

Sheila Everett  
Notary Public

Respectfully submitted,

  
Gregory M. Terry  
Examiner of Public Accounts

rb

---

*This Page Intentionally Blank*

---

## *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, 2004, 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, 2004, 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 September 26, 2005 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 read in conjunction with this report in considering 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 performed 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

September 26, 2005

---

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

**Marion County Board of Education  
Management's Discussion and Analysis (MD&A)  
September 30, 2004  
(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, 2004. 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 be the first issued by the Marion County Board of Education to 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's 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 2003 As restated	FY 2004
Current and other assets	\$ 3,969,178.13	\$ 3,084,131.56
Capital Assets	<u>\$12,201,708.82</u>	<u>\$12,310,493.37</u>
Total assets	\$16,170,886.95	\$15,394,624.93
Current and other liabilities	\$ 2,869,498.88	\$ 2,388,109.50
Long-term liabilities	<u>\$ 3,100,723.61</u>	<u>\$ 3,138,285.86</u>
Total liabilities	\$ 5,970,222.49	\$ 5,526,395.36
Net assets:		
Invested in capital assets, net of related debt	\$ 8,954,746.61	\$ 9,264,652.75
Restricted	\$ 411,259.02	\$ 35,301.30
Non-restricted	<u>\$ 834,658.83</u>	<u>\$ 568,275.52</u>
Total Net Assets	\$10,200,664.46	\$ 9,868,229.57



The Marion County Board of Education's assets exceed liabilities by \$9,868,229.57 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 \$568,275.52.

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 2003	FY 2004
	As restated	
<b>Revenues</b>		
Program Revenues:		
Charges for services	\$ 2,954,950.19	\$ 2,686,977.70
Operating grants and contributions	\$ 19,193,165.58	\$17,575,154.55
Capital grants and contributions	\$ 913,802.62	\$ 857,409.00
General Revenues:		
Property taxes	\$ 252,844.97	\$ 1,015,292.39
Sales tax	\$ 392,760.82	\$ 1,120,226.83
Miscellaneous taxes	\$ 21,566.00	\$ 126,456.40
Non-restricted grants	\$ 305,148.15	\$ 124,848.21
Interest	\$ 30,334.79	\$ 15,832.72
Miscellaneous	<u>\$ 123,235.57</u>	<u>\$ 747,486.13</u>
Total Revenues	\$ 24,187,808.69	\$24,269,683.93
<b>Expenses</b>		
Instructional services	\$ 14,819,622.08	\$14,582,270.27
Instructional support services	\$ 2,989,795.59	\$ 3,270,628.76
Operations & maintenance services	\$ 1,352,106.39	\$ 1,668,520.40
Student transportation services	\$ 1,517,511.31	\$ 1,650,880.41
Food services	\$ 1,453,963.13	\$ 1,528,188.38
General administrative services	\$ 1,033,539.41	\$ 884,797.40
Interest and fiscal charges	\$ 238,303.97	\$ 174,635.52
Other expenses	\$ 822,524.52	<u>\$ 842,197.68</u>
Total expenses	\$ 24,227,366.40	\$24,602,118.82
Change in net assets	(\$ 39,557.71)	(\$ 332,434.89)
Net assets, beginning	\$ 10,240,222.17	\$10,200,664.46
Net assets, ending	\$ 10,200,664.46	\$ 9,868,229.57

Program revenues are the largest component of total revenues (87%).

- Operating grants and contributions contribute 83% of program revenues and 72% 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.
- Charges for services include USDA reimbursements for meals served, lunch and breakfast sales, and local school revenues.

General revenues of \$3,150,142.68 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 59% 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, 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 \$685,141.38.

**General Fund** – The General Fund is the primary operating fund of the Board. During Fiscal Year 2004, expenditures in the General Fund exceeded revenues by \$397,070.02. The General Fund balance decreased by \$414,816.65 primarily due to the Board's legal obligation to transfer enough funds to the Child Nutrition Program to cover that program's payroll fringe benefits and all raises since FY 1992.

**Child Nutrition Program Fund** – This fund accounts for all transactions related to student meal services with the exception of lunchroom building repairs and construction. FY 2004 expenditures, including all payroll expenditures, exceeded program revenues, primarily meal sales and USDA reimbursements, by \$381,028.39. This deficiency was then offset by the General Fund transfer of \$451,942.53 to cover CNP payroll fringes and raises as described above. The net effect of operations and the transfer in from the General Fund was to increase the CNP fund balance by \$72,172.09.

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 FY 2004 were \$623,952.64 while liabilities were zero. Total revenues exceeded total expenditures by \$225,323.76 and the Local Schools Fund balance increased by \$53,109.76.

### Capital Asset and Debt Administration

**Capital Assets** – As of September 30, 2004 the Marion County Board of Education had invested \$12,310,493.37 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, 2004

	FY 2003 As restated	FY 2004
Land	\$ 223,160.50	\$ 223,160.50
Land Improvements	\$ 105,784.67	\$ 105,784.67
Construction in Progress	\$ 645,096.07	\$ 588,229.15
Buildings and Building Improvements	\$19,386,656.42	\$20,228,432.80
Equipment and Furniture	\$ 3,181,677.35	\$ 3,199,632.18
Less: Accumulated Depreciation	\$11,340,666.19	\$12,034,745.93
Total Capital Assets, Net of Depreciation	\$12,201,708.82	\$12,310,493.37

FY 2004 highlights include the following major capital projects:

- Dedication and final completion of the Hamilton Elementary multi-purpose building occurred during FY 2004.
- Additional renovations were completed at the main building of Guin Elementary and the main elementary building at Hackleburg School.
- New elementary physical education buildings were started at both Hackleburg School and Brilliant Elementary School. The estimated project completion date is January 2005.
- The Marion County High School agriscience building was completed during FY 2004.
- New bleachers were installed in the Hamilton High School Auditorium.

