

Report on the

Limestone County Board of Education

Limestone County, Alabama

October 1, 2002 Through September 30, 2003

Filed: May 7, 2004



Department of Examiners of Public Accounts

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Ronald L. Jones, Chief Examiner

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Ronald L. Jones
Chief Examiner

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

Dear Sir:

Under the authority of the *Code of Alabama 1975*, Section 41-5-14, we submit this report on the Limestone County Board of Education for the period October 1, 2002 through September 30, 2003.

SCOPE AND OBJECTIVES

This report encompasses an audit of the financial statements of the Limestone County Board of Education (the "Board") and a review of compliance by the Board with applicable laws and regulations of the State of Alabama and federal financial assistance programs. The audit was conducted in accordance with government auditing standards generally accepted in the United States of America for financial audits. The objectives of the audit were to determine whether the financial statements present fairly the financial position and results of financial operations and whether the Board 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 7), and notes to the financial statements.
5. **Required Supplementary Information** – includes Budget to Actual Comparisons (Exhibit 8) which contains supplementary information required by the Governmental Accounting Standards Board. The MD&A discussed above is also considered RSI.
6. **Supplementary Information** – includes the Schedule of Expenditures of Federal Awards (Exhibit 9), which details federal awards expended during the audit period and Notes to the Schedule of Expenditures of Federal Awards.
7. **Additional Information** – contains basic information related to the Board (Exhibit 10) and the following reports and items required by generally accepted government auditing standards and/or U. S. Office of Management and Budget (OMB) Circular A-133 for federal compliance audits:

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards (Exhibit 11) – a report on internal control related to the financial statements and on whether the Board 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 12) – a report on internal control over compliance with requirements of laws, regulations, contracts and grants applicable to major federal programs and an opinion on whether the Board complied with laws, regulations, and the provisions of contracts or grant agreements which could have a direct and material effect on each major program.

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

Summary Schedule of Prior Audit Findings (Exhibit 14) – a report, prepared by the Board, on the status of all audit findings included in the prior audit's Schedule of Findings and Questioned Costs relative to federal awards.

AUDIT COMMENTS

A governmental entity established by law, the Limestone County Board of Education provides a general public education to county students. The Board is composed of seven members who are elected by Limestone County citizens residing in the jurisdiction of the Limestone County School System.

Annual budgets were adopted and financial statements were submitted to the State Board of Education in accordance with the ***Code of Alabama 1975***, Section 16-6B-4.

SUMMARY OF FEDERAL COMPLIANCE AND FEDERAL INTERNAL CONTROL

As indicated in the report on compliance and internal control over compliance with requirements applicable to the Board's major federal programs, the Board complied, in all material respects, with those requirements. No material weaknesses were noted in the internal control over compliance and its operation with respect to major federal programs.

STATUS OF PRIOR AUDIT

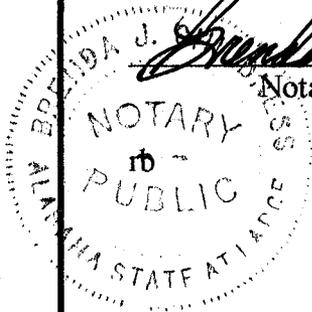
Findings contained in the last audit appear to have been substantially corrected.

Sworn to and subscribed before me this
the 17th day of April, 2004.

Stephen A. Satterle
Notary Public

Sworn to and subscribed before me this
the 20 day of April, 2004.

Shirley J. Childress
Notary Public up 01-08-2005



Respectfully submitted,

Richard L. Camp
Richard L. Camp
Examiner of Public Accounts

Harriet G. Haughton

Harriet G. Haughton
Examiner of Public Accounts

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 Limestone County Board of Education (the "Board"), as of and for the year ended September 30, 2003, which collectively comprise the Board's basic financial statements as listed in the table of contents as Exhibits 1 through 7. These financial statements are the responsibility of the Limestone 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.

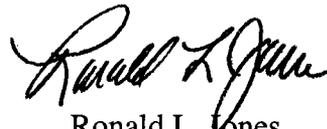
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Limestone County Board of Education, as of September 30, 2003, and 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.

As described in Note 1 to the financial statements, the Limestone County Board of Education has implemented a new reporting model as required by the provisions of Governmental Accounting Standards Board (GASB) Statement Number 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement Number 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and GASB Statement Number 38, *Certain Financial Statement Note Disclosures*. This resulted in a change in the format and content of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2004 on our consideration of the Limestone 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 grants. 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 Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Exhibit 8) are not a required part 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 Limestone County Board of Education's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 9) as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

March 19, 2004

Management's Discussion and Analysis
(Required Supplementary Information)

LIMESTONE COUNTY BOARD OF EDUCATION

Management's Discussion and Analysis (MD&A) September 30, 2003

Our discussion and analysis of the Limestone 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, 2003. Please read in conjunction with the Board's financial statements and notes to the financial statements, which immediately follow this analysis.

The Management's Discussion and Analysis (MD&A) is an element of the 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 June 1999. Certain comparative information between the current fiscal year and the prior year is required to be presented in the MD&A. However, because this is the first year of implementing the new reporting model contained in GASB Statement No. 34, and the Statement permits the omission of prior year comparative data in the year of implementation, the Board has elected not to present comparative data due to the time and cost of restating the prior year's financial statement data to comply with the new reporting model requirements. Subsequent reports, however, will include the comparative information.

Financial Highlights: Significant Items to Note

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

- The assets of the Board exceeded its liabilities at the close of the 2003 fiscal year by \$26.47 million. Of this amount \$5.88 million (unrestricted net assets) may be used to meet the Board's future costs of operations.
- The total cost of the Board's programs for the year was \$56.55 million. After taking away the portion of these costs paid for with Program Revenues (Charges for Services, Operating and Capital Grants and Contributions) the net cost that required funding from Limestone County taxpayers was \$13.88 million. The state's Foundation Program provided \$30.60 million towards the cost of programs. The Foundation Program requires a 10 mill equivalency local match that is derived from locally collected ad valorem and sales taxes. This amount for the year was \$1.99 million.
- The Board completed and opened Cedar Hill Elementary, a K-5 school, in August 2003. The Board also completed additions and renovations to several of the system's schools. Capital outlays for the year were \$9.63 million, most of which were spent on the above-mentioned projects as well as furniture, fixtures, and equipment placed in the new elementary school and other additions to existing schools.
- In June 2003, the Board purchased five new buses through a capital lease. The Board will pay retire the lease using funds received through the state's fleet renewal program. For the current year the Board received \$4,243 per qualifying bus.

LIMESTONE COUNTY BOARD OF EDUCATION

Management's Discussion and Analysis (MD&A)

September 30, 2003

Using the Financial Statements – An Overview for the User

As a result of the implementation of the new GASB 34 reporting model, the financial section of this year's annual report for the Board takes on a new and different look from the presentations in the past. The financial section now consists of five parts – *Management's Discussion and Analysis* (this section), *the Independent Auditors' Report*, *the Basic Financial Statements*, *Required Supplemental Information*, and *Other Supplemental Information*.

The Board's new basic financial statements are comprised of three components: 1) *Government-wide Financial Statements*, 2) *Fund Financial Statements*, and 3) *Notes to the Basic Financial Statements*.

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

- Instruction includes teacher salaries and benefits, teacher aides, substitute teachers, textbooks, depreciation of instructional buildings, professional development, and classroom instructional materials, supplies and equipment.
- Instructional support includes salaries and benefits for school principals, assistant principals, librarians, counselors, school secretaries, school bookkeepers, speech therapists, and school nurses, and professional development expenses.
- Operation and maintenance includes utilities, security services, janitorial services, maintenance services, and depreciation of maintenance vehicles.
- Auxiliary services includes student transportation expenses, such as bus driver salaries and benefits, mechanics, bus aides, vehicle maintenance and repair expenses, vehicle fuel, depreciation of buses and bus shops, fleet insurance; and food service expenses such as lunchroom managers, cooks, cashiers and servers' salaries and benefits as well as donated and purchased food, food preparation and service supplies, kitchen and lunchroom equipment and depreciation of food service equipment and facilities.

