



**BOARD OF EDUCATION OF
SHELBY COUNTY, TENNESSEE**
(A Component Unit of Shelby County, Tennessee)

AUDITED FINANCIAL STATEMENTS

June 30, 2008



**BOARD OF EDUCATION OF
SHELBY COUNTY, TENNESSEE**
(A Component Unit of Shelby County, Tennessee)
June 30, 2008

TABLE OF CONTENTS

	PAGE(S)
FINANCIAL AUDIT REPORT	
Independent Auditor's Report on the Basic Financial Statements and Supplemental Information.....	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	3 - 10
FINANCIAL STATEMENTS	
Statement of Net Assets.....	11
Statement of Activities.....	12
Balance Sheet - Governmental Funds.....	13
Reconciliation of Balance Sheet - Governmental Funds to the Statement of Net Assets.....	14
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	15 - 16
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities.....	17
Statement of Net Assets - Proprietary Fund.....	18
Statement of Revenues, Expenditures and Changes in Fund Net Assets - Proprietary Fund.....	19
Statement of Cash Flows - Proprietary Fund.....	20
Notes to the Financial Statements.....	21 - 35
REQUIRED SUPPLEMENTAL INFORMATION	
Schedule of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - General Fund.....	36
Notes to Required Supplementary Information.....	37



SUPPLEMENTAL INFORMATION

Combining Balance Sheet - Nonmajor Governmental Funds.....	38
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds.....	39
Schedule of Revenue and Expenditures - By Type (Budgetary Basis) - Federal Projects Funds.....	40
Schedule of Construction In Progress.....	41
Schedule of Expenditures of Federal and State Awards.....	42
Notes to the Schedule of Expenditures of Federal and State Awards.....	43

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	44 - 46
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Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.....	47 - 48
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SCHEDULE OF FINDINGS.....	49 - 51
---------------------------	---------

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS.....	52
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**INDEPENDENT AUDITOR'S REPORT ON
THE BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION**

Superintendent and School Board
Board of Education of Shelby County, Tennessee

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Board of Education of Shelby County, Tennessee as of and for the year ended June 30, 2008, which collectively comprise the Board of Education of Shelby County, Tennessee's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board of Education of Shelby County, Tennessee's management. Our responsibility is to express our opinion on these financial statements based on our audit. We did not audit the financial statements of the School Cafeteria Fund or the School Student Activity Fund, included in Other Governmental Funds, which statements reflect total assets of \$8,972,377 and \$4,645,687, as of June 30, 2008, respectively, and total revenues of \$14,516,270 and \$13,079,337, respectively, for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, in so far as it relates to the amounts included for the School Cafeteria Fund and the School Student Activity Fund, is based on the report of the other auditors.

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 and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, 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 Board of Education of Shelby County, Tennessee, as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.



In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2008, on our consideration of Board of Education of Shelby County, Tennessee's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 10 and the Budgetary Comparison Schedule on page 36 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board of Education of Shelby County, Tennessee's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of the other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Memphis, Tennessee
December 23, 2008

Banks, Amy White etc.
Watkins, Liberal, etc



**BOARD OF EDUCATION OF SHELBY COUNTY, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS**



**BOARD OF EDUCATION OF
SHELBY COUNTY, TENNESSEE
(A Component Unit of Shelby County, Tennessee)
Management's Discussion and Analysis
For the Year Ended June 30, 2008**

INTRODUCTION

The discussion and analysis of the Board of Education of Shelby County, Tennessee's ("Shelby County Schools" or "SCS") financial performance provides an overview of SCS' financial activities for the fiscal year ended June 30, 2008. The intent of this management discussion and analysis is to look at SCS' financial performance as a whole; readers should also review the transmittal letter, financial statements and notes to the financial statements to enhance their understanding of SCS' financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year ended June 30, 2008 are as follows:

- Total net assets decreased from \$460.0 million in 2007 to \$433.9 million in 2008, primarily due to the recording of the long-term liability for OPEB future payments.
- Total revenue increased from \$376.1 million in 2007 to \$417.5 million in 2008, an increase of \$41.4 million due to increased capital funds and property tax revenue.
- Total expenditures increased from \$375.4 million in 2007 to \$402.9 million in 2008, an increase of \$18.2 million due to an increase in BEP funding (BEP 2.0) from the State of Tennessee and an increase in the Federal funds category of IDEA revenue.
- Total expenditures increased from \$331.1 million in 2007 to \$443.7 million in 2008, an increase of \$112.6 million, primarily in the areas of Regular Education and Special Education. The increase in these expenditures is due to the additional funding that was received for BEP 2.0 and IDEA (Federal).
- Ending fund balance of SCS increased from \$100.5 million in 2007 to \$109.1 million in 2008, an increase of \$8.6 million primarily due to additional capital funds accrued, as well as conservative spending.



OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to SCS' basic financial statements. The basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of SCS' finances in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the SCS' assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the system is improving or deteriorating.

The Statement of Activities presents information showing how net assets changed during the fiscal year. All changes in the net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and OPEB expenses).

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 system, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

Most of SCS' activities are reported in governmental funds (general, capital projects, federal projects, and other), which focus on how money flows in and out of those funds and the balances left at year-end available for spending in future periods. The governmental fund statements provide a detailed short-term view of SCS' general government operations and the basic services it provides.



Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide financial analysis

(amounts expressed in millions of dollars)

The Statement of Net Assets for 2008 has been summarized and compared with net assets for 2007.

	2008	2007	Difference	% Change
Assets:				
Current and other assets	\$ 149.0	\$ 140.1	\$ 8.9	6.4 %
Capital assets	<u>364.5</u>	<u>348.0</u>	<u>16.5</u>	<u>4.7 %</u>
Total Assets	513.5	488.1	25.4	5.2 %
Liabilities:				
Long-term liabilities	56.1	-	56.1	- %
Other liabilities	<u>23.5</u>	<u>28.1</u>	<u>(4.6)</u>	<u>(16.4)%</u>
	79.6	28.1	51.5	183.3 %
Net Assets:				
Invested in capital assets, net of debt	364.6	348.0	16.6	4.8 %
Restricted	17.7	15.8	1.9	12.0 %
Unrestricted	<u>51.6</u>	<u>96.2</u>	<u>(44.6)</u>	<u>(46.4)%</u>
Total Net Assets	<u>\$ 433.9</u>	<u>\$ 460.0</u>	<u>\$ (26.1)</u>	(5.7)%



Changes in Net Assets From Operating Results
(amounts expressed in millions of dollars)

	2008	2007	Difference	% Change
<u>Governmental Activities</u>				
Program Revenues:				
Operating grants and contributions	\$ 202.8	\$ 165.2	\$ 37.6	23 %
Charges for services	19.5	8.4	11.1	132 %
General Revenues:				
Shelby County taxes	145.0	151.7	(6.7)	(4)%
Local option and state taxes	41.6	42.1	(0.5)	(1.2)%
Other	<u>8.5</u>	<u>8.5</u>	-	%
Total Revenues	417.4	375.9	41.5	11 %
Expenses:				
Instruction	258.2	198.8	59.4	30 %
Support services	38.1	35.0	3.1	9 %
Administration	65.1	33.4	31.7	95 %
Plant Operations & maintenance	37.6	24.0	13.6	57 %
Transportation	14.9	13.2	1.7	13 %
Food services	16.9	13.7	3.2	23 %
Student activities	12.8	12.3	0.5	4 %
Early childhood education	-	<u>0.6</u>	<u>(0.6)</u>	(100)%
Total Expenses	<u>443.6</u>	<u>331.0</u>	<u>112.6</u>	34 %
Increase in Net Assets	\$ <u>(26.2)</u>	\$ <u>44.9</u>	\$ <u>(71.1)</u>	(158)%