**Long-Term Debt** – At year-end, the Marion County Board of Education had \$3,138,285.86 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, 2004**

<u>Description</u>	<u>FY 2003 Debt outstanding</u>	<u>FY 2004 Debt outstanding</u>	<u>Due within within one year</u>
1994 Bonds	\$1,025,000.00	\$ 840,000.00	\$ 195,000.00
2001A Leveraged Pool Bonds	\$ 172,584.50	\$ 166,481.12	\$ 6,381.71
2002A Leveraged Pool Bonds	\$1,228,976.54	\$1,187,979.17	\$ 42,719.40
Long-Term Notes *	\$1,196,006.16	\$ 901,421.58	\$ 308,203.71
Compensated Absences	<u>\$</u>	<u>\$ 42,403.99</u>	<u>\$ 42,403.99</u>
Total	\$3,622,567.20	\$3,138,285.86	\$ 594,708.81

\* 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 2004 fiscal year budget was adopted by the Marion County Board of Education on October 14, 2003 and the amended budget was approved by the Board on June 30, 2004. 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 Instructional Support, Operations/Maintenance, and Student Transportation. Actual State, Federal, and Local revenues were slightly higher than budgeted. The actual net change in fund balances for FY 2004 was a reduction of \$153,241.81 which was slightly better than the final budgeted reduction of \$203,409.00.

## 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 2005.

- Several employee fringe benefit costs are going to increase in FY 2005. Employer retirement costs will increase from 6.56% to 7.03% of gross payroll and annual employer health insurance costs will rise almost 22% from \$5,748.00 to \$6,996.00 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.

<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(preliminary)	3,668.98	(108.30)

- The largest single source of local funds, sales tax, increased in FY 2004 ending a four-year decline. Continued sales tax instability coupled with less than 10 mills of local property tax could eventually affect participation in the State Foundation Program and the Board's ability to acquire outside financing.

<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

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

- A settlement in the 16<sup>th</sup> Section Land Fund lawsuit is expected some time during the next fiscal year. The Marion County Board of Education is a member of the class action lawsuit filed by the Covington County Board of Education against the State of Alabama. The Board's share of settlement funds has been estimated at approximately \$950,000.00.

## **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 Bravell Jackson, Superintendent, or 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.

---

*This Page Intentionally Blank*

---



***Statement of Net Assets***  
***September 30, 2004***

	<b>Governmental Activities</b>
<b><u>Assets</u></b>	
Cash	\$ 1,541,219.01
Investments	43,042.41
Receivables (Note 4)	625,842.43
Ad Valorem Taxes Receivable, Net	735,730.31
Accrued Interest Receivable	80.79
Inventories	48,320.45
Restricted Cash	35,301.30
Restricted Cash With Fiscal Agent	54,594.86
Capital Assets (Note 5):	
Nondepreciable	811,389.65
Depreciable, Net	<u>11,499,103.72</u>
 Total Assets	 <u>15,394,624.93</u>
<b><u>Liabilities</u></b>	
Due to Other Governments	8,691.98
Deferred Revenue	810,324.06
Salaries and Benefits Payable	1,537,570.15
Accrued Interest Payable	31,523.31
Long-Term Liabilities:	
Portion Due or Payable Within One Year:	
Notes Payable	308,203.71
Warrants Payable	244,101.11
Estimated Liability for Compensated Absences	42,403.99
Portion Due or Payable After One Year:	
Notes Payable	593,217.87
Warrants Payable	<u>1,950,359.18</u>
 Total Liabilities	 <u>5,526,395.36</u>
<b><u>Net Assets</u></b>	
Invested in Capital Assets, Net of Related Debt	9,264,652.75
Restricted for:	
Capital Projects	35,301.30
Unrestricted	<u>568,275.52</u>
 Total Net Assets	 <u>\$ 9,868,229.57</u>

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

***Statement of Activities***  
***For the Year Ended September 30, 2004***

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>	
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>
<b><u>Governmental Activities</u></b>			
Instruction	\$ 14,582,270.27	\$ 541,044.85	\$ 12,390,140.65
Instructional Support	3,270,628.76	207,229.98	2,611,662.47
Operation and Maintenance	1,668,520.40	222,874.07	603,975.82
Auxiliary Services:			
Student Transportation	1,650,880.41	4,518.01	1,157,043.94
Food Services	1,528,188.38	1,221,324.60	70,160.84
General Administration and Central Support	884,797.40		584,362.63
Other	842,197.68	489,986.19	157,808.20
Interest and Fiscal Charges	174,635.52		
Total Governmental Activities	<u>\$ 24,602,118.82</u>	<u>\$ 2,686,977.70</u>	<u>\$ 17,575,154.55</u>

**General Revenues**

Taxes:

    Property Taxes for General Purposes

    Local Sales Tax

    Other Taxes

Grants and Contributions not Restricted for

    Specific Programs

Investment Earnings

Miscellaneous

    Total General Revenues

Change in Net Assets

Net Assets - Beginning of Year, as Restated (Note 12)