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Management's Discussion and Analysis (MD&A)

September 30, 2003

- General administration and central support includes salaries and benefits for the superintendent, assistants, clerical and financial staff, and other personnel that provide system-wide support for the schools. Also included are legal expenses, liability insurance, training for board members and general administrative staff, printing costs, and depreciation of central office equipment and facilities.
- Interest and fiscal charges include interest, but not principal payments, on long-term debt issues and other expenses related to the issuance and continuance of debt issues.
- Other includes the salaries and benefits for adult and continuing education teachers, preschool teachers and aides, extended day personnel, and community education instructors. Also included are the materials, supplies, equipment, related depreciation, and other expenses for operating programs outside of those for educating students in the kindergarten through 12th grade instructional programs.

Government-wide Statements report the capitalization of capital assets and depreciation of all exhaustible capital assets and the outstanding balances of long-term debt and other obligations, which has not been the case in the past. These statements report all assets and liabilities perpetuated by these activities using the accrual basis of accounting. The accrual basis takes into account all of the Board's current year revenues and expenses regardless of when received or paid. This approach moves the financial reporting method for governmental entities closer to the financial reporting methods used in the private sector. The following *government-wide financial statements* report on all of the governmental activities of the Board as a whole.

The *Statement of Net Assets* (Exhibit # 1) is most closely related to a balance sheet. It presents information on all of the board's assets (what it owns) and liabilities (what it owes), with the difference between the two reported 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 or decreases in net assets reported in this statement may serve as a useful indicator of whether the financial position of the school board is improving or deteriorating.

The *Statement of Activities* (Exhibit # 2) is most closely related to an income statement. It presents information showing how the Board's net assets changed during the current fiscal year only. All of the current year's revenues and expenses are accounted for in the *Statement of Activities* regardless of when cash is received or paid. This statement shows gross expenses and offsetting program revenues to arrive at net cost information for each major expense function or activity of the Board. By showing the change in net assets for the year, the reader may be able to determine whether the Board's financial position has improved or deteriorated over the course of the current fiscal year. The change in net assets may be financial or non-financial in nature. Non-financial factors

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Management's Discussion and Analysis (MD&A)
September 30, 2003

which may have an impact on the Board's financial condition include: age and condition of facilities, mandated educational programs for which little or no funding is provided, and increases or decreases in funding from state and federal governments, to name a few.

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

Governmental Funds - Governmental *Fund Financial Statements* begin in Exhibit #3. These statements account for basically the same governmental activities reported in the *Government-wide Financial Statements*. Until now, fund information has been reported in the aggregate by type of fund. As required under the new reporting model, the new *Fund Financial Statements* presented herein display information on each of the Board's most important governmental funds or *major funds*. This is required in order to better assess the Board's accountability for significant governmental programs or certain dedicated revenue. The Board's *major funds* are the General Fund and the Capital Projects Fund.

The *Fund Financial Statements* are still measured on the modified-accrual basis of accounting as reported in the previous fiscal years, where revenues and expenditures are recorded when they become measurable and available. As a result, the *Fund Financial Statements* focus more on the near term use and availability of spendable resources. The information provided in these statements is useful in determining the Board's immediate financial needs. This is in contrast to the accrual-based *Government-wide Financial Statements* which focus more on overall long-term availability of spendable resources. The relationship between governmental activities reported in the *Government-wide Financial Statements* and the governmental funds reported in the *Fund Financial Statements* are reconciled in Exhibit #4 and Exhibit #6 of these financial statements. These reconciliations are useful to readers in understanding the long-term impact of the Board's short-term financing decisions.

Fiduciary funds – The Board can serve as trustee, or fiduciary, for some of its booster and parent organization activity funds, which are under the control and administration of its schools. Fiduciary funds also include the balances of agency funds, such as accounts payable clearing and payroll clearing funds. The Board had a small amount of activity as presented in Exhibit #7. 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 intended purposes.

Notes to the Basic Financial Statements - The *Notes to the Basic Financial Statements* provide additional information that is essential for the statements to fairly represent the

LIMESTONE COUNTY BOARD OF EDUCATION

Management's Discussion and Analysis (MD&A)
September 30, 2003

Board's financial position and its operations. The notes contain important information that is not part of the basic financial statements. However, the notes are an integral part of the statements, not an appendage to them. The *Notes to the Basic Financial Statements* begin immediately following the financial statements.

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

Financial Analysis of the Board as a Whole

As indicated earlier, net assets may serve over time as a useful indicator of a government's financial position. Refer to Table 1 when reading the following analysis of net assets. The Board's net assets exceeded liabilities by \$26.47 million at September 30, 2003.

- Of this figure, \$18.20 million reflects the Board's investment in capital assets. Since these capital assets represent investment in land, buildings, school buses, furniture and equipment, this portion of the net assets is not available for future spending or funding of operations.
- Restricted net assets are reported separately to show external legal constraints from debt covenants and enabling legislation that limit the Board's ability to use those net assets for day-to-day operations. Over \$2 million is reserved for capital projects.
- The balance of unrestricted net assets is over \$5.88 million.

LIMESTONE COUNTY BOARD OF EDUCATION

**Management's Discussion and Analysis (MD&A)
September 30, 2003**

Table 1: SUMMARY OF NET ASSETS

Fiscal Year ended September 30, 2003

(in millions)

	Governmental Activities	Percent of Total
Current Assets and other assets	\$ 16.23	23.72%
Capital Assets	52.19	76.28%
Total Assets	\$ 68.42	100.00%
Current Liabilities	\$ 9.34	22.26%
Non-current Liabilities	32.61	77.74%
Total Liabilities	\$ 41.95	100.00%
Net Assets:		
Invested in Capital Assets, Net of Related Debt	\$ 18.20	68.76%
Restricted for:		
Capital Projects	2.04	7.71%
Other Purposes	0.35	1.32%
Unrestricted	5.88	22.21%
Total Net Assets	\$ 26.47	100.00%

The Alabama State Department of Education recommends that no K-12 school district budget provide less than two weeks operating reserve. Non-capital expenditures for the Board are approximately \$57 million, which requires a reserve of about \$2.2 million. The Board has an unrestricted reserve of \$4.56 million therefore we exceed this requirement by approximately \$2.3 million.

The results of this year's operations as a whole are reported in detail in the *Statement of Activities* in Table 2. This table condenses the results of the operations for the fiscal year into a format where the reader can easily see the total revenues of the Board for the year. It also shows the impact the operations had on changes in net assets as of September 30, 2003.

LIMESTONE COUNTY BOARD OF EDUCATION

**Management's Discussion and Analysis (MD&A)
September 30, 2003**

Table 2: Summary of Changes in Net Assets From Fund Operating Results
Fiscal Year Ended September 30, 2003
(in millions)

	Governmental Activities	Percent of Total
Revenues		
Program Revenues:		
Charges for Services	\$ 3.98	7.24%
Operating Grants and Contributions	35.70	64.93%
Capital Grants and Contributions	2.99	5.44%
General Revenues:		
Taxes		
Property Taxes for General Purposes	3.63	6.60%
Sales and Use Tax - General	7.54	13.71%
Miscellaneous Taxes	0.07	0.13%
Grants and Contributions not Restricted for Specific Purposes	0.01	0.02%
Interest	0.22	0.40%
Miscellaneous	0.84	1.53%
Total Revenues	\$ 54.98	100.00%
Expenses		
Instruction	\$ 34.32	60.70%
Instructional Support	6.42	11.36%
Operation and Maintenance	3.70	6.54%
Auxiliary Services		
Food Service	4.04	7.14%
Transportation	2.93	5.18%
General Administration and Central Support	1.02	1.80%
Other	0.60	1.06%
Interest on Long Term Debt	3.52	6.22%
Total Expenses	\$ 56.55	100.00%
Increase(Decrease) in Net Assets	(1.57)	
Net Assets- October 1, 2002	28.04	
Net Assets- September 30, 2003	26.47	

LIMESTONE COUNTY BOARD OF EDUCATION

**Management's Discussion and Analysis (MD&A)
September 30, 2003**

Governmental Activities – As shown in Table 2, the Board's net assets decreased by \$1.57 million. The total cost of services rendered by the Board was \$56.55 million and its revenues were \$54.98 million for the year ended September 30, 2003. It is important to note that not all of these costs were borne by the taxpayers of Limestone County.