Revenues

SCS' total revenue increased \$41.5 million, or 11%, in 2008. (See Changes in Net Assets From Operating Results — page 6). State BEP revenues increased by \$17.9 million — total student average daily membership increased from 46,555 in 2007 to 47,614 in 2008. Property tax revenues increased by \$6.0 million. Bond Proceeds revenue decreased by \$13.0 million. Wheel tax revenue was received after the close of the 2008 fiscal year, so the amount received, which was the same as that received in the 2007 fiscal year, was considered deferred revenue. Interest income decreased by \$1.0 million due to lower rate of return from Local Government Investment Pool (LGIP) than projected.



Expenses

SCS' total expenses increased \$112.6 million, or 34%, in 2008. The addition of regular education teachers for school system growth and cost-of-living and/or step pay increases and related benefits for all employees accounted for the increases in most categories. Transportation expenses increased primarily due to the purchase of school buses and increased diesel fuel costs. An additional \$2.8 million was spent for computers for instruction, and \$1.9 million more was spent for textbook adoptions and instructional supplies. Capital outlay expenditures for building and site improvements increased by \$3.4 million.

Governmental Activities

(amounts expressed in millions of dollars)

	Total Cost of Services			Net Cost of Services		
	2008	2007	Percentage Change	2008	2007	Percentage Change
Instruction	\$ 258.2	\$ 198.8	30 %	\$ 68.2	\$ 50.8	34 %
Support services	38.1	35.0	9 %	37.5	35.0	7 %
General administration	65.2	33.4	95 %	62.1	33.4	86 %
Plant operations and maintenance	37.6	24.0	56.7 %	37.3	24.0	55.4 %
Transportation	14.9	13.2	13 %	14.6	13.2	11 %
Food Service	16.9	13.7	23 %	2.1	0.2	950.0 %
Student activities	12.8	12.3	4 %	(0.3)	0.2	(250.0)%
Early childhood education	-	0.6	(100)%	-	0.6	(100)%
Total Expenses	\$ 443.7	\$ 331.0	34 %	\$ 221.5	\$ 157.4	41 %

The net cost of governmental activities shown above presents the total and net cost of seven major SCS activities: instruction, support services, administration, plant operations and maintenance, transportation, food services, and student activities.

Net cost of services is the total cost less fees generated by the activities and intergovernmental revenue provided for specific programs. The net cost shows the financial burden on the County's taxpayers by each activity. The total cost of governmental services in 2008 was \$443.7 million. Federal and State grants, subsidized programs, and contributions financed \$222.2 million of the cost. The district and state taxpayers financed the remainder of SCS' cost, which was \$221.5 million for 2008.

Financial Analysis of SCS's Funds

SCS ended fiscal year 2008 with strong fund balances in its governmental funds. The combined balance of all governmental funds was \$109.1 million. Approximately 43% of the total fund balance is unrestricted. The remainder of the fund balance is reserved for future specific spending. Overall, SCS increased its investment in long-term assets, while still maintaining adequate cash balances, resulting in a strong financial position.



General Fund Budgetary Highlights

The general fund budget was not amended during the year. Total revenues were \$9.4 million more than anticipated. Key factors contributing to that variance are as follows:

- Shelby County property and other taxes \$8.8 million
- Interest income \$1.5 million
- State of Tennessee Basic Education Program (BEP) \$1.1 million
- Wheel tax revenues \$(4.4) million
- Local option and state sales taxes \$2.4 million

Budgets for current property taxes are based on an estimated value of each tax penny, which will vary from actual collections.

The General Fund Expenditures Budget

Actual general fund expenditures were \$3.0 million higher than budgeted. The majority of the variance can be attributed to expenditures in the support services, transportation, and capital outlay areas. The decision was made to use end of year funds to install air conditioners in the high school gymnasiums and to purchase nineteen transit buses for transportation of students. A favorable variance occurred in the operation of plant area due to utility costs totaling \$0.9 million less than budgeted. SCS had anticipated using \$9.7 million of the reserve to balance the 2008 budget, however only \$3.5 million of that was actually used, leaving \$6.4 million to be put back in the reserve.

General Fund Balance

The general fund balance increased 1% to \$79.0 million in 2008. The fund balance equals 105 days of expenses. It also represents 24% of budgeted expenses. The State BEP requires a reserve equal to 3% of the 2009 budgeted expenses, and \$10.6 million has been reserved accordingly at June 30, 2008.

Capital Projects Fund

SCS uses capital projects funds to account for school construction and improvement projects, which are financed primarily through Shelby County bond issues. On August 15, 2006, a joint cooperation and settlement agreement between SCS and the Board of Education of the Memphis City Schools was reached to distribute equally \$100.4 million in bond proceeds issued by Shelby County Government. \$30.5 million in capital funds were received in 2008 by SCS under this joint cooperation and settlement agreement.



Capital Assets

SCS' investment in capital assets for its governmental activities as of June 30, 2008, shown in the table below, amounts to \$364.5 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, and equipment and furniture. Overall, capital assets increased \$16.5 million for fiscal year 2008. Additions to or renovations of schools were built and the construction of a new high school and a new middle school help to meet the mandatory lower class size limits of the State BEP and to resolve overcrowding issues.

Capital Assets, net of depreciation (amounts expressed in millions of dollars)

	<u>2008</u>	<u>2007</u>	<u>Percentage Change</u>
Land	\$ 18.7	\$ 18.7	- %
Construction in progress	68.0	53.4	27 %
Equipment and furniture	11.2	8.9	26 %
Buildings and improvements	<u>266.6</u>	<u>267.0</u>	- %
Total	<u>\$ 364.5</u>	<u>\$ 348.0</u>	<u>5 %</u>

Long-term Debt

SCS has no long-term debt as the Board is fiscally dependent on Shelby County Government for the issuance of debt for its capital projects.

Factors Bearing on SCS' Future

The Shelby County Government approved the 2009 budget on August 4, 2008, however as of December 17, 2008, they have not set a property tax rate for schools for the 2008-09 fiscal year. The use of \$15.6 million in fund balance enabled SCS to balance the \$353.8 million budget.

The State did not provide funding for BEP 2.0 in the 2009 fiscal year as they did in 2008, and with the downturn in the economy, particularly the drop in sales tax revenue in Tennessee, there will be many fiscal challenges to meet.

Additional costs to SCS will be required to implement the Differentiated Pay Plan required by the State of Tennessee. Due to the consistent difficulty in employing an adequate number of special education teachers, SCS will offer one-time signing bonuses to attract teachers with special education teaching endorsements. Another area where SCS is expecting to incur additional costs is in the implementation of the Tennessee Diploma Project which changes high school graduation requirements, and requires middle grade reforms.