Net Assets - End of Year

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

		<b>Net (Expenses) Revenues and Changes in Net Assets</b>	
<b>Capital Grants and Contributions</b>		<b>Total Governmental Activities</b>	
\$	572,625.48	\$	(1,078,459.29)
			(451,736.31)
	94,465.88		(747,204.63)
			(299,000.82)
	190,317.64		(236,702.94)
			(300,434.77)
			(194,403.29)
			(174,635.52)
<b>\$</b>	<b>857,409.00</b>		<b>(3,482,577.57)</b>
			1,015,292.39
			1,120,226.83
			126,456.40
			124,848.21
			15,832.72
			747,486.13
			<u>3,150,142.68</u>
			(332,434.89)
			<u>10,200,664.46</u>
		<b>\$</b>	<b><u>9,868,229.57</u></b>

***Balance Sheet***  
***Governmental Funds***  
***September 30, 2004***

	<b>General Fund</b>	<b>Child Nutrition Program Fund</b>
<b><u>Assets</u></b>		
Cash	\$ 726,551.05	\$ 488,579.98
Cash With Fiscal Agent		
Investments		
Receivables (Note 4)	97,342.38	86,135.34
Ad Valorem Taxes Receivables, Net	735,730.31	
Accrued Interest Receivable		
Inventories		48,320.45
Total Assets	1,559,623.74	623,035.77
<b><u>Liabilities and Fund Balances</u></b>		
<b><u>Liabilities</u></b>		
Cash Deficit		
Due to Other Governments	8,684.02	7.96
Deferred Revenues	794,108.86	
Salaries and Benefits Payable	1,481,815.97	55,754.18
Estimated Liability for Compensated Absences	42,403.99	
Total Liabilities	2,327,012.84	55,762.14
<b><u>Fund Balances</u></b>		
Reserved for:		
Inventories		48,320.45
Debt Service		
Capital Projects		
Unreserved: Reported in:		
General Fund	(767,389.10)	
Special Revenue Funds		518,953.18
Total Fund Balances	(767,389.10)	567,273.63
Total Liabilities and Fund Balances	\$ 1,559,623.74	\$ 623,035.77

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

<b>Local School Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 580,829.44	\$ 206,709.35	\$ 2,002,669.82
	54,594.86	54,594.86
43,042.41		43,042.41
	442,364.71	625,842.43
		735,730.31
80.79		80.79
		48,320.45
<u>623,952.64</u>	<u>703,668.92</u>	<u>3,510,281.07</u>
	426,149.51	426,149.51
		8,691.98
	16,215.20	810,324.06
		1,537,570.15
		42,403.99
	<u>442,364.71</u>	<u>2,825,139.69</u>
		48,320.45
	4,553.61	4,553.61
	85,342.55	85,342.55
		(767,389.10)
<u>623,952.64</u>	<u>171,408.05</u>	<u>1,314,313.87</u>
<u>623,952.64</u>	<u>261,304.21</u>	<u>685,141.38</u>
<u>\$ 623,952.64</u>	<u>\$ 703,668.92</u>	<u>\$ 3,510,281.07</u>

---

*This Page Intentionally Blank*

---

***Reconciliation of the Balance Sheet of Governmental Funds to the  
Statement of Net Assets  
September 30, 2004***

Total Fund Balances - Governmental Funds (Exhibit 3) \$ 685,141.38

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

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

The Cost of Capital Assets is	\$ 24,345,239.30	
Accumulated Depreciation is	(12,034,745.93)	
Total		12,310,493.37

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	552,304.82	
Noncurrent Portion of Long-Term Debt	2,543,577.05	
Total		(3,095,881.87)

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

Accrued Interest Payable	\$ 31,523.31	
Total		(31,523.31)

Total Net Assets - Governmental Activities (Exhibit 1) \$ 9,868,229.57

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, 2004***

	General Fund	Child Nutrition Program Fund
<b><u>Revenues</u></b>		
State	\$ 15,608,325.91	\$ 3.07
Federal	12,631.31	772,689.54
Local	2,222,271.10	558,023.83
Other		39,631.78
Total Revenues	<u>17,843,228.32</u>	<u>1,370,348.22</u>
<b><u>Expenditures</u></b>		
Current:		
Instruction	12,200,767.96	
Instructional Support	2,695,848.65	
Operation and Maintenance	1,147,260.76	94,644.93
Auxiliary Services:		
Student Transportation	1,370,899.56	
Food Services		1,642,798.26
General Administration and Central Support	693,761.75	
Other	116,476.91	
Capital Outlay		13,933.42
Debt Service:		
Principal Retirement		
Interest and Fiscal Charges	15,282.75	
Total Expenditures	<u>18,240,298.34</u>	<u>1,751,376.61</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(397,070.02)</u>	<u>(381,028.39)</u>
<b><u>Other Financing Sources (Uses)</u></b>		
Indirect Cost	165,405.25	
Transfers In	242,633.14	451,942.53
Other Financing Sources	75,328.31	1,257.95
Sale of Capital Assets	725.00	
Transfers Out	(501,838.33)	
Total Other Financing Sources (Uses)	<u>(17,746.63)</u>	<u>453,200.48</u>
Net Change in Fund Balances	(414,816.65)	72,172.09
Fund Balances - Beginning of Year	<u>(352,572.45)</u>	<u>495,101.54</u>
Fund Balances - End of Year	<u>\$ (767,389.10)</u>	<u>\$ 567,273.63</u>