- Some of the cost, \$3.98 million, was paid by users of the services provided during the year, such as school lunches, summer school, and participation in extracurricular activities in the local schools.
- State and federal governments subsidized certain programs with grants and contributions totaling \$35.70 million.
- Other program revenue sources, such as capital grants, donations, etc. provided \$3.0 million in revenues.

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

Table 3: Net Cost of Governmental Activities

Fiscal Year Ended September 30, 2003

(in millions)

	Total Cost of Services	Net Cost of Services
Instruction	\$ 34.32	\$ 6.77
Instructional Support	6.42	2.15
Operation and Maintenance	3.70	1.59
Auxiliary Services		
Food Service	4.04	0.91
Transportation	2.93	(1.63)
General Administration and Central Support	1.02	0.26
Other	0.60	0.31
Interest on Long Term Debt	3.52	3.52
Total Expenses	\$ 56.55	\$ 13.88

LIMESTONE COUNTY BOARD OF EDUCATION

Management's Discussion and Analysis (MD&A)
September 30, 2003

Performance of School Board Funds

As noted earlier, the Board uses fund accounting to control and manage resources in order to ensure compliance with finance-related legal requirements. Using funds to account for resources for particular purposes helps the reader to determine whether the Board is being accountable for the resources provided by the taxpayers and other entities, and it may also help provide more insight into the Board's overall financial health. The following analysis of the Board's funds should be read in reference to the fund financial statements which begin in Exhibit # 3.

Governmental Funds – The focus of the Board's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Board's financial requirements (note that the fund relationship between the *Fund Financial Statements* and the *Government-wide Financial Statements* are reconciled in Exhibit # 4 and Exhibit # 6.) 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 Board's governmental funds reported combined ending fund balances of \$10.30 million.

General Fund – The general fund is the primary operating fund of the Board. The \$1.03 million net change in fund balance as a result from operations this year was primarily from the support of 51 local teaching units. These units are teachers that the board chooses to employ above the number allocated by the SDE.

Capital Projects Fund – This fund is used to account for the proceeds from the 2002 bond issue. These funds were used primarily to construct the new Cedar Hill Elementary School which the Board opened in August 2003.

Non-major Governmental Funds – This is a combined total of several funds, none of which are considered major funds. This includes local school funds, debt service funds, Child Nutrition funds, and many other small funds.

Budgetary Highlights of Major Funds

On or before October 1 of each year, the Board is mandated by State law to prepare and submit to the State Superintendent of Education the annual budget adopted by the Board. The State Department of Education normally requires such budgets to be submitted by August 15th of each year. The original budget was adopted by the Board on August 12, 2002. Over the course of the year, the Board revised the annual budget one time to include many federal grants and state allocations that were not available at the time of the original budget approval.

LIMESTONE COUNTY BOARD OF EDUCATION

Management's Discussion and Analysis (MD&A)

September 30, 2003

Capital Assets and Debt Administration

Capital Assets – The Board's investment in capital assets for its governmental activities for the year ended September 30, 2003, amounted to \$52.19 million, net of accumulated depreciation. The Board's investment in capital assets includes: land/land improvements, buildings and improvements at estimated historical cost, equipment and furniture at estimated historical cost, vehicles, construction in progress, other assets, and equipment under capital lease (shown in *Table 4*).

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 listed in the notes to the financial statements.

	Governmental Activities
Land	\$ 2.69
Land Improvements	0.06
Buildings	60.73
Building Improvements	0.58
Equipment and Furniture	0.96
Vehicles	3.19
Construction in Progress	9.48
Equipment Under Capital Leases	3.04
Other Assets	0.53
Less: Accumulated Depreciation	(29.07)
Total Capital Assets	\$ 52.19

LIMESTONE COUNTY BOARD OF EDUCATION

**Management's Discussion and Analysis (MD&A)
September 30, 2003**

Long-Term Debt

At the end of the fiscal year the Board had \$33.99 million in long-term debt payable, a net decrease of \$1.26 million. This included both increases and decreases during the current fiscal year. The increases resulted from a capital lease for the purchase of five new school buses purchased in June 2003. *Table 5* provides a synopsis of the Board's activities with respect to long-term debt.

Table 5: Long-Term Debt						
Fiscal Year Ended September 30, 2003						
(in millions)						
	Debt			Debt		Amounts Due
	Outstanding	Issued/	Repaid/	Outstanding	Within One	
	10/1/2002	Increased	Decreased	9/30/2003	Year	
Capital Lease Contracts Payable	\$ 2.23	\$ 0.30	\$ 0.33	\$ 2.20	\$ 0.40	
Long-Term Note Payable	0.06	-	0.06	-	-	
Warrants Payable:						
Capital Outlay School Warrants:						
Series 1993	0.49	-	0.49	-	-	
Series 1994	1.96	-	0.13	1.83	0.14	
Series 1997	4.18	-	0.19	3.99	0.20	
Series 1998	14.97	-	0.01	14.96	0.01	
Series 2002	8.00	-	-	8.00	0.27	
Refunding Warrants:						
Series 1996	3.36	-	0.35	3.01	0.37	
Totals	\$ 35.25	\$ 0.30	\$ 1.56	\$ 33.99	\$ 1.39	

LIMESTONE COUNTY BOARD OF EDUCATION

Management's Discussion and Analysis (MD&A)

September 30, 2003

Economic Factors and Next Year's Budget

The following are currently known Limestone County economic factors considered as we move into the 2003-2004 fiscal year:

- The unemployment rate in Limestone County for 2003 was 5.4% which is a slight increase from the 2002 rate of 5.3%. Limestone County's unemployment rate ranked 47th out of 67 counties and was slightly lower than the state's average unemployment rate of 5.8% and the national rate of 6.0% for 2003.
- The 2003 annual population estimate published by the Economic Development Partnership of Alabama reports Limestone County at a population of 68,371, a 4.10% increase over the last official census year 2000 population of 65,676. Limestone County Schools' enrollment figures have remained relatively constant since 2000 as well. Enrollment for the 2003 school year was 7,998 students. The latest student enrollment figure, as of the forty-day report for the 2003-2004 school year is 8,055 students, an increase in enrollment of approximately 57 students from the prior year.
- The 2005 fiscal year will be a property tax reappraisal year for Limestone County and in future years, reappraisals will be assessed annually. For the 2004 fiscal year property tax revenues were budgeted at level funding. Sales tax revenues for 2004 were also budgeted at or below 2003 collections due to economic factors and collection trends.

Medical and Retirement Costs – Employee health insurance is provided through the Public Education Employees' Health Insurance Program (PEEHIP). PEEHIP health insurance costs state-wide have risen dramatically during the past years. PEEHIP employer costs will increase from \$5,196 to 5,748 per employee during the fiscal year 2004. PEEHIP projects that the cost will continue to rise for the fiscal year 2005 to approximately \$5,988 per employee. Also, employer contributions to Teacher's Retirement System (TRS) will increase from 5.02% to 6.56% for the 2004 fiscal year. TRS has also estimated the employer contribution rate for the 2005 fiscal year will increase to 7.27%. The board must use local funds to pay the salary-related benefit costs not paid by state and federal funds.