There continues to be a challenge to recruit qualified staff and to meet the requirements of the Federal No Child Left Behind Act. Future additional costs will be incurred to meet new accounting requirements for other post employment benefits. Despite these challenges, SCS remains optimistic about the ability to maximize all of the financial resources available in order to provide a quality education to students.

Requests for information

This financial report is designed to provide citizens, taxpayers, parents, students, investors and creditors with a general overview of SCS' finances and to show the SCS' accountability for the funds received. Additional details and/or questions can be requested by mail at the following address:

Shelby County Schools
Chief Financial Officer
160 South Hollywood Street
Memphis, Tennessee 38112



**BOARD OF EDUCATION OF
SHELBY COUNTY, TENNESSEE**
(A Component Unit of Shelby County, Tennessee)
Statement of Net Assets
June 30, 2008

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 12,005,039
Investments	106,819,278
Due from other governments	26,312,817
Other receivables	1,077,088
Inventories	2,731,183
Capital assets, net	<u>364,559,286</u>
Total Assets	<u>\$ 513,504,691</u>
Liabilities	
Accounts payable and accrued expenses	\$ 19,483,787
Insurance claims payable	3,577,760
Deferred revenue	393,810
Long-term liability-OPEB	<u>56,148,408</u>
Total Liabilities	<u>79,603,765</u>
Net Assets	
Investment in capital assets	364,559,286
Restricted for:	
Insurance claims	12,495,771
Student activities	5,244,728
Unrestricted	<u>51,601,141</u>
Total Net Assets	<u>433,900,926</u>
Total Net Assets and Liabilities	<u>\$ 513,504,691</u>

The notes to the financial statements are an integral part of this statement.



**BOARD OF EDUCATION OF
SHELBY COUNTY, TENNESSEE**
(A Component Unit of Shelby County, Tennessee)
Statement of Activities
For the Year Ended June 30, 2008

Functions/Programs	Program Revenues			Net (Expense)
	Expenses	Charges for Services	Operating Grants & Contributions	Revenue and Changes in Net Assets
Governmental Activities:				Governmental Activities
Instructional programs	\$ 258,245,547	\$ 6,418,834	\$ 183,660,852	\$ (68,165,861)
Support services	38,091,575	653,542	-	(37,438,033)
General Administration	65,180,856	3,073,941	-	(62,106,915)
Operation and maintenance of plant	37,577,451	258,391	-	(37,319,060)
Student transportation	14,855,058	277,391	-	(14,577,667)
Food Service	16,948,161	8,798,034	6,028,044	(2,122,083)
Student activities	<u>12,817,333</u>	<u>-</u>	<u>13,079,337</u>	<u>262,004</u>
Total Governmental Activities	<u>\$ 443,715,981</u>	<u>\$ 19,480,133</u>	<u>\$ 202,768,233</u>	<u>(221,467,615)</u>
General Revenues:				
Shelby County				144,980,432
Local option and state sales taxes				41,552,519
Other local sources				<u>8,738,645</u>
Total General Revenues				<u>195,271,596</u>
Increase (Decrease) in Net Assets				(26,196,019)
Net Assets - Beginning of Year				<u>460,096,945</u>
Net Assets - End of Year				<u>\$ 433,900,926</u>

The notes to the financial statements are an integral part of this statement.



**BOARD OF EDUCATION OF
SHELBY COUNTY, TENNESSEE**
(A Component Unit of Shelby County, Tennessee)
Balance Sheet - Governmental Funds
June 30, 2008

Assets

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Federal Projects Funds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 12,005,039	\$ 12,005,039
Investments	81,649,931	9,636,324	-	52,549	91,338,804
Receivables:					
Due from Shelby County	-	12,851,470	-	-	12,851,470
State	6,884,662	-	1,623,734	1,019,302	9,527,698
Other	396,723	-	3,312	1,009,930	1,409,965
Due from other funds	5,818,423	-	434,655	715,910	6,968,988
Inventories	<u>1,929,950</u>	<u>-</u>	<u>-</u>	<u>801,233</u>	<u>2,731,183</u>
Total Assets	<u>\$ 96,679,689</u>	<u>\$ 22,487,794</u>	<u>\$ 2,061,701</u>	<u>\$ 15,603,963</u>	<u>\$ 136,833,147</u>

LIABILITIES AND FUND BALANCE

Liabilities:					
Accounts payable	\$ 953,708	\$ 1,628,546	\$ 187,067	\$ 210,742	\$ 2,980,063
Accrued payroll expenses	15,939,162	-	448,109	116,453	16,503,724
Due to other funds	589,288	-	1,418,126	5,887,514	7,894,928
Deferred revenue	<u>146,800</u>	<u>-</u>	<u>8,399</u>	<u>238,610</u>	<u>393,809</u>
Total Liabilities	<u>17,628,958</u>	<u>1,628,546</u>	<u>2,061,701</u>	<u>6,453,319</u>	<u>27,772,524</u>
Fund Balance:					
Reserved for encumbrances	15,581,778	-	-	-	15,581,778
Reserved for inventories	1,929,950	-	-	801,233	2,731,183
Reserved for capital outlays	-	20,859,248	-	-	20,859,248
Reserved for food services	-	-	-	3,104,683	3,104,683
Reserved for OPEB	4,570,000	-	-	-	4,570,000
Reserved for basic education program	10,614,341	-	-	-	10,614,341
Reserved for student activities	-	-	-	5,244,728	5,244,728
Unreserved	<u>46,354,662</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>46,354,662</u>
Total Fund Balance	<u>79,050,731</u>	<u>20,859,248</u>	<u>-</u>	<u>9,150,644</u>	<u>109,060,623</u>
Total Liabilities and Fund Balance	<u>\$ 96,679,689</u>	<u>\$ 22,487,794</u>	<u>\$ 2,061,701</u>	<u>\$ 15,603,963</u>	<u>\$ 136,833,147</u>

The notes to the financial statements are an integral part of this statement.



**BOARD OF EDUCATION OF
SHELBY COUNTY, TENNESSEE**
(A Component Unit of Shelby County, Tennessee)
Reconciliation of Balance Sheet - Governmental Funds
to the Statement of Net Assets
June 30, 2008

Amounts reported for governmental activities in the statement of net assets are different because:

	<u>Amount</u>
Total Fund Balance - Total Governmental Funds	\$ 109,060,623
1. Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	364,559,286
2. Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	3,933,654
3. Internal service funds are used by management to charge the costs of health and life insurance benefits to the individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	12,495,771
4. Long-term liability for OPEB future payments, not included in governmental funds	<u>(56,148,408)</u>
Total Net Assets - Governmental Activities	<u>\$ 433,900,926</u>

The notes to the financial statements are an integral part of this statement.