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



<b>Local School Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$	\$	\$
	857,409.00	16,465,737.98
	1,891,292.60	2,676,613.45
1,681,894.84	518,973.06	4,981,162.83
		39,631.78
<u>1,681,894.84</u>	<u>3,267,674.66</u>	<u>24,163,146.04</u>
547,367.31	1,449,297.96	14,197,433.23
221,267.67	351,588.68	3,268,705.00
165,397.13	199,675.83	1,606,978.65
3,077.68	15,975.47	1,389,952.71
		1,642,798.26
	206,289.53	900,051.28
508,187.29	217,533.48	842,197.68
11,274.00	799,073.87	824,281.29
	526,685.33	526,685.33
	165,283.04	180,565.79
<u>1,456,571.08</u>	<u>3,931,403.19</u>	<u>25,379,649.22</u>
<u>225,323.76</u>	<u>(663,728.53)</u>	<u>(1,216,503.18)</u>
		165,405.25
385,450.22	7,985.68	1,088,011.57
		76,586.26
		725.00
<u>(557,664.22)</u>	<u>(28,509.02)</u>	<u>(1,088,011.57)</u>
<u>(172,214.00)</u>	<u>(20,523.34)</u>	<u>242,716.51</u>
53,109.76	(684,251.87)	(973,786.67)
570,842.88	945,556.08	1,658,928.05
<u>\$ 623,952.64</u>	<u>\$ 261,304.21</u>	<u>\$ 685,141.38</u>

---

*This Page Intentionally Blank*

---

***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, 2004***

Net Changes in Fund Balances - Total Governmental Funds (Exhibit 5) \$ (973,786.67)

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	\$ 824,281.29	
Depreciation Expense	(741,469.01)	
Total		82,812.28

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. 526,685.33

In the Statement of Activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. The change in net assets differs from the change in fund balances this amount.

Sale of Capital Assets	(725.00)	
Loss on Disposition of Capital Assets	(3,302.73)	
Total		(4,027.73)

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)	(5,930.27)	
Total		5,930.27

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

Accrued Interest Receivable, Current Year Increase/(Decrease)	(48.37)	
Donated Assets	\$ 30,000.00	
Total		29,951.63

Change in Net Assets of Governmental Activities (Exhibit 2) \$ (332,434.89)

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

---

***Statement of Fiduciary Net Assets***  
***Fiduciary Funds***  
***September 30, 2004***

---

	<b>Private-Purpose Trust Funds</b>
<b><u>Assets</u></b>	
Investments	\$ 15,574.54
Total Assets	<u>15,574.54</u>
<b><u>Net Assets</u></b>	
Held in Trust for Other Purposes	15,574.54
Total Net Assets	<u>\$ 15,574.54</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, 2004***

	<b>Private-Purpose Trust Funds</b>
<hr/>	
<b><u>Additions</u></b>	
Interest	\$ 194.35
Total Additions	<u>194.35</u>
<b><u>Deductions</u></b>	
Scholarships	<u>1,085.00</u>
Total Deductions	<u>1,085.00</u>
Change in Net Assets	(890.65)
Net Assets - Beginning of Year	<u>16,465.19</u>
Net Assets - End of Year	<u>\$ 15,574.54</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, 2004*

---

---

#### *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.

In June 1999, the GASB approved Statement Number 34, *Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments* (hereinafter referred to as the “Statement”). This Statement provides for significant changes in financial reporting for state and local governments. Some of the significant changes include:

- ◆ A Management Discussion and Analysis (MD&A) section providing an analysis of the Board’s overall financial position and results of operations.
- ◆ Government-wide financial statements prepared using full accrual accounting.
- ◆ Reporting infrastructure assets (roads, bridges, etc.).
- ◆ Recording of depreciation expense on all capital assets.
- ◆ A change in the fund financial statements to focus on major funds.
- ◆ Budget comparison schedules, containing the original budget and amended final budget, for the general fund and each major special revenue fund.

These and other changes are reflected in the accompanying government-wide and fund financial statements (including the notes to the financial statements). The Marion County Board of Education implemented the provisions of the Statement in the 2002-2003 fiscal year. The Board is required to retroactively report infrastructure (assets acquired prior to October 1, 2002) by or before the fiscal year ending September 30, 2007. The Board does not have infrastructure assets.

#### *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.

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).

---

---

## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2004*

---

---

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.

##### **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.

---

---

***Notes to the Financial Statements***  
***For the Year Ended September 30, 2004***

---

---

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 reimbursements or meals provided by the National School Lunch Program.
- ◆ **Local School Fund** - This fund is used to account for the revenues and expenditures of individual schools within the system.

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

**Governmental Fund Types:**

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

The Board reports the following fiduciary fund type:

**Fiduciary Fund Type**

- ◆ **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.



---

---

## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2004*

---

---

#### **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.

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

##### **1. Deposits and Investments**

Cash includes cash on hand and demand deposits.

---

---

***Notes to the Financial Statements***  
***For the Year Ended September 30, 2004***

---

---

Investments are reported at cost.

**2. Receivables**

All ad valorem tax and sales tax receivables are shown net of an allowance for uncollectibles. 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.

**5. Capital Assets**

Capital assets, which include property, equipment, and infrastructure assets (e.g., roads, bridges and similar items), 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.

---

---

***Notes to the Financial Statements***  
***For the Year Ended September 30, 2004***

---

---

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

GASB Statement Number 34 requires the Board to report and depreciate new infrastructure assets effective with the beginning of fiscal year 2003. Neither infrastructure assets nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is subject to an extended implementation period of up to four years. The Board is required to retroactively report its infrastructure built or acquired since June 30, 1980, at the beginning of fiscal year 2007. The Board does not have infrastructure assets.