LIMESTONE COUNTY BOARD OF EDUCATION

Management's Discussion and Analysis (MD&A)

September 30, 2003

Contacting the School Board's Financial Management

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Board's finances and to show the Board's accountability for the money it receives. If you have questions about this report or need additional financial information, Contact Jonathan Craft, CPA, Director of Finance, by mail at Limestone County Board of Education, 300 South Jefferson Street, Athens, Alabama, 35611, by e-mail at jonathan.craft@lcsk12.org or by calling (256) 232-5353 during regular business hours, Monday through Friday, from 8:00 AM to 4:30 PM.

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Statement of Net Assets
September 30, 2003

	Governmental Activities
<u>Assets</u>	
<u>Current Assets</u>	
Cash and Cash Equivalents	\$ 9,804,053.36
Investments	32,853.10
Accounts Receivable, Net	1,702.72
Ad Valorem Taxes Receivable, Net	1,926,653.46
Accrued Interest Receivable	198.50
Due from Other Governments	946,874.59
Inventories	146,964.14
Prepaid Items	10,354.70
Total Current Assets	<u>12,869,654.57</u>
<u>Noncurrent Assets</u>	
Restricted Cash and Cash Equivalents	2,047,126.43
Restricted Cash with Fiscal Agent	1,316,117.50
Capital Assets:	
Land	2,690,835.00
Land Improvements	60,990.00
Buildings	60,728,510.53
Building Improvements	577,825.64
Equipment and Furniture	956,114.08
Vehicles	3,191,710.80
Construction in Progress	9,478,926.87
Equipment Under Capital Leases	3,041,405.30
Other Assets	526,560.00
Less: Accumulated Depreciation	<u>(29,067,053.83)</u>
Total Capital Assets, Net of Depreciation	<u>52,185,824.39</u>
Total Noncurrent Assets	<u>55,549,068.32</u>
Total Assets	<u>\$ 68,418,722.89</u>

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

	Governmental Activities
<u>Liabilities</u>	
<u>Current Liabilities</u>	
Accounts Payable	\$ 203,039.46
Deferred Revenue	2,201,197.67
Salaries and Benefits Payable	3,798,089.84
Long-Term Liabilities - Portion Due within One Year:	
S/T Capital Lease Contracts Payable	399,420.68
S/T Warrants Payable	980,000.00
Accrued Interest Payable	1,757,663.29
Total Current Liabilities	<u>9,339,410.94</u>
<u>Noncurrent Liabilities</u>	
Capital Leases Payable	1,804,850.43
Warrants Payable	30,805,000.00
Total Noncurrent Liabilities	<u>32,609,850.43</u>
 Total Liabilities	 <u>41,949,261.37</u>
<u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	18,196,553.28
Restricted for:	
Capital Projects	2,037,004.39
Other Purposes	354,697.21
Unrestricted	5,881,206.64
Total Net Assets	<u>\$ 26,469,461.52</u>

Statement of Activities
For the Year Ended September 30, 2003

	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
Governmental Activities			
Instruction	\$ 34,315,439.71	\$ 2,197,787.89	\$ 22,979,749.39
Instructional Support	6,419,451.99		4,149,991.67
Operation and Maintenance	3,700,010.85		2,108,861.14
Auxiliary Services:			
Food Service	4,041,640.64	1,690,548.47	1,442,967.79
Transportation	2,933,713.44		4,049,472.56
General Administration and Central Support	1,024,391.32		769,162.12
Other	603,181.34	86,715.00	204,740.97
Interest on Long-Term Debt	3,519,532.86		
Total Governmental Activities	<u>\$ 56,557,362.15</u>	<u>\$ 3,975,051.36</u>	<u>\$ 35,704,945.64</u>

General Revenues:

Taxes:

- Property Taxes for General Purposes
- Sales and Use Tax - General
- Miscellaneous Taxes
- Grants and Contributions not Restricted for Specific Purposes
- Interest
- Miscellaneous
- Total General Revenues

Change in Net Assets

Net Assets - Beginning of Year, as Restated (Note 13)

Net Assets - End of Year

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

<u>Capital Grants and Contributions</u>	<u>Net (Expenses) Revenues and Changes in Net Assets Total Governmental Activities</u>
\$ 2,372,421.59	\$ (6,765,480.84)
115,383.02	(2,154,077.30)
	(1,591,149.71)
	(908,124.38)
510,726.59	1,626,485.71
	(255,229.20)
	(311,725.37)
	(3,519,532.86)
<u>\$ 2,998,531.20</u>	<u>(13,878,833.95)</u>

3,630,866.39
7,537,155.81
72,467.04
5,000.00
218,073.86
838,126.36
<u>12,301,689.46</u>
(1,577,144.49)
<u>28,046,606.01</u>
<u>\$ 26,469,461.52</u>

Balance Sheet
Governmental Funds
September 30, 2003

	General Fund	Capital Projects Funds
ASSETS		
Cash and Cash Equivalents	\$ 8,247,250.31	\$ 2,047,126.43
Cash with Fiscal Agent		
Investments		
Accounts Receivable, Net		
Ad Valorem Taxes Receivable, Net	1,926,653.46	
Accrued Interest Receivable		
Interfund Receivables	258,869.27	
Due from Other Governments	658,360.43	
Inventories		
Prepaid Items	10,354.70	
Total Assets	<u>11,101,488.17</u>	<u>2,047,126.43</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts Payable	50,133.70	76,026.59
Interfund Payable		
Deferred Revenue	2,153,443.74	
Salaries and Benefits Payable	3,620,283.38	
Total Liabilities	<u>5,823,860.82</u>	<u>76,026.59</u>
Fund Balances:		
Reserved for:		
Reserved for Inventories		
Reserved for Bus Fleet Renewal		
Reserved for Debt Service		
Reserved for Capital Projects		767,946.73
Reserved for Encumbrances	57,716.00	
Reserved for Prepaid Items	10,354.70	
Unreserved Reported in:		
General Fund	5,209,556.65	
Special Revenue Funds		
Capital Projects Fund		1,203,153.11
Total Fund Balances	<u>5,277,627.35</u>	<u>1,971,099.84</u>
Total Liabilities and Fund Balances	<u>\$ 11,101,488.17</u>	<u>\$ 2,047,126.43</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 1,556,803.05	\$ 11,851,179.79
1,316,117.50	1,316,117.50
32,853.10	32,853.10
1,702.72	1,702.72
	1,926,653.46
198.50	198.50
	258,869.27
288,514.16	946,874.59
146,964.14	146,964.14
	10,354.70
<u>3,343,153.17</u>	<u>16,491,767.77</u>

76,879.17	203,039.46
258,869.27	258,869.27
47,753.93	2,201,197.67
177,806.46	3,798,089.84
<u>561,308.83</u>	<u>6,461,196.24</u>

146,964.14	146,964.14
65,904.55	65,904.55
1,316,971.60	1,316,971.60
	767,946.73
15,789.36	73,505.36
	10,354.70
	5,209,556.65
1,236,214.69	1,236,214.69
	1,203,153.11
<u>2,781,844.34</u>	<u>10,030,571.53</u>
<u>\$ 3,343,153.17</u>	<u>\$ 16,491,767.77</u>

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***Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Assets
September 30, 2003***

Total Fund Balances - Governmental Funds (Exhibit 3) \$ 10,030,571.53

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. These assets consist of:

Land	\$ 2,690,835.00	
Land Improvements	60,990.00	
Buildings	60,728,510.53	
Building Improvements	577,825.64	
Equipment and Furniture	956,114.08	
Vehicles	3,191,710.80	
Construction in Progress	9,478,926.87	
Equipment Under Capital Leases	3,041,405.30	
Other Assets	526,560.00	
Less: Accumulated Depreciation	<u>(29,067,053.83)</u>	
Total Capital Assets		52,185,824.39