**BOARD OF EDUCATION OF
SHELBY COUNTY, TENNESSEE
(A Component Unit of Shelby County, Tennessee)**

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2008
(Continued)

	General Fund	Capital Projects Fund	Federal Projects Fund	Other Governmental Funds	Total Governmental Funds
Other Financing Sources					
(Uses):					
Transfers in	348,689	-	-	-	348,689
Transfers out	-	-	(122,088)	(226,601)	(348,689)
Total Other Financing Sources (Uses)	<u>348,689</u>	<u>-</u>	<u>(122,088)</u>	<u>(226,601)</u>	<u>-</u>
Net Change in Fund Balances	1,511,644	7,398,809	-	(328,321)	8,582,132
Fund Balances, Beginning of Year	78,060,821	13,460,439	-	9,011,266	100,532,526
Change in reserve for inventories	<u>(521,734)</u>	<u>-</u>	<u>-</u>	<u>467,699</u>	<u>(54,035)</u>
Fund Balances, End of Year	<u>\$ 79,050,731</u>	<u>\$ 20,859,248</u>	<u>\$ -</u>	<u>\$ 9,150,644</u>	<u>\$ 109,060,623</u>

The notes to the financial statements are an integral part of this statement.



**BOARD OF EDUCATION OF
SHELBY COUNTY, TENNESSEE
(A Component Unit of Shelby County, Tennessee)**

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2008

Amounts reported for governmental activities in the Statement of Activities are different because:

	<u>Amount</u>
Net Change in Fund Balances - Total Governmental Funds	\$ 8,582,132
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 and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.	16,392,772
The net effect of the disposal of certain capital assets including sales and retirements is to decrease net assets.	75,990
Under the modified basis of accounting used in the governmental funds, expenditures for inventory are recorded when purchased (the purchases method), but in the statement of activities, inventory is expensed only when consumed (consumption method).	(54,035)
Recognition of deferred revenue by Shelby County increases the Board's receivable from Shelby County. This amount is the net change during the period.	3,907,835
Long-term liability for OPEB future payments, not included in governmental funds	(56,148,408)
Internal service funds are used by management to charge the cost of health and life insurance benefits to the individual funds. The net revenue of the activities of the internal service fund is reported with governmental activities.	<u>1,047,695</u>
Change in Net Assets of Governmental Activities	<u>\$ (26,196,019)</u>

The notes to the financial statements are an integral part of this statement.



**BOARD OF EDUCATION OF
SHELBY COUNTY, TENNESSEE**
(A Component Unit of Shelby County, Tennessee)
Statement of Net Assets - Proprietary Fund
June 30, 2008

Assets

	Governmental Activities - Internal Service Fund
Investments	\$ 15,480,474
Due from other funds	<u>593,057</u>
Total Assets	<u>\$ 16,073,531</u>

Liabilities and Net Assets

Liabilities	
Insurance claims payable	\$ <u>3,577,760</u>
Total Liabilities	3,577,760
Net Assets	
Restricted for insurance claims	<u>12,495,771</u>
Total Liabilities and Net Assets	<u>\$ 16,073,531</u>

The notes to the financial statements are an integral part of this statement.



**BOARD OF EDUCATION OF
SHELBY COUNTY, TENNESSEE**
(A Component Unit of Shelby County, Tennessee)

Statement of Revenues, Expenditures, and Changes in Fund Net Assets - Proprietary Fund
For the Year Ended June 30, 2008

	Governmental Activities - Internal Service Fund
Operating Revenues:	
Premium received	\$ 36,712,753
Operating Expenses:	
Claims incurred	31,938,032
Insurance premiums	1,692,760
Administrative expenses	<u>2,507,570</u>
Total Operating Expenses	<u>36,138,362</u>
Operating Income (Loss)	574,391
Nonoperating Revenue:	
Interest Income	<u>473,304</u>
Change in Net Assets	1,047,695
Net Assets - Beginning of Year	<u>11,448,076</u>
Net Assets - End of Year	\$ <u><u>12,495,771</u></u>

The notes to the financial statements are an integral part of this statement.



**BOARD OF EDUCATION OF
SHELBY COUNTY, TENNESSEE**
(A Component Unit of Shelby County, Tennessee)
Statement of Cash Flows - Proprietary Fund
For the Year Ended June 30, 2008

	Governmental Activities - Internal Service Fund
Cash Flows From Operating Activities:	
Premium received	\$ 37,049,803
Claims paid	(31,009,079)
Payments to vendors	<u>(4,200,330)</u>
Net Cash Provided by Operating Activities	<u>1,840,394</u>
Cash Flows From Investing Activities:	
Interest income	473,305
(Increase) in investments	<u>(2,313,699)</u>
Net Cash Used In Investing Activities	<u>(1,840,394)</u>
Net Increase in Cash and Cash Equivalents	-
Cash and Cash Equivalents, Beginning of Year	<u>-</u>
Cash and Cash Equivalents, End of Year	<u>\$ -</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	\$ 574,391
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Changes in Operating Assets and Liabilities:	
Decrease in Due from other funds	337,050
Decrease in Accounts payable	(1,070,000)
Increase in insurance claims payable	<u>1,998,953</u>
Total Cash Provided by Operating Activities	<u>\$ 1,840,394</u>

The notes to the financial statements are an integral part of this statement.



**BOARD OF EDUCATION OF
SHELBY COUNTY, TENNESSEE**
(A Component Unit of Shelby County, Tennessee)
Notes to the Financial Statements
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Board of Education of Shelby County, Tennessee (the "Board") is a component unit of Shelby County, Tennessee. Accordingly, the accounts and transactions reported in the accompanying financial statements are included in the Shelby County, Tennessee Comprehensive Annual Financial Report as a discretely presented governmental component unit.

Government-wide financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information about the Board as a whole. These statements include the financial activities of the Board.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. The result of these eliminations is a more accurate reporting of the Board's overall revenues and expenses from its activities.

Fund financial statements

Fund financial statements are designed to present financial information of the Board at a more detailed level (and to demonstrate legal compliance). The focus of fund financial statements is on major funds. The Board's major individual governmental funds are the general fund and capital projects fund and are reported as separate columns in the governmental funds financial statements. Nonmajor funds are aggregated and presented in a single column in the governmental fund financial statements. The Board's proprietary fund is the internal service fund which is reported in the proprietary fund financial statements.



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 proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The Board reports the following major governmental funds:

General Fund: The general fund, as the primary operating fund, is used to account for all financial resources except those required to be accounted for in another fund.

Capital Projects Fund: Transactions related to resources obtained and used for the acquisition, construction or improvement of capital facilities are accounted for in the capital projects fund. The primary funding source is bond proceeds from Shelby County.

Federal Projects Fund: The federal project fund relates to resources obtained and used under certain federal and state programs and to other sources upon which legal restrictions are imposed.

The Board reports the following nonmajor governmental funds which are shown in total as "other governmental funds:"

Special Revenue Funds: School cafeteria and school student activity funds represent the aggregate of individual school funds, which are accounted for in each school. The school cafeteria funds are used for operating child nutrition programs only. The school student activity funds represent proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.



The Board reports the following proprietary fund:

Internal Service Fund: This fund is comprised of the Board's self-insured health and life insurance fund. The fund accounts for employee and retiree group health and life insurance. The primary funding source is contributions from employees, retirees and the Board.

Pursuant to GASB Statement 20 Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting, the District follows GASB guidance as applicable to Proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements and has elected not to follow FASB pronouncements issued after that date.