**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.

**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 one day vacation leave per month. Unused leave days may be carried over to the next year.

As of September 30, 2004, the liability for accrued vacation leave is approximately \$42,403.99, which is reported as current.

---

---

## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2004*

---

---

#### **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**

##### **Budgets**

Annual budgets are adopted for all governmental funds except the capital projects funds, which adopt project-length budgets and the permanent fund, which is not budgeted. 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.

---

## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2004*

---

#### Note 3 - Deposits and Investments

##### Deposits

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.

##### Investments

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, 2004, receivables for the Board's individual major funds and nonmajor and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Child Nutrition Program Fund	Other Governmental Funds	Total
<u>Receivables:</u>				
Sales Tax	\$97,342.38	\$	\$	\$ 97,342.38
Due from Other Governments		86,135.34	442,364.71	528,500.05
Total Receivables	<u>\$97,342.38</u>	<u>\$86,135.34</u>	<u>\$442,364.71</u>	<u>\$625,842.43</u>

## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2004*

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, 2004, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Ad Valorem Property Taxes Receivable	\$715,325.23	\$
Ad Valorem Motor Vehicle Taxes Receivable		78,783.63
Grant Draw Downs Prior to Meeting all Eligibility Requirements		16,215.20
<b>Total Deferred Revenue for Governmental Funds</b>	<b>\$715,325.23</b>	<b>\$94,998.83</b>

#### Note 5 - Capital Assets

Capital asset activity for the year ended September 30, 2004, was as follows:

	Balance 10/01/2003 as Restated (*)	Additions	Retirements	Balance 9/30/2004
<b>Governmental Activities:</b>				
<b>Capital Assets, Not Being Depreciated:</b>				
Land	\$ 223,160.50	\$	\$	\$ 223,160.50
Construction in Progress	645,096.07	588,229.15	(645,096.07)	588,229.15
<b>Total Capital Assets, Not Being Depreciated</b>	<b>868,256.57</b>	<b>588,229.15</b>	<b>(645,096.07)</b>	<b>811,389.65</b>
<b>Capital Assets Being Depreciated:</b>				
Land Improvements - Exhaustible	105,784.67			105,784.67
Buildings and Building Improvements	19,386,656.42	841,776.38		20,228,432.80
Equipment and Furniture	3,181,677.35	69,371.83	(51,417.00)	3,199,632.18
<b>Total Capital Assets Being Depreciated</b>	<b>22,674,118.44</b>	<b>911,148.21</b>	<b>(51,417.00)</b>	<b>23,533,849.65</b>
<b>Less Accumulated Depreciation for:</b>				
Land Improvement	(36,535.62)	(5,289.24)		(41,824.86)
Buildings and Building Improvements	(9,575,760.96)	(428,478.76)		(10,004,239.72)
Equipment and Furniture	(1,728,369.61)	(307,701.01)	47,389.27	(1,988,681.35)
<b>Total Accumulated Depreciation</b>	<b>(11,340,666.19)</b>	<b>(741,469.01)</b>	<b>47,389.27</b>	<b>(12,034,745.93)</b>
<b>Total Capital Assets, Being Depreciated, Net</b>	<b>11,333,452.25</b>	<b>169,679.20</b>	<b>4,027.73</b>	<b>11,499,103.72</b>
<b>Total Governmental Activities Capital Assets, Net</b>	<b>\$ 12,201,708.82</b>	<b>\$ 757,908.35</b>	<b>\$ 649,123.80</b>	<b>\$ 12,310,493.37</b>
(*) Restated to include correct accumulated depreciation \$7,783.59 and to reclassify Construction in Progress.				

---

***Notes to the Financial Statements***  
***For the Year Ended September 30, 2004***

---

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

	Current Year Depreciation Expense
<u>Governmental Activities:</u>	
Instruction	\$384,837.04
Instructional Support	1,923.76
Operation and Maintenance	61,541.75
<u>Auxiliary Services:</u>	
Transportation	260,927.70
Food Service	28,359.86
General Administration and Central Support	3,878.90
Total Depreciation Expense - Governmental Activities	<u>\$741,469.01</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, 2004***

---



---

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,	2004	2003	2002
Total Percentage of Covered Payroll	11.56%	10.02%	10.96%
<b>Contributions:</b>			
Percentage Contributed by the Board	6.56%	5.02%	5.96%
Percentage Contributed by the Employees	5.00%	5.00%	5.00%
Contributed by the Board	\$ 914,378.49	\$ 703,911.94	\$ 815,231.84
Contributed by the Employees	696,936.84	701,104.28	672,058.12
Total Contributions	<u>\$1,611,315.33</u>	<u>\$1,405,016.22</u>	<u>\$1,487,289.96</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 \$905,958.70 for fiscal year 2004. 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, 2004*

---

#### Note 8 - Long-Term Debt

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, 2004:

	Debt Outstanding 10/01/2003	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 09/30/2004	Amounts Due Within One Year
<b>Governmental Activities:</b>					
<b>Warrants:</b>					
Series 1994 Special School Tax Refunding Warrants	\$1,025,000.00	\$	\$185,000.00	\$ 840,000.00	\$195,000.00
Series 2001-A Capital Improvement Pool Bonds	172,584.50		6,103.38	166,481.12	6,381.71
Series 2002-A Capital Improvement Pool Bonds	1,228,976.54		40,997.37	1,187,979.17	42,719.40
Total Warrants	2,426,561.04		232,100.75	2,194,460.29	244,101.11
<b>Other Liabilities:</b>					
Long-Term Notes Payable	1,196,006.16		294,584.58	901,421.58	308,203.71
Compensated Absences		42,403.99		42,403.99	42,403.99
Total Governmental Activities Long-Term Liabilities	\$3,622,567.20	\$42,403.99	\$526,685.33	\$3,138,285.86	\$594,708.81

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 compensated absences liability is being liquidated by the General Fund.