Certain liabilities 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:

	<u>Current Liabilities</u>	<u>Noncurrent Liabilities</u>	
Warrants Payable	980,000.00	\$ 30,805,000.00	
Accrued Interest Payable	1,757,663.29		
Capital Lease Contracts Payable	399,420.68	1,804,850.43	
Total Long-Term Liabilities	<u>\$ 3,137,083.97</u>	<u>\$ 32,609,850.43</u>	<u>(35,746,934.40)</u>

Total Net Assets - Governmental Activities (Exhibit 1) \$ 26,469,461.52

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, 2003

	General Fund	Capital Projects Funds
<u>Revenues</u>		
State	\$ 31,669,661.01	\$
Federal		
Local	11,459,590.16	43,545.16
Other	8,525.52	
Total Revenues	43,137,776.69	43,545.16
<u>Expenditures</u>		
Current:		
Instruction	29,302,208.93	24,528.00
Instructional Support	5,534,233.36	
Operation and Maintenance	2,988,719.77	
Auxiliary Services - Food Service		
Auxiliary Services - Transportation	2,262,509.68	
General Administration and Central Support	945,159.41	
Other	117,336.08	
Capital Outlay	422,810.20	5,959,598.43
Debt Service:		
Principal Retirement	47,331.96	
Interest and Fiscal Charges	33,260.00	
Total Expenditures	41,653,569.39	5,984,126.43
Excess (Deficiency) of Revenues Over Expenditures	1,484,207.30	(5,940,581.27)
<u>Other Financing Sources (Uses)</u>		
Transfers In	165,994.18	
Capital Leases	297,359.00	
Other Sources	182,085.24	
Transfers Out	(3,162,922.59)	
Total Other Financing Sources (Uses)	(2,517,484.17)	
Net Change in Fund Balances	(1,033,276.87)	(5,940,581.27)
Fund Balances at Beginning of Year, as Restated (See Note 13)	6,310,904.22	7,911,681.11
Fund Balances at End of Year	\$ 5,277,627.35	\$ 1,971,099.84

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

Other Governmental Funds	Total Governmental Funds
\$ 2,909,521.81	\$ 34,579,182.82
4,034,843.79	4,034,843.79
4,024,929.37	15,528,064.69
647,515.60	656,041.12
<u>11,616,810.57</u>	<u>54,798,132.42</u>
3,912,771.03	33,239,507.96
755,479.73	6,289,713.09
690,222.52	3,678,942.29
3,927,891.43	3,927,891.43
160,648.75	2,423,158.43
66,297.41	1,011,456.82
485,845.26	603,181.34
3,246,853.58	9,629,262.21
1,510,133.61	1,557,465.57
1,728,609.57	1,761,869.57
<u>16,484,752.89</u>	<u>64,122,448.71</u>
<u>(4,867,942.32)</u>	<u>(9,324,316.29)</u>
5,607,740.75	5,773,734.93
	297,359.00
	182,085.24
<u>(2,610,812.34)</u>	<u>(5,773,734.93)</u>
<u>2,996,928.41</u>	<u>479,444.24</u>
(1,871,013.91)	(8,844,872.05)
<u>4,652,858.25</u>	<u>18,875,443.58</u>
<u>\$ 2,781,844.34</u>	<u>\$ 10,030,571.53</u>

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Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended September 30, 2003

Net Changes in Fund Balances - Total Governmental Funds (Exhibit 5) \$ (8,844,872.05)

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$9,629,262.21) exceeded depreciation (\$1,863,977.93) in the current period. 7,765,284.28

Capital leases proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. (297,359.00)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 1,557,465.57

Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. These items consist of:

Net Increase in Accrued Interest Payable (1,757,663.29)

Change in Net Assets of Governmental Activities (Exhibit 2) \$ (1,577,144.49)

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

Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2003

	Agency Funds
<u>Assets</u>	
Cash and Cash Equivalents	\$ 17,994.92
Total Assets	<u>17,994.92</u>
<u>Liabilities</u>	
Accounts Payable	17,994.92
Total Liabilities	<u>\$ 17,994.92</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, 2003

Note 1 - Summary of Significant Accounting Policies

The financial statements of the Limestone 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 Limestone County Board of Education has implemented the provisions of the Statement in the current fiscal year. The Board does not maintain infrastructure assets.

A. Reporting Entity

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

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

Notes to the Financial Statements

For the Year Ended September 30, 2003

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, 2003

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.
- ◆ **Capital Projects Funds** - This fund is used to account for the warrant proceeds and the payments to contractors and individuals for the acquisition and construction of educational facilities within Limestone County.

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

Governmental Fund Types:

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

The Board reports the following fiduciary fund type:

Fiduciary Fund Type

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

Notes to the Financial Statements

For the Year Ended September 30, 2003

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 both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Notes to the Financial Statements
For the Year Ended September 30, 2003

D. Assets, Liabilities and Net Assets/Fund Balances

1. Deposits and Investments

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

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

2. Receivables

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

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

Receivables due from other governments include amounts due from grantors for grants issued for specific programs and capital projects, motor vehicle ad valorem taxes, sales taxes and other miscellaneous amounts.

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.

Notes to the Financial Statements

For the Year Ended September 30, 2003

4. Restricted Assets

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

5. Capital Assets

Capital assets, which include property and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Major outlays of capital assets and improvements are capitalized as projects are constructed.

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

	Capitalization Threshold	Estimated Useful Life
Land Improvements	\$50,000	20 years
Buildings	\$50,000	25 - 50 years
Building Improvements	\$50,000	5 - 30 years
Equipment and Furniture	\$ 5,000	5 - 20 years
Vehicles	\$ 5,000	8 - 15 years
Equipment Under Capital Lease	\$ 5,000	5 - 20 years

Notes to the Financial Statements

For the Year Ended September 30, 2003

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. Bond/Warrant premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds/Warrants payable are reported net of the applicable bond/warrant premium or discount. Bond/Warrant issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

7. 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. Designations of fund balance represent tentative management plans that are subject to change.

Notes to the Financial Statements

For the Year Ended September 30, 2003

Note 2 - Stewardship, Compliance, and Accountability

Budgets

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

Note 3 - Deposits and Investments

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

Notes to the Financial Statements
For the Year Ended September 30, 2003

Note 4 - Receivables

On September 30, 2003, receivables for the Board's individual major funds and nonmajor funds in the aggregate, are as follows:

	General	Nonmajor Funds	Totals
Accounts Receivable	\$	\$ 1,702.72	\$ 1,702.72
Accrued Interest Receivable		198.50	198.50
Property Taxes Receivables	1,926,653.46		1,926,653.46
Due from Other Governments	658,360.43	288,514.16	946,874.59
Total	<u>\$2,585,013.89</u>	<u>\$290,415.38</u>	<u>\$2,875,429.27</u>

Governmental funds report deferred revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At September 30, 2003, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Ad Valorem Taxes Receivable	\$1,926,653.46	\$
Motor Vehicle Ad Valorem Taxes		226,790.28
Meals Paid in Advance - CNP		47,753.93
Total Deferred/Unearned Revenue for Governmental Funds	<u>\$1,926,653.46</u>	<u>\$274,544.21</u>

Notes to the Financial Statements
For the Year Ended September 30, 2003

Note 5 - Capital Assets

Capital asset activity for the year ended September 30, 2003, was as follows:

	Balance 10/01/2002	Adjustments	Additions	Retirements	Balance 9/30/2003
Governmental Activities:					
Capital Assets, Not Being Depreciated					
Land	\$ 2,678,481.59	\$ (25,146.59)	\$ 37,500.00	\$	\$ 2,690,835.00
Construction in Progress	2,271,797.52	(1,348,189.02)	8,555,318.37		9,478,926.87
Total Capital Assets, Not Being Depreciated	4,950,279.11	(1,373,335.61)	8,592,818.37		12,169,761.87
Capital Assets Being Depreciated					
Land Improvements	1,263,982.30	(1,263,982.30)	60,990.00		60,990.00
Buildings	59,146,355.90	1,582,154.63			60,728,510.53
Building Improvements			577,825.64		577,825.64
Equipment and Furniture	10,546,925.08	(9,655,469.00)	64,658.00		956,114.08
Vehicles	940,209.38	2,216,070.22	35,431.20		3,191,710.80
Equipment Under Capital Leases	1,021,106.87	1,722,759.43	297,539.00		3,041,405.30
Other Assets	3,198.70	523,361.30			526,560.00
Total Capital Assets Being Depreciated	72,921,778.23	(4,875,105.72)	1,036,443.84		69,083,116.35
Less Accumulated Depreciation for:					
Land Improvements			1,524.75		1,524.75
Buildings	23,226,359.05		1,279,749.82		24,506,108.87
Building Improvements			5,778.25		5,778.25
Equipment and Furniture	622,661.03		41,367.62		664,028.65
Vehicles	2,627,517.62		181,011.73		2,808,529.35
Equipment Under Capital Lease	642,288.60		333,483.36		975,771.96
Other Capital Assets	84,249.60		21,062.40		105,312.00
Total Accumulated Depreciation	27,203,075.90		1,863,977.93		29,067,053.83
Total Capital Assets Being Depreciated, Net	45,718,702.33	(4,875,105.72)	(827,534.09)		40,016,062.52
Total Governmental Activities Capital Assets, Net	\$50,668,981.44	\$(6,248,441.33)	\$7,765,284.28	\$	\$52,185,824.39

During fiscal year 2003, the Board conducted a complete physical inventory of its capital assets and changed its policy for capitalizing capital assets by raising the capitalization threshold to \$5,000.00, for personal property (equipment, vehicles, etc.) and \$50,000.00 for real property (land improvements, building, etc.). The Board has removed all items previously recorded with a value less than \$5,000.00 from capital assets records and eliminated those items, and related accumulated depreciation, for reporting purposes. The results of this complete physical inventory and change in capitalization policy are reflected in the adjustments column above.

Notes to the Financial Statements
For the Year Ended September 30, 2003

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

<u>Governmental Activities:</u>	
Instruction	\$1,075,931.75
Instructional Support	129,738.90
Operations and Maintenance	21,068.56
Auxiliary Services-Transportation	510,555.01
Auxiliary Services-Food Service	113,749.21
General Administration and Central Support	12,934.50
Total Depreciation Expense - Governmental Activities	<u>\$1,863,977.93</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, 2003

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,	2003	2002	2001	2000
Total Percentage of Covered Payroll	10.02%	10.96%	11.38%	11.38%
Contributions:				
Percentage Contributed by the Board	5.02%	5.96%	6.38%	6.38%
Percentage Contributed by the Employees	5.00%	5.00%	5.00%	5.00%
Contributed by the Board	\$1,485,787.31	\$1,692,971.16	\$1,797,350.15	\$1,709,017.07
Contributed by the Employees	1,479,863.20	1,420,277.82	1,408,581.62	1,339,355.07
Total Contributions	<u>\$2,965,650.51</u>	<u>\$3,113,248.98</u>	<u>\$3,205,931.77</u>	<u>\$3,048,372.14</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 \$1,119,099.78 for fiscal year 2003. 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, 2003

Note 8 - Construction and Other Significant Commitments

As of September 30, 2003, the Board was obligated under the following significant construction contracts:

Cedar Hill Elementary School (Facilities Construction)	\$193,020.23
Ardmore, Clements and West Limestone (Reroofing)	275,230.00
Elkmont High School (Additions)	293,199.00
Tanner High School (Library Addition)	6,497.50
Total	<u>\$767,946.73</u>

Note 9 - Lease Obligations

Capital Leases

The Board is obligated under certain leases accounted for as capital leases. Assets under capital leases totaled \$3,041,405.30 at September 30, 2003. If the Board completes the lease payments according to the schedule below, which is the stated intent of the Board, ownership of the leased equipment will pass to the Board. Until that time, the leased equipment will be identified separately on the balance sheet. The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of September 30, 2003.

Fiscal Year Ending	Governmental Activities
September 30, 2004	\$ 500,288.97
2005	500,288.00
2006	500,287.98
2007	319,032.43
2008	169,402.88
2009-2012	<u>560,549.69</u>
Total Minimum Lease Payments	2,549,849.95
Less: Amount Representing Interest	<u>345,578.84</u>
Present Value of Net Minimum Lease Payments	<u>\$2,204,271.11</u>

Notes to the Financial Statements
For the Year Ended September 30, 2003

Operating Leases

The Board is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected as part of the Board's capital assets. During the fiscal year ended September 30, 2003, the Board paid a total of \$94,472.16 for operating leases.

The following is a schedule by fiscal years of future minimum rental payments required under operating leases for facilities and equipment that have initial or remaining noncancelable lease terms in excess of one year as of September 30, 2003:

Fiscal Year	Equipment
2003-2004	\$ 94,472.16
2004-2005	94,472.16
2005-2006	79,033.84
Total Minimum Payments Required	<u>\$267,978.16</u>

Note 10 - Long-Term Debt

The Board issued tax anticipation warrants entitled Series 1993, 1994, 1997, 1998 and 2002 to provide funds for the acquisition, construction and renovation of school facilities. The Board also issued tax anticipation warrants entitled Series 1996 to refund Series 1988 tax anticipation warrants.

Notes to the Financial Statements
For the Year Ended September 30, 2003

The following is a summary of general long-term debt transactions for the Board for the year ended September 30, 2003:

	Debt Outstanding October 1, 2002	Issued/ Increased	Repaid/ Decreased	Debt Outstanding September 30, 2003	Amounts Due Within One Year
Capital Lease Contracts Payable	\$ 2,239,769.34	\$297,359.00	\$ 332,857.23	\$ 2,204,271.11	\$ 399,420.68
Long-Term Note Payable	59,608.34		59,608.33		
Warrants Payable:					
Capital Outlay School Warrants:					
Series 1993	485,000.00		485,000.00		
Series 1994	1,960,000.00		130,000.00	1,830,000.00	140,000.00
Series 1997	4,180,000.00		190,000.00	3,990,000.00	200,000.00
Series 1998	14,970,000.00		10,000.00	14,960,000.00	10,000.00
Series 2002	8,000,000.00			8,000,000.00	265,000.00
Refunding Warrants:					
Series 1996	3,355,000.00		350,000.00	3,005,000.00	365,000.00
Totals	<u>\$35,249,377.68</u>	<u>\$297,359.00</u>	<u>\$1,557,465.56</u>	<u>\$33,989,271.11</u>	<u>\$1,379,420.68</u>

Payments on the tax anticipation warrants are made by the debt service fund with property taxes and sales taxes. Payments on Capital Lease Obligations are made from "Fleet Renewal" funds, set aside, by the State of Alabama, in the Foundation Program Appropriations.