Cash and cash equivalents

Shelby County maintains a cash pool, of which the County Trustee is custodian, that is generally available for use by all Shelby County funds and related entities. At June 30, 2008, cash and cash equivalents include amounts in the pool, demand deposits at various financial institutions and certificates of deposit with original maturity of three months or less at the time of purchase.

Receivables

Receivables consist primarily of grant funds receivable from the federal government and the State of Tennessee, property taxes receivables from Shelby County and funds due from Shelby County for capital projects.

Outstanding balances between funds are reported as "due to/from other funds." The transfer between funds is used to ensure current operations and programs are not interrupted.

Investments

The County Trustee invests monies on behalf of other Shelby County funds and related entities. Investments represent the Board's equity interest of amounts invested by the County Trustee in the State Treasurer's investment pool on behalf of the Board. The investment in State Treasurer's Local Government Investment Pool (LGIP) is stated at cost plus accrued interest, which approximates fair market value.

Deposits with LGIP may be withdrawn with a maximum of one day's notice and are classified as investments. The LGIP is not registered with the SEC as an investment company. However, the LGIP has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Rule 2a7 allows SEC-registered mutual funds to use amortized cost rather than fair value to report net assets to compute share prices if certain



conditions are met, State statutes require the State Treasurer to administer the LGIP under the same terms and conditions, including collateral requirements, as required for other funds invested by the Treasurer. The reported value of the pool is the same as the fair value of the pool shares.

State statutes authorize the County Trustee to invest in obligations of the U.S. Treasury, obligations guaranteed as to principal and interest by the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loans associations and federal chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, and the LGIP. State statutes also require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transactions.

Inventories

Inventories consist of textbooks, food, maintenance and school supplies. On government-wide financial statements, inventories are presented at the lower of cost or market and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at lower of cost or market. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

Capital assets

Capital assets, which include land, land improvements, buildings and improvements, furniture and equipment and construction in progress, are reported in the government-wide financial statements. Capital assets are defined by Board policy as assets with an initial, individual cost of \$5,000 or more with a useful life of more than one year.

Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. All reported capital assets except land and construction in progress are depreciated. Depreciation is computed over the remaining useful lives of the related capital assets using the straight-line method of depreciation. Estimated useful lives are as follows:

Building and Building improvements	25 to 50 years
Furniture and equipment	5 to 20 years



Deferred revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Fund balance reserves

The Board reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, inventories, capital outlays, food service, OPEB, basic education program, and student activities.

Property tax revenue

The Board recognizes as revenue its share of realty and personal property taxes in the fiscal year of the levy if collected within two months following the end of the fiscal year. The Board does not have any taxing authority. Consequently, it relies on a share of realty and personal property taxes collected by the County. The County tax levy of \$4.04 per \$100 of assessed value includes \$2.02 for both the city and county schools.

Distribution of the \$2.02 to the city and county school systems is based on the average daily attendance of each system. Approximately 70.82% and 29.18% was distributed to the City of Memphis Schools and Shelby County Schools, respectively.

Other postemployment benefits

Effective July 1, 2007, the Board implemented GASB Statement 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. Prior to implementation of GASB Statement 45, the Board accounted for other postemployment benefits (OPEB) under a pay-as-you-go financing basis. With the adoption of GASB Statement 45, the Board measures and recognizes the cost of OPEB during the periods when employees render the services, and provides relevant information about OPEB obligations and the extent to which progress is being made in funding those obligations.



NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between net change in fund balances - total governmental funds and change in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "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 and reported as "depreciation expense." The details of this \$16,392,772 difference are as follows:

Capital outlay	\$ 26,124,232
Depreciation expense	<u>(9,731,460)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental funds	\$ <u>16,392,772</u>

Another element of that reconciliation explains that "Recognition of Deferred Revenue by Shelby County increases the Receivable from Shelby County." The details of this \$3,907,835 are as follows:

Deferred Property taxes	\$ 1,747,881
Deferred Wheel taxes	<u>2,159,954</u>
Total Deferred Revenue	\$ <u>3,907,835</u>

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgets and budgetary accounting

General and federal projects fund's revenue and expenditures are controlled by a formal integrated budgetary accounting system in accordance with various legal requirements that govern the operations of the Board. The budgetary basis of accounting differs from generally accepted accounting principles because encumbrances have been recorded as expenditures. The original budget and all subsequent amendments to the budget are approved by the Shelby County Board of Commissioners. The capital project fund, internal service fund, school cafeteria funds and the school student activity funds are not legally required to adopt an annual budget.



NOTE 4 - DEPOSITS AND INVESTMENTS:

Bank deposits and certificates of deposit of the Board, consistent with State statutes, are covered by federal depository insurance (FDIC) or are collateralized by a multiple financial institution collateral pool administered by the Treasurer of the State of Tennessee. On limited occasions the Board may have deposits with financial institutions that do not participate in the State collateral pool; in these instances separate collateral equal to at least 105% of the uninsured deposit is collateralized and held in the Board's name by a third party. These provisions covered all Board deposits at year-end.

The Board's investments at June 30, 2008 consisted solely of investments in the LGIP.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Both State statutes and the County's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Both State statutes and the County's investment policy limit permissible investments or impose collateral and custody provisions as specified above or in Note 1 to significantly limit credit risk. Although the LGIP is unrated, its types of investments and maturities provide a similar level of credit risk.

NOTE 5 - CAPITAL ASSETS:

A summary of changes in capital assets is as follows:

	Capital Assets, Not Depreciated		Capital Assets, Depreciated		
	Land	Construction in Progress	Equipment and Furniture	Buildings	Total
General Activities:					
Balance, July 1, 2007	\$ 18,731,621	\$ 53,434,745	\$ 26,131,280	\$ 371,141,638	\$ 469,439,284
Increases/Transfers	-	22,622,519	4,836,655	6,814,278	34,273,452
Decreases	-	(8,082,874)	(1,304,500)	(5,000)	(9,392,374)
Balance, June 30, 2008	<u>18,731,621</u>	<u>67,974,390</u>	<u>29,663,435</u>	<u>377,950,916</u>	<u>494,320,362</u>
Accumulated Depreciation:					
Balance, July 1, 2007	-	-	17,236,091	104,112,671	121,348,762
Increases	-	-	2,443,294	7,288,166	9,731,460
Decreases	-	-	(1,250,811)	(68,335)	(1,319,146)
Balance, June 30, 2008	-	-	<u>18,428,574</u>	<u>111,332,502</u>	<u>129,761,076</u>
Total Capital Assets, Net	<u>\$ 18,731,621</u>	<u>\$ 67,974,390</u>	<u>\$ 11,234,861</u>	<u>\$ 266,618,414</u>	<u>\$ 364,559,286</u>



Fixed Assets - Depreciation expense by function for year ended June 30, 2008.