---

***Notes to the Financial Statements***  
***For the Year Ended September 30, 2004***

---

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, 2005	\$195,000.00	\$ 44,350.00	\$308,203.71	\$43,366.37
2006	205,000.00	34,307.50	324,294.95	28,161.08
2007	215,000.00	23,545.00	268,922.92	12,210.74
2008	225,000.00	12,150.00		
2009				
2010-2014				
2015-2019				
2020-2023				
Totals	<u>\$840,000.00</u>	<u>\$114,352.50</u>	<u>\$901,421.58</u>	<u>\$83,738.19</u>

**Note 9 - 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, 2004**

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	
\$ 6,381.71	\$ 8,454.06	\$ 42,719.40	\$ 57,236.80	\$ 705,712.05
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
44,990.06	28,824.58	296,459.44	203,336.53	573,610.61
58,349.91	15,052.78	380,640.01	119,115.51	573,158.21
27,882.70	1,411.29	278,469.42	21,355.20	329,118.61
<b>\$166,481.12</b>	<b>\$84,120.84</b>	<b>\$1,187,979.17</b>	<b>\$611,254.02</b>	<b>\$3,989,347.42</b>

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 10 - Interfund Transfers**

The amounts of interfund transfers during the fiscal year ending September 30, 2004, were as follows:

	Transfers Out			Total
	General Fund	Local School Fund	Other Governmental Funds	
<b>Transfers In</b>				
General Fund	\$	\$242,633.14	\$	\$ 242,633.14
Child Nutrition Program Fund	144,897.13	307,045.40		451,942.53
Local School Fund	356,941.20		28,509.02	385,450.22
Other Governmental Funds		7,985.68		7,985.68
<b>Totals</b>	<b>\$501,838.33</b>	<b>\$557,664.22</b>	<b>\$28,509.02</b>	<b>\$1,088,011.57</b>

The Board typically used transfers to fund ongoing operating subsidies, to recoup certain expenditures paid on-behalf of the local schools, and to transfer the portion from the general fund to the debt service funds to service current-year debt requirements.

---

***Notes to the Financial Statements***  
***For the Year Ended September 30, 2004***

---

**Note 11 - Deficit Cash Balances**

The following funds had deficit cash balances at September 30, 2004. However, these funds operate on a reimbursement basis and have receivables which offset the deficit cash balances.

Fund	Deficit Cash Balance	Receivable as of 9/30/2004
<b><u>Other Governmental Funds:</u></b>		
IDEA Part B	\$122,764.25	\$122,764.25
Preschool	6,387.65	6,387.65
IDEA Capacity Building	342.01	342.01
Basic Grant	29,051.83	29,051.83
Program Improvement	10,000.00	10,000.00
Title I, Part A	156,165.14	156,165.14
Title I, Part B	6,155.05	6,155.05
Title II, Part A	35,716.89	35,716.89
Title II, Part D	12,894.14	12,894.14
Title IV, Part A	7,212.75	7,212.75
Title V, Part A	6,819.49	6,819.49
Title VI	32,640.31	32,640.31
Total	<u>\$426,149.51</u>	<u>\$426,149.51</u>

**Note 12 - Restatements**

On October 1, 2003, the beginning net assets was restated to correct errors in depreciation on capital assets.

The impact of the restatement on the Net Asset balance as previously reported is as follows:

Net Assets, September 30, 2003, as Previously Reported	\$10,192,880.87
Restatement of Capital Assets	7,783.59
Governmental Activities Net Assets, September 30, 2003	<u>\$10,200,664.46</u>

---

---

***Notes to the Financial Statements***  
***For the Year Ended September 30, 2004***

---

---

**Note 13 - Subsequent Event**

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 20, 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. On January 24, 2005, the Board received its portion of the settlement in the amount of \$1,038,243.85.