Notes to the Financial Statements
For the Year Ended September 30, 2003

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

Fiscal Year Ending	Warrants Payable 1994		Warrants Payable 1997		Warrants Payable 1998	
	Principal	Interest	Principal	Principal	Principal	Interest
September 30, 2004	\$ 140,000.00	\$192,140.00	\$ 200,000.00	\$ 204,937.50	\$ 10,000.00	\$ 758,467.50
2005	150,000.00	85,420.00	210,000.00	194,687.50	10,000.00	758,067.50
2006	155,000.00	78,220.00	220,000.00	183,937.50	10,000.00	757,657.50
2007	165,000.00	70,470.00	230,000.00	172,687.50	10,000.00	757,237.50
2008	175,000.00	62,220.00	240,000.00	160,937.50	10,000.00	756,807.50
2009-2013	1,045,000.00	166,260.00	1,425,000.00	596,761.25	1,110,000.00	3,751,747.50
2014-2018			1,465,000.00	166,362.50	4,140,000.00	3,144,965.00
2019-2023					7,930,000.00	1,705,087.52
2024					1,730,000.00	88,662.50
Totals	\$1,830,000.00	\$654,730.00	\$3,990,000.00	\$1,680,311.25	\$14,960,000.00	\$12,478,700.02

Prior Year Defeasance of Debt

In prior years, the Board defeased certain warrants by placing the proceeds of the new warrants in irrevocable trust funds to provide for all future debt service payments on the old warrants. Accordingly, the trust account assets and the liability for the defeased warrants are not included in the Board's financial statements. As of September 30, 2003, the following warrants outstanding are considered defeased:

Capital Outlay School Warrants, Series 1988	<u>\$2,760,000.00</u>
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Notes to the Financial Statements
For the Year Ended September 30, 2003

Warrants Payable 2002		Warrants Payable 1996		Capital Lease Contracts Payable		Total Principal and Interest Requirements to Maturity
Principal	Interest	Principal	Interest	Principal	Interest	
\$ 265,000.00	\$ 359,025.00	\$ 365,000.00	\$142,225.00	\$ 399,420.68	\$100,868.29	\$ 3,137,083.97
270,000.00	346,987.50	385,000.00	124,032.50	420,722.17	79,565.83	3,034,483.00
280,000.00	334,612.50	405,000.00	104,475.00	443,184.45	57,103.53	3,029,190.48
290,000.00	321,787.50	425,000.00	83,512.50	282,213.66	36,818.77	2,844,727.43
300,000.00	308,512.50	450,000.00	61,200.00	142,779.76	26,623.12	2,694,080.38
1,705,000.00	1,323,300.00	975,000.00	50,362.50	515,950.39	44,599.30	12,708,980.94
2,140,000.00	893,662.50					11,949,990.00
2,750,000.00	338,506.25					12,723,593.77
						1,818,662.50
\$8,000,000.00	\$4,226,393.75	\$3,005,000.00	\$565,807.50	\$2,204,271.11	\$345,578.84	\$53,940,792.47

Note 11 - 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 \$2.5 million per occurrence and purchases commercial insurance for claims in excess of \$2.5 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, 2003

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 12 - Interfund Receivables and Payables

The interfund receivables and payables at September 30, 2003, were as follows:

	Interfund Receivables
	General Fund
Other Governmental Funds	\$258,869.27
Totals	\$258,869.27

Interfund receivables totals include a non-current portion totaling \$234,612.00. The Board advanced local funds to individual schools to upgrade facilities.

Interfund Transfers

The amounts of interfund transfers during the fiscal year ending September 30, 2003, were as follows:

	Transfers Out		
	General Fund	Other Governmental Funds	Total
<u>Transfers In</u>			
General Fund	\$	\$ 165,994.18	\$ 165,994.18
Other Governmental Funds	3,162,922.59	2,444,818.16	5,607,740.75
Totals	\$3,162,922.59	\$2,610,812.34	\$5,773,734.93

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 fund(s) to service current-year debt requirements.

Notes to the Financial Statements
For the Year Ended September 30, 2003

Note 13 - Accounting Changes and Restatements

Changes in Accounting Principles

During the fiscal year 2003, the Board implemented GASB Statement Number 34, ***Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments***, as amended by GASB Statement Number 37, ***Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus***, and GASB Statement Number 38, ***Certain Financial Statement Note Disclosures***. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements reflect all the Board's financial information in a single governmental activities column. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at September 30, 2003 caused by the conversion to the accrual basis of accounting.

During fiscal year 2003, the Board conducted a complete physical inventory of its capital assets and changed its policy for capitalizing capital assets by raising the capitalization threshold to \$5,000.00, for personal property (equipment, vehicles, etc.) and \$50,000 for real property (land improvements, building, etc.). The Board has removed all items previously recorded with a value less than \$5,000.00 from capital assets records and eliminated those items, and related accumulated depreciation, for reporting purposes.

Restatement of Fund Balances

GASB Statement Number 34 eliminated the use of expendable trust funds to account for assets held by the Board in a trustee capacity for other governmental units. The school club activities portion of the Local School Expendable Trust Fund has been reported as a special revenue fund and the external organizations portion has been reported as an agency fund. The Board also reclassified certain funds used to account for general tax revenues from the Special Revenue Funds to the General Fund.

Notes to the Financial Statements
For the Year Ended September 30, 2003

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

	General Fund	Capital Projects Funds	Other Governmental Funds	Total	Expendable Trust Funds
Fund Balance, September 30, 2002, as Previously Reported	\$ (518,172.41)	\$7,911,681.11	\$11,425,532.38	\$18,819,041.08	\$ 73,758.14
Fund Restatements:					
Local Tax Revenue Resources	6,829,076.64		(6,829,076.64)		
Local Schools - School Activities			56,402.51	56,402.51	(56,402.51)
Local Schools - Non Public (Agency Fund)					(17,355.63)
Total Restatements	<u>6,829,076.64</u>		<u>(6,772,674.13)</u>	<u>56,402.51</u>	<u>(73,758.14)</u>
Fund Balance, September 30, 2002, as Restated	<u>\$6,310,904.23</u>	<u>\$7,911,681.11</u>	<u>\$ 4,652,858.25</u>	<u>\$18,875,443.59</u>	<u>\$</u>
Capital Assets Balance, Beginning				77,872,057.34	
Effect of Accounting Change and Error Correction on Capital Assets				(33,451,517.24)	
Long-Term Liabilities, Beginning				<u>(35,249,377.68)</u>	
Governmental Activities Net Assets, September 30, 2002				<u>\$28,046,606.01</u>	

Required Supplementary Information

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended September 30, 2003

	Budgeted Amounts		Actual Amounts Budgetary Basis
	Original	Final	
<u>Revenues</u>			
State	\$ 34,041,202.00	\$ 34,162,449.00	\$ 31,669,661.01
Local	12,147,790.00	12,147,790.00	11,482,761.41
Other			8,525.52
Total Revenues	46,188,992.00	46,310,239.00	43,160,947.94
<u>Expenditures</u>			
Current:			
Instruction	28,142,511.00	28,091,101.00	28,488,377.73
Instructional Support	4,963,930.00	4,974,415.00	5,192,083.15
Operation and Maintenance	3,357,326.00	3,357,326.00	3,002,052.08
Auxiliary Services - Transportation	2,450,670.00	2,450,670.00	2,382,689.00
General Administration and Central Support	1,118,340.00	1,120,602.00	1,010,102.86
Other	1,305,726.00	1,389,089.00	117,325.19
Capital Outlay	3,340,842.00	3,340,842.00	422,810.20
Debt Service:			
Principal Retirement	599,608.00	599,608.00	47,331.96
Interest and Fiscal Charges	726,267.00	726,267.00	33,260.00
Total Expenditures	46,005,220.00	46,049,920.00	40,696,032.17
Excess (deficiency) of revenues over expenditures	183,772.00	260,319.00	2,464,915.77
<u>Other Financing Sources (Uses)</u>			
Transfers In	772,983.00	772,983.00	440,994.18
Capital Leases			297,359.00
Other Sources			182,085.24
Transfers Out	(2,907,319.00)	(2,945,982.00)	(3,437,922.59)
Total Other Financing Sources (Uses)	(2,134,336.00)	(2,172,999.00)	(2,517,484.17)
Net Change in Fund Balances	(1,950,564.00)	(1,912,680.00)	(52,568.40)
Fund Balance at Beginning of Year	1,950,564.00	1,912,680.00	6,310,904.22
Fund Balance at End of Year	\$	\$	\$ 6,258,335.82