Instructional			
Machine and equipment	\$	45,011	
Science/instructional		9,605	
Furniture		57,649	
Communication		2,771	
AV equipment		55,937	
Athletic		503	
Music		8,425	
SPED		8,788	
Building, portables, etc.		<u>7,288,167</u>	
			\$ 7,476,856
Transportation			
Buses and vehicles		1,998,011	1,998,011
General Administration			
Business machines		15,666	
Computer		40,300	
			55,966
Food Services			
Kitchen and appliance		158,216	158,216
Operation and Maintenance of Plant			
Contractors equipment		18,444	
Grounds/custodial		23,967	
			<u>42,411</u>
	\$	<u>9,731,460</u>	\$ <u>9,731,460</u>

Depreciation expense was charged to governmental functions as follows:

Instructional programs	\$	7,476,856
Student transportation		1,998,011
General administration		55,966
Food services		158,216
Operation and maintenance of plant		<u>42,411</u>
	\$	<u>9,731,460</u>



NOTE 6 - DEFINED BENEFIT PLAN:

Plan description - teachers

The Shelby County Schools contribute to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979 are vested after five years of service. Members joining the plan prior to July 1, 1979 are vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are provided to retirees each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent. The annual COLA is capped at three percent.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the SETHEEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us.

Funding policy

Most teachers are required by state statute to contribute 5.0% of salary to the plan. The employer contribution rate for the Shelby County Schools is established at an actuarially determined rate. The employer rate for the fiscal year ending June 30, 2008 was 6.24% of annual covered payroll. The employer contribution requirement for Shelby County Schools is established and may be amended by the TCRS Board of Trustees. The employer's contribution to TCRS for the years ending June 30, 2008, 2007, and 2006 were \$11,249,258, \$10,330,710, and \$9,000,901, respectively, equal to the required contributions for each year.



Plan description - non teachers

Employees of Shelby County Board of Education are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Shelby County Board of Education participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us.

Funding policy

Shelby County Board of Education requires employees to contribute 5.0% of earnable compensation.

Shelby County Board of Education is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2008 was 8.90% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Shelby County Board of Education is established and may be amended by the TCRS Board of Trustees.



Annual pension cost

For the year ending June 30, 2008, Shelby County Board of Education’s annual pension cost of \$3,837,688 to TCRS was equal to Shelby County Board of Education’s required and actual contributions. The required contribution was determined as part of the July 1, 2005 actuarial valuation using the frozen initial liability actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. Shelby County Board of Education’s unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2007 was 10 years. An actuarial valuation was performed as of July 1, 2007, which established contribution rates effective July 1, 2008.

Fiscal Year End	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2008	\$ 3,837,688	100%	\$ -
June 30, 2007	\$ 3,443,844	100%	\$ -
June 30, 2006	\$ 2,768,105	100%	\$ -
June 30, 2005	\$ 2,713,985	100%	\$ -
June 30, 2004	\$ 2,540,622	100%	\$ -
June 30, 2003	\$ 2,428,647	100%	\$ -

Funded Status and Funding Progress

As of July 1, 2007, the most recent actuarial valuation date, the plan was 92.82% funded. The actuarial accrued liability for benefits was \$111.89 million, and the actuarial value of assets was \$103.86 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$8.03 million. The covered payroll (annual payroll of active employees covered by the plan) was \$38.82 million, and the ratio of the UAAL to the covered payroll was 20.69%.

The schedules of funding progress, presented as required supplementary information (RSI) below, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL's for benefits.

The annual required contribution (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.



Required Supplementary Information

Schedule of Funding Progress for Shelby County Board of Education (dollar amounts in thousands):

Actual Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2007	\$ 103,860	\$ 111,892	\$ 8,032	92.82 %	\$ 38,818	20.69 %
June 30, 2005	\$ 89,893	\$ 97,207	\$ 7,314	92.48 %	\$ 35,584	20.55 %
June 30, 2003	\$ 80,542	\$ 91,264	\$ 10,722	88.25 %	\$ 40,236	26.65 %
June 30, 2001	\$ 70,544	\$ 79,619	\$ 9,075	88.60 %	\$ 35,058	25.89 %
June 30, 1999	\$ 59,958	\$ 67,158	\$ 7,200	89.28 %	\$ 31,124	23.13 %
June 30, 1997	\$ 49,267	\$ 52,080	\$ 2,813	94.60 %	\$ 26,303	10.69 %

NOTE 7 - COMMITMENTS AND CONTINGENCIES:

The Board is involved in certain litigation proceedings which arose out of the normal course of operations. Management of the Board intends to vigorously defend each claim and believes no material losses will be incurred on such claims.

NOTE 8 - RISK MANAGEMENT AND RELATED INSURANCE ISSUES:

Shelby County Schools maintains a self-insured health insurance fund for its active and retired employees and their dependents, funded by both the Board and its employees. The fund maintains a stop-loss insurance policy which limits the Board's liability for any specific medical claim. Incurred but not reported (IBNR) claims liabilities of the fund are actuarially determined based on prior paid claims history. The IBNR claims liability at June 30, 2008 totaled \$3,577,760. Changes in the balances of claims liabilities for the year ended June 30, 2008 are as follows:

Unpaid claims, beginning of year	\$ 1,578,807
Incurred claims (including IBNR)	31,938,032
Claims payments	<u>(29,939,079)</u>
Unpaid claims, end of year	<u>\$ 3,577,760</u>



The Board maintains commercial insurance to cover significant losses for all major programs related to property and liability. For insured programs, there have been no significant reductions in insurance coverage during the year. Settlement amounts have not exceeded insurance coverage for the current or three years prior.

NOTE 9 - POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS:

Plan Description

Shelby County Schools administers a single-employer defined benefit healthcare plan (the Plan). The Plan provides lifetime healthcare insurance and life insurance for eligible retirees and their spouses through Shelby County Schools' group health and life insurance plans, which covers both active and retired members. Benefit provisions are established by the Board of Education of Shelby County. The Plan does not issue a publicly available financial report.

Funding Policy

Contribution requirements are established by the Board of Education. The Board contributes 70 percent of the current-year premiums for eligible retired plan members and their spouses. For fiscal year 2008, the Board contributed \$7,044,263 to the Plan. Plan members receiving benefits contribute 15 percent of their premium costs. In fiscal year 2008, total member contributions were \$1,109,354.

Annual OPEB Cost and Net OPEB Obligation

The Board's annual other post employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the Board's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Board's net OPEB obligation to the Plan:

	<u>Medical</u>	<u>Life</u>	<u>Total</u>
Annual required contribution	\$ 63,558,735	\$ 2,912,104	\$ 66,470,839
Interest on Net OPEB Obligation	-	-	-
Adjustment to annual required contribution	-	-	-
Annual OPEB Cost	<u>63,558,735</u>	<u>2,912,104</u>	<u>66,470,839</u>
Contributions made(Actuarial assumption)	<u>9,726,348</u>	<u>596,083</u>	<u>10,322,431</u>
Increase in Net OPEB Obligation	53,832,387	2,316,021	56,148,408
Net OPEB Obligation - Beginning of Year	-	-	-
Net OPEB Obligation - End of Year	<u>\$ 53,832,387</u>	<u>\$ 2,316,021</u>	<u>\$ 56,148,408</u>



The Board elected to implement the provisions of GASB Statement 45 for the fiscal year ended June 30, 2008. Prior to implementation of GASB Statement 45, the Board recognized annual OPEB cost on a pay-as-you-go basis. The Statement provides for prospective implementation, by which, the Board has set the beginning net OPEB obligation at zero as of the beginning of the initial year. The Board's annual OPEB cost, the percentage of annual OPEB contributed to the Plan, and the net OPEB obligation for fiscal year 2008 was as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2008	\$ 66,470,839	15.5 %	\$ 56,148,408

Funded Status and Funding Progress

As of June 30, 2008, the actuarial accrued liability for insurance and life benefits was \$548,585,497, and all of which was unfunded. The covered payroll (annual payroll of active employees covered by the Plan) was \$ 220,714,209 , and the ratio of the unfunded actuarial accrued liability to the covered payroll was 248.6 percent.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contribution of the Board are subject to continual revision as actual results are compared with past experiences and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions

Projects of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the Board and Plan members) and include the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Board and Plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.