---

*This Page Intentionally Blank*

---

---

*Required Supplementary Information*

***Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual - General Fund  
For the Year Ended September 30, 2004***

	Budgeted Amounts		Actual Amounts
	Original	Final	Budgetary Basis
<b><u>Revenues</u></b>			
State	\$ 15,587,970.00	\$ 15,587,970.00	\$ 15,608,325.91
Federal	5,800.00	5,800.00	12,631.31
Local	2,158,818.00	2,158,818.00	2,246,420.57
Total Revenues	<u>17,752,588.00</u>	<u>17,752,588.00</u>	<u>17,867,377.79</u>
<b><u>Expenditures</u></b>			
Current:			
Instruction	12,230,531.00	12,125,277.00	12,231,802.75
Instructional Support	2,445,054.00	2,441,422.00	2,517,671.60
Operation and Maintenance	982,459.00	1,081,770.00	1,125,204.29
Auxiliary Services:			
Student Transportation	1,220,835.00	1,227,558.00	1,308,215.87
Food Services		2,323.00	
General Administration and Central Support	670,724.00	671,824.00	693,761.75
Other	105,800.00	105,229.00	110,933.96
Capital Outlay	50,000.00	50,000.00	
Debt Service	15,283.00	15,283.00	15,282.75
Total Expenditures	<u>17,720,686.00</u>	<u>17,720,686.00</u>	<u>18,002,872.97</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>31,902.00</u>	<u>31,902.00</u>	<u>(135,495.18)</u>
<b><u>Other Financing Sources (Uses)</u></b>			
Indirect Cost	24,942.00	173,094.00	165,405.25
Transfers In			242,633.14
Other Financing Sources			75,328.31
Sale of Capital Assets			725.00
Transfers Out	(396,000.00)	(396,000.00)	(501,838.33)
Other Fund Uses	(12,405.00)	(12,405.00)	
Total Other Financing Sources (Uses)	<u>(383,463.00)</u>	<u>(235,311.00)</u>	<u>(17,746.63)</u>
Net Change in Fund Balances	(351,561.00)	(203,409.00)	(153,241.81)
Fund Balances - Beginning of Year	<u>788,716.00</u>	<u>788,716.00</u>	<u>869,260.63</u>
Fund Balances - End of Year	<u>\$ 437,155.00</u>	<u>\$ 585,307.00</u>	<u>\$ 716,018.82</u>



	<b>Budget to GAAP Differences</b>	<b>Actual Amounts GAAP Basis</b>
	\$	\$ 15,608,325.91
		12,631.31
(1)(2)	(24,149.47)	2,222,271.10
	(24,149.47)	17,843,228.32
(3)	31,034.79	12,200,767.96
(3)	(178,177.05)	2,695,848.65
(3)	(22,056.47)	1,147,260.76
(3)	(62,683.69)	1,370,899.56
		693,761.75
(3)	(5,542.95)	116,476.91
		15,282.75
	(237,425.37)	18,240,298.34
	(261,574.84)	(397,070.02)
		165,405.25
		242,633.14
		75,328.31
		725.00
		(501,838.33)
		(17,746.63)
	(261,574.84)	(414,816.65)
(4)	(1,221,833.08)	(352,572.45)
	\$ (1,483,407.92)	\$ (767,389.10)

---

***Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual - General Fund  
For the Year Ended September 30, 2004***

---

**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 Decrease 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.

---

---

\$ (21,314.27)

(2,835.20)

(237,425.37)

\$ (261,574.84)

***Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual - Child Nutrition Program Fund  
For the Year Ended September 30, 2004***

	Budgeted Amounts		Actual Amounts
	Original	Final	Budgetary Basis
<b>Revenues</b>			
State	\$	\$	\$ 3.07
Federal	524,100.00	583,750.00	772,689.54
Local	450,600.00	456,600.00	558,023.83
Other	30,000.00	37,700.00	39,631.78
Total Revenues	1,004,700.00	1,078,050.00	1,370,348.22
<b>Expenditures</b>			
Current:			
Operation and Maintenance	101,500.00	110,900.00	94,644.93
Auxiliary Services:			
Food Services	1,361,563.00	1,539,342.00	1,637,104.03
Capital Outlay			13,933.42
Total Expenditures	1,463,063.00	1,650,242.00	1,745,682.38
Excess (Deficiency) of Revenues Over Expenditures	(458,363.00)	(572,192.00)	(375,334.16)
<b>Other Financing Sources (Uses)</b>			
Transfers In	396,000.00	396,000.00	451,942.53
Other Financing Sources			1,257.95
Total Other Financing Sources (Uses)	396,000.00	396,000.00	453,200.48
Net Change in Fund Balances	(62,363.00)	(176,192.00)	77,866.32
Fund Balances - Beginning of Year	381,427.00	381,427.00	545,161.49
Fund Balances - End of Year	\$ 319,064.00	\$ 205,235.00	\$ 623,027.81

**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 Decrease 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.



	<b>Budget to GAAP Differences</b>	<b>Actual Amounts GAAP Basis</b>
	\$	\$ 3.07
		772,689.54
		558,023.83
		39,631.78
		<u>1,370,348.22</u>
		94,644.93
(1)	(5,694.23)	1,642,798.26
		13,933.42
	<u>(5,694.23)</u>	<u>1,751,376.61</u>
	(5,694.23)	(381,028.39)
		451,942.53
		1,257.95
		<u>453,200.48</u>
	(5,694.23)	72,172.09
(2)	<u>(50,059.95)</u>	<u>495,101.54</u>
	<u>\$ (55,754.18)</u>	<u>\$ 567,273.63</u>
	<u>\$ (5,694.23)</u>	
	<u>\$ (5,694.23)</u>	

***Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual - Local School Fund  
For the Year Ended September 30, 2004***

	Budgeted Amounts		Actual Amounts
	Original	Final	Budgetary Basis
<b><u>Revenues</u></b>			
Local	\$ 1,362,055.00	\$ 1,362,055.00	\$ 1,681,894.84
Total Revenues	1,362,055.00	1,362,055.00	1,681,894.84
<b><u>Expenditures</u></b>			
Current:			
Instruction	423,905.00	423,905.00	547,367.31
Instructional Support	158,700.00	158,700.00	221,267.67
Operation and Maintenance	98,525.00	98,525.00	165,397.13
Auxiliary Services:			
Student Transportation	2,050.00	2,050.00	3,077.68
Other	450,600.00	450,600.00	508,187.29
Capital Outlay			11,274.00
Debt Service	3,000.00	3,000.00	
Total Expenditures	1,136,780.00	1,136,780.00	1,456,571.08
Excess (Deficiency) of Revenues Over Expenditures	225,275.00	225,275.00	225,323.76
<b><u>Other Financing Sources (Uses)</u></b>			
Transfers In			385,450.22
Transfers Out			(557,664.22)
Total Other Financing Sources (Uses)			(172,214.00)
Net Change in Fund Balance	225,275.00	225,275.00	53,109.76
Fund Balances - Beginning of Year	522,269.00	522,269.00	570,842.88
Fund Balances - End of Year	\$ 747,544.00	\$ 747,544.00	\$ 623,952.64