Explanation of differences between Actual Amounts on Budgetary Basis and Actual Amounts GAAP Basis:

Net Change in Fund Balance - General Fund - Budgetary Basis	\$ 2,464,915.77
The Board budgets for motor vehicle ad valorem tax revenues as it is received, rather than on the modified accrual basis.	(23,171.25)
The Board budgets salaries as they are actually paid, rather than on the modified accrual basis.	<u>(957,537.22)</u>
Net Changes in Fund Balance for General Fund (Exhibit 5)	<u><u>\$ 1,484,207.30</u></u>

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Supplementary Information

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2003***

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
<u>U. S. Department of Education</u>		
<u>Passed Through State Department of Education</u>		
Title I Grants to Local Educational Agencies (M)	84.010	N/A
Special Education Cluster:		
Special Education - Grants to States	84.027	N/A
Special Education - Preschool Grants	84.173	N/A
Sub-Total Special Education Cluster		
Vocational Education - Basic Grants to States	84.048	N/A
Safe and Drug Free Schools and Communities - State Grants	84.186	N/A
Innovative Education Program Strategies	84.298	N/A
Technology Literacy Challenge Fund Grants	84.318	N/A
English Language Acquisition Grants	84.365	N/A
Improving Teacher Quality State Grants (M)	84.367	N/A
Total U. S. Department of Education		
<u>U. S. Department of Agriculture</u>		
<u>Passed Through State Department Education</u>		
Child Nutrition Cluster:		
National School Lunch Program	10.555	N/A
School Breakfast Program	10.553	N/A
Summer Food Service Program for Children	10.559	N/A
Sub-Total Child Nutrition Cluster (M)		
Food Distribution (N)	10.550	N/A
Total U. S. Department of Agriculture		
Total Expenditures of Federal Awards		

N/A = Not Applicable or Not Available

(M) = Denotes Major Program

(N) = Non-Cash Assistance

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

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
10-01-2002 to 9-30-2003	\$ 1,012,506.00	\$ 1,012,506.00	\$ 1,012,506.00	\$ 1,012,506.00
10-01-2002 to 9-30-2003	965,218.00	965,218.00	965,218.00	965,218.00
10-01-2002 to 9-30-2003	41,616.00	41,616.00	41,616.00	41,616.00
	<u>1,006,834.00</u>	<u>1,006,834.00</u>	<u>1,006,834.00</u>	<u>1,006,834.00</u>
10-01-2002 to 9-30-2003	97,113.00	97,113.00	97,113.00	97,113.00
10-01-2002 to 9-30-2003	41,386.00	41,386.00	41,386.00	41,386.00
10-01-2002 to 9-30-2003	48,701.00	48,701.00	48,701.00	48,701.00
10-01-2002 to 9-30-2003	26,514.00	26,514.00	26,514.00	26,514.00
10-01-2002 to 9-30-2003	22,652.00	22,652.00	22,652.00	22,652.00
10-01-2002 to 9-30-2003	336,170.00	336,170.00	336,170.00	336,170.00
	<u>2,591,876.00</u>	<u>2,591,876.00</u>	<u>2,591,876.00</u>	<u>2,591,876.00</u>
10-01-2002 to 9-30-2003	1,014,261.76	1,014,261.76	1,014,261.76	1,014,261.76
10-01-2002 to 9-30-2003	236,794.60	236,794.60	236,794.60	236,794.60
10-01-2002 to 9-30-2003	9,773.60	9,773.60	9,773.60	9,773.60
	<u>1,260,829.96</u>	<u>1,260,829.96</u>	<u>1,260,829.96</u>	<u>1,260,829.96</u>
10-01-2002 to 9-30-2003	182,137.83	182,137.83	182,137.83	182,137.83
	<u>1,442,967.79</u>	<u>1,442,967.79</u>	<u>1,442,967.79</u>	<u>1,442,967.79</u>
	<u>\$ 4,034,843.79</u>	<u>\$ 4,034,843.79</u>	<u>\$ 4,034,843.79</u>	<u>\$ 4,034,843.79</u>

***Notes to the Schedule of Expenditures
of Federal Awards
For the Year Ended September 30, 2003***

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Limestone County Board of Education and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the financial statements.

Additional Information

Board Members and Administrative Personnel
October 1, 2002 through September 30, 2003

Board Members		Term Expires
Hon. Bill Berry, D.V.M.	29451 Old Schoolhouse Road Ardmore, Alabama 35739	2002
Hon. Mike Poff	29434 Persimmon Tree Road Anderson, Alabama 35610	2002
Hon. John Wayne King	11183 Snake Road Athens, Alabama 35611	2004
Hon. Derril Robertson	14765 Quinn Road Athens, Alabama 35611	2004
Hon. Charles Shoulders	11817 Gary Redus Drive Tanner, Alabama 35671	2004
Hon. Earl Glaze	26982 Oak Road Athens, Alabama 35613	2006
Hon. Roger Whitt	19966 Shady Acres Circle Athens, Alabama 35614	2006
Hon. James Shannon	29005 Highway 251 Ardmore, Alabama 35739	2008
Hon. Darin Russell	30984 Lester Road Lester, Alabama 35647	2008

Administrative Personnel

Barry L. Carroll, ED.D. Superintendent	14717 Friend Road Athens, Alabama 35611	June 30, 2005
Jonathan Craft Custodian of Funds	17250 Parker Road Athens, Alabama 35611	June 24, 2002 to Indefinite

***Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance With
Government Auditing Standards***

We have audited the financial statements of the Limestone County Board of Education (the "Board") as of and for the year ended September 30, 2003, and have issued our report thereon dated March 19, 2004. 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.

Compliance

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 grants, 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 that are required to be reported under *Government Auditing Standards*.

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 assurance 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 over financial reporting that might be material weaknesses. A material weakness is a 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 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.

***Report on Compliance and on Internal Control Over
Financial Reporting 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

March 19, 2004

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 Limestone 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 each of its major federal programs for the year ended September 30, 2003. 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, 2003.

Internal Control Over Compliance

The management of the Limestone County Board of Education is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the 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 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 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

March 19, 2004

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2003

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, 10.555 and 10.559 84.010	Child Nutrition Cluster Title I Grants to Local Educational Agencies
84.367	Improving Teacher Quality State Grants

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

Auditee qualified as low-risk auditee? Yes X No

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2003

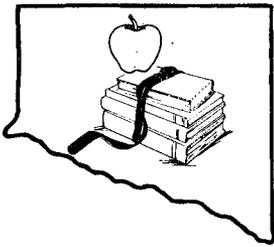
Section II – Financial Statement Findings (GAGAS)

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.	

Summary Schedule of Prior Audit Findings



LIMESTONE COUNTY BOARD OF EDUCATION

300 South Jefferson Street
Athens, Alabama 35611
(256) 232-5353
Fax (256) 233-6461

BOARD MEMBERS

Earl Glaze
John Wayne King
Derril Robertson
Darin Russell
James Shannon, Jr.
Charles Shoulders, Jr.
Roger Whitt

SUPERINTENDENT OF EDUCATION

Barry L. Carroll, Ed.D

Summary Schedule of Prior Audit Findings For the Year Ended September 30, 2003

As required by the Office of Management and Budget (OMB) Circular No. A-133, **Audits of States, Local Governments, and Non-Profit Organizations**, Section 315(b), the Limestone County Board of Education has prepared and hereby submits the following Summary Schedule of Prior Audit Findings as of September 30, 2003.

Finding

Ref.

No.

Status of Prior Audit Finding

99-1 Corrective action was taken.

Barry Carroll, Ed.D., Superintendent