The following simplifying assumptions were made for the valuation date of July 1, 2008:

Eligibility requirements – 30 years of service or 60 years of age and 15 years of service

Mortality – Life expectancies were based on mortality tables: the 2007 Current Liability Combined Mortality.

Salary increases – Salaries are assumed to increase by 4 percent per year.

Healthcare cost trend rates – The expected rate of increase in healthcare insurance premiums were projected at 11 percent for Pre-65 and 10 percent for 65 plus. The trend is assumed to decrease by .5% per year until a rate of 6 percent is reached.

Benefits – The Plan provides lifetime medical and life benefits for the retiree, spouse and eligible dependents. Life insurance on the retiree is equal to salary at retirement raised to the next \$1,000.

Monthly retiree contributions – For medical insurance, employees who retire after July 1, 2006 pay 30 percent of the total active rate. Employees who retired prior to July 1, 2006 pay 20 percent of the total active rate until July 1, 2008. After that date, they will pay 30% of the total active rate. For life insurance, employees pay 30% of the total active rate which was \$0.249 per \$1,000 in 2008.

In the July 1, 2008 actuarial valuation, the projected unit credit method was used. A discount rate of 6.5 percent was used based on the current rate of return on high-quality fixed-income investments whose cash flows match the timing of expected benefit payments. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period as of June 30, 2008, was thirty years.

Required Supplementary Information

Schedule of Funding Progress for the OPEB Plan
June 30, 2008

Actual Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
June 30, 2007	\$ -	\$548,585,497	\$548,585,497	0%	\$220,714,209	248.6%



**BOARD OF EDUCATION OF SHELBY COUNTY, TENNESSEE
REQUIRED SUPPLEMENTAL INFORMATION**



**BOARD OF EDUCATION OF
SHELBY COUNTY, TENNESSEE
(A Component Unit of Shelby County, Tennessee)**

Schedule of Revenue, Expenditures, and Changes in Fund Balances -
Budget and Actual (Budgetary Basis) - General Fund
For the Year Ended June 30, 2008

	<u>Budgeted Amounts</u>			Variance with Final Budget- Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Shelby County	\$ 105,289,603	\$105,289,603	\$ 106,795,770	\$ 1,506,167
State of Tennessee	164,400,463	164,400,463	165,914,067	1,513,604
Federal Government	790,597	790,597	802,563	11,966
Local option and State sales taxes	39,134,313	39,134,313	41,552,519	2,418,206
Charges for current services	1,600,000	1,600,000	1,753,541	153,541
Other local sources	<u>3,333,515</u>	<u>3,333,515</u>	<u>7,155,607</u>	<u>3,822,092</u>
Total Revenues	<u>314,548,491</u>	<u>314,548,491</u>	<u>323,974,067</u>	<u>9,425,576</u>
Expenditures:				
Regular education program	172,848,141	172,848,141	171,221,721	1,626,420
Special education program	29,527,496	29,527,496	28,591,647	935,849
Vocational education program	6,018,288	6,018,288	5,838,661	179,627
Alternative education programs	1,614,518	1,614,518	388,254	1,226,264
Support services	38,077,331	38,077,331	40,635,903	(2,558,572)
General administration	11,120,515	11,120,515	10,855,593	264,922
School administration	22,152,469	22,152,469	22,207,029	(54,560)
Business administration	3,841,284	3,841,284	3,490,325	350,959
Operation and maintenance of plant	26,572,553	26,572,553	25,503,885	1,068,668
Student transportation	9,840,500	9,840,500	11,325,929	(1,485,429)
Capital outlays	<u>2,875,000</u>	<u>2,875,000</u>	<u>7,436,087</u>	<u>(4,561,087)</u>
Total Expenditures	<u>324,488,095</u>	<u>324,488,095</u>	<u>327,495,034</u>	<u>(3,006,939)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(9,939,604)</u>	<u>(9,939,604)</u>	<u>(3,520,967)</u>	<u>6,418,637</u>
Other Financing Sources (Uses):				
Transfers in	200,000	200,000	348,689	148,689
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>200,000</u>	<u>200,000</u>	<u>348,689</u>	<u>148,689</u>
Net Change in Fund Balances	<u>\$ (9,739,604)</u>	<u>\$ (9,739,604)</u>	(3,172,278)	<u>\$ 6,567,326</u>
Increase in Reserve for Encumbrances			<u>4,683,922</u>	
Net Change in Fund Balances-GAAP Basis			1,511,644	
Fund Balance-GAAP Basis-Beginning of Year			78,060,821	
Decrease in Reserve for Inventories			<u>(521,734)</u>	
Fund Balance-GAAP Basis-End of Year			<u>\$ 79,050,731</u>	



**BOARD OF EDUCATION OF
SHELBY COUNTY, TENNESSEE**
(A Component Unit of Shelby County, Tennessee)
Notes to Required Supplementary Information

For the Year Ended June 30, 2008

NOTE A - BUDGETARY INFORMATION:

The County, by State statute, requires the Director of Schools and Chair of the School Board to prepare annual budgets, and after approval by the School Board, to submit the budget to the Shelby County Commission.

The budget submitted by the schools system is reviewed by the Department of Education to ensure that state funds are not being used to supplant local funds and that the school system has appropriated funds sufficient to fund its local share of the BEP. Revenue derived from local sources must equal or exceed prior year actual revenues, excluding capital outlay and debt service; and adjusted for decline in average daily membership (ADM).

Budgeting for the Board of Education of Shelby County, Tennessee is regulated and controlled by State legislation, State Board of Education regulations, the Shelby County Commission, and the local school Board requirements. A budget is required for every fund that the school district utilizes in its yearly operation. Tennessee school systems are required to budget only for a twelve month period of time for a fiscal year running from July 1 to June 30.

NOTE B - EXPENDITURE EXCEEDED APPROPRIATIONS:

Expenditures exceeded appropriations approved by the County Commission in the following major appropriation categories of the General Fund:

<u>Major Appropriation Category</u>	<u>Amount Overspent</u>
Support Services	\$ 2,558,572
Student Transportation	1,485,429
School Administration	54,650
Capital Outlays	4,561,087

These expenditure overages were resolved through a combination of under spending in other categories, as well as using a portion of the amount of accumulated reserves that had been designated for the purpose of balancing the budget.