<b>Budget to GAAP Differences</b>	<b>Actual Amounts GAAP Basis</b>
\$	\$ 1,681,894.84
	<u>1,681,894.84</u>
	547,367.31
	221,267.67
	165,397.13
	3,077.68
	508,187.29
	11,274.00
	<u>1,456,571.08</u>
	225,323.76
	385,450.22
	(557,664.22)
	<u>(172,214.00)</u>
	53,109.76
	<u>570,842.88</u>
\$	\$ 623,952.64

---

*This Page Intentionally Blank*

---



---

*Supplementary Information*

***Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2004***

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>
<b><u>U. S. Department of Education</u></b>	
<b><u>Direct Program</u></b>	
Impact Aid	84.041
<b><u>Passed Through Alabama Department of Education</u></b>	
Vocational Education - Basic Grants to States	84.048
Title I Grants to Local Educational Agencies	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 (M)	
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	
<b><u>U. S. Department of Agriculture</u></b>	
<b><u>Passed Through Alabama Department of Education</u></b>	
Child Nutrition Cluster:	
School Breakfast Program	10.553
National School Lunch Program	10.555
Sub-Total Child Nutrition Cluster (M)	
Food Donation (N)	10.550
Total U. S. Department of Agriculture	
<b><u>U. S. Department of Health and Human Services</u></b>	
<b><u>Passed Through Alabama Department of Education</u></b>	
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		
10/01/2003-09/30/2004	\$ 11,367.31	\$ 11,367.31	\$ 11,367.31	\$ 11,367.31
10/01/2003-09/30/2004	66,822.00	66,822.00	66,822.00	66,822.00
10/01/2003-09/30/2004	792,429.08	792,429.08	792,429.08	792,429.08
10/01/2003-09/30/2004	26,379.53	26,379.53	26,379.53	26,379.53
10/01/2003-09/30/2004	638,447.10	638,447.10	638,447.10	638,447.10
10/01/2003-09/30/2004	16,673.00	16,673.00	16,673.00	16,673.00
	655,120.10	655,120.10	655,120.10	655,120.10
10/01/2003-09/30/2004	92,565.48	92,565.48	92,565.48	92,565.48
10/01/2003-09/30/2004	206,597.93	206,597.93	206,597.93	206,597.93
10/01/2003-09/30/2004	23,759.70	23,759.70	23,759.70	23,759.70
10/01/2003-09/30/2004	27,618.78	27,618.78	27,618.78	27,618.78
	1,902,659.91	1,902,659.91	1,902,659.91	1,902,659.91
10/01/2003-09/30/2004	111,124.67	111,124.67	111,124.67	111,124.67
10/01/2003-09/30/2004	587,386.46	587,386.46	587,386.46	587,386.46
	698,511.13	698,511.13	698,511.13	698,511.13
10/01/2003-09/30/2004	74,178.41	74,178.41	74,178.41	74,178.41
	772,689.54	772,689.54	772,689.54	772,689.54
10/01/2003-09/30/2004	1,264.00	1,264.00	1,264.00	1,264.00
	\$ 2,676,613.45	\$ 2,676,613.45	\$ 2,676,613.45	\$ 2,676,613.45

---

---

***Notes to the Schedule of Expenditures  
of Federal Awards  
For the Year Ended September 30, 2004***

---

---

**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, 2003 through September 30, 2004***

---

---

<b>Board Members</b>			<b>Term Expires</b>
Hon. Hubert Junkin	Chairman	P. O. Box 750 Guin, AL 35563	2006
Hon. Glendon Gibbs	Vice Chairman	13785 State Highway 129 Brilliant, AL 35548	2006
Hon. Steve Pike	Member	2575 County Highway 79 Phil Campbell, AL 35581	2008
Hon. L. C. Fowler	Member	153 Red Ridge Drive Hamilton, AL 35570	2004
Hon. James Murray	Member	7130 County Highway 94 Hamilton, AL 35570	2004

**Administrative Personnel**

Hon. Bravell Jackson	Superintendent	479 North Riverside Drive Hamilton, AL 35570	2005
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, 2004, which collectively comprise the Board's basic financial statements and have issued our report thereon dated September 26, 2005. 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***

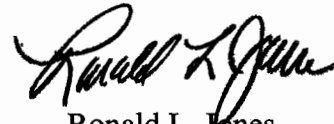
As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect 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

September 26, 2005



---

---

# ***Report on Compliance With Requirements Applicable to Each Major Program and 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, 2004. The Board’s major federal programs are identified in the Summary of Examiner’s Results Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the 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 each of its major federal programs for the year ended September 30, 2004.

## **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 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

September 26, 2005

***Schedule of Findings and Questioned Costs***  
***For the Year Ended September 30, 2004***

**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
10.553 and 10.555 84.027 and 84.173	Child Nutrition Cluster Special Education Cluster

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, 2004***

**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.	