SUPPLEMENTAL INFORMATION



**BOARD OF EDUCATION OF
SHELBY COUNTY, TENNESSEE**
(A Component Unit of Shelby County, Tennessee)
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2008

Assets

	<u>Special Revenue Funds</u>			Total Other Governmental Funds
	Miscellaneous Governmental Funds	School Cafeteria Fund	School Student Activity Fund	
Cash and cash equivalents	\$ 582,528	\$ 6,960,337	\$ 4,462,174	\$ 12,005,039
Investments	-	-	52,549	52,549
Accounts receivable				
State	500,742	518,560	-	1,019,302
Other	186,719	823,211	-	1,009,930
Due from other funds	715,910	-	-	715,910
Inventories	-	670,269	130,964	801,233
Total Assets	<u>\$ 1,985,899</u>	<u>\$ 8,972,377</u>	<u>\$ 4,645,687</u>	<u>\$ 15,603,963</u>

Liabilities and Fund Balances

Liabilities:				
Accounts payable	\$ 105,725	\$ 102,497	\$ 2,520	\$ 210,742
Accrued payroll expenses	91,454	24,999	-	116,453
Due to other funds	958,252	4,929,262	-	5,887,514
Deferred revenues	97,943	140,667	-	238,610
Total Liabilities	<u>1,253,374</u>	<u>5,197,425</u>	<u>2,520</u>	<u>6,453,319</u>
Fund Balances:				
Reserved for inventories	-	670,269	130,964	801,233
Reserved for state matching funds-food service	-	3,104,683	-	3,104,683
Reserved for school student activities	732,525	-	4,512,203	5,244,728
Total Fund Balances	<u>732,525</u>	<u>3,774,952</u>	<u>4,643,167</u>	<u>9,150,644</u>
Total Liabilities and Fund Balances	<u>\$ 1,985,899</u>	<u>\$ 8,972,377</u>	<u>\$ 4,645,687</u>	<u>\$ 15,603,963</u>



**BOARD OF EDUCATION OF
SHELBY COUNTY, TENNESSEE
(A Component Unit of Shelby County, Tennessee)**

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances -
Nonmajor Governmental Funds
For the Year Ended June 30, 2008

	Special Revenue Funds			Total Other Governmental Funds
	Miscellaneous Governmental Funds	School Cafeteria Fund	School Student Activity Fund	
Revenues:				
State of Tennessee	\$ 323,678	\$ 219,267	\$ -	\$ 542,945
Federal government	2,382	5,808,777	-	5,811,159
Other local sources	<u>202,149</u>	<u>8,488,226</u>	<u>13,079,337</u>	<u>21,769,712</u>
Total Revenues	<u>528,209</u>	<u>14,516,270</u>	<u>13,079,337</u>	<u>28,123,816</u>
Expenditures:				
Regular education program	10,062	-	-	10,062
Support services	512,643	-	-	512,643
Food services	-	14,885,498	-	14,885,498
Student activities	<u>-</u>	<u>-</u>	<u>12,817,333</u>	<u>12,817,333</u>
Total Expenditures	<u>522,705</u>	<u>14,885,498</u>	<u>12,817,333</u>	<u>28,225,536</u>
Excess of Revenue Over Expenditures	<u>5,504</u>	<u>(369,228)</u>	<u>262,004</u>	<u>(101,720)</u>
Other Financing Sources:				
Transfers in (out)	<u>(5,504)</u>	<u>(221,097)</u>	<u>-</u>	<u>(226,601)</u>
Net Increase (Decrease) in Fund Balances	-	(590,325)	262,004	(328,321)
Fund Balance, beginning of year	732,525	3,912,228	4,366,513	9,011,266
Change in Reserve for Inventories	<u>-</u>	<u>453,049</u>	<u>14,650</u>	<u>467,699</u>
Fund Balance, end of year	<u>\$ 732,525</u>	<u>\$ 3,774,952</u>	<u>\$ 4,643,167</u>	<u>\$ 9,150,644</u>



**BOARD OF EDUCATION OF
SHELBY COUNTY, TENNESSEE**
(A Component Unit of Shelby County, Tennessee)

Schedule of Revenue and Expenditures - By Type (Budgetary Basis) -
Federal Projects Funds
For the Year Ended June 30, 2008

	Title I	Title III-A and Title V-A	Carl Perkins	IDEA Part B	IDEA Preschool	Title II	Early Childhood Education Pilot Project	Safe Schools \ Healthy Students	Other Non-Major Programs	Total
Revenues	\$ 2,405,319	\$ 300,644	\$ 438,904	\$ 9,571,685	\$ 205,854	\$ 742,823	\$ 799,910	\$ 1,617,631	\$ 373,436	\$ 16,456,206
Expenditures	962,313	157,838	-	5,823,903	-	246,624	-	-	120,069	1,486,844
Regular education program	-	-	-	-	203,681	-	-	-	-	6,027,584
Special education program	1,408,646	136,960	68,372	1,187,632	-	477,674	786,157	1,617,630	249,715	5,932,786
Vocational education program	-	-	365,417	-	-	-	-	-	-	365,417
Support services	-	-	68,372	1,187,632	-	477,674	786,157	1,617,630	249,715	5,932,786
Student transportation	-	-	-	2,521,487	-	-	-	-	-	2,521,487
Total Expenditures	2,370,959	294,798	433,789	9,533,022	203,681	724,298	786,157	1,617,630	369,784	16,334,118
Excess of Revenue Over Expenditures	\$ 34,360	\$ 5,846	\$ 5,115	\$ 38,663	\$ 2,173	\$ 18,525	\$ 13,753	\$ 1	\$ 3,652	\$ 122,088



**BOARD OF EDUCATION OF
SHELBY COUNTY, TENNESSEE**
(A Component Unit of Shelby County, Tennessee)
Schedule of Construction In Progress
For the Year Ended June 30, 2008

	<u>Construction Program Expenditures</u>	<u>Cumulative Construction In Progress</u>
Arlington Elementary Addition	\$ 140,320	\$ -
Rivercrest Elementary Addition	129,076	-
Highland Oaks Elementary Addition	289,396	-
Southwind Middle Addition	294,877	-
Arlington High	85,818	-
Mt. Pisgah Middle	3,354,827	10,752,549
Southwind High	7,443,230	40,292,266
Bon Lin Middle	9,301,972	10,559,055
Riverdale Elementary Roof	163,864	-
Bartlett Elementary Roof	502,804	-
New Southeast Middle	1,614,841	1,616,641
Southwind Elementary Addition	1,797,581	1,798,962
Northeast Area Elementary	1,793,090	1,793,090
Grays Creek Maintenance Facility	948,739	948,739
Shelby County Schools-Gymnasium	<u>213,088</u>	<u>213,088</u>
Total	<u>\$ 28,073,523</u>	<u>\$ 67,974,390</u>



Catalog of
Federal
Domestic
Assistance
Number

Program Name

Type A**

10.553	School Breakfast Program
10.555	National School Lunch Program
84.010	Title I Grants to Local Educational Agen
84.027	Special Education - Grants to States
84.148L	Safe Schools/Healthy Students Grants
84.367A	Improving Teacher Quality
93.558	Early Childhood Education Pilot Project
	Non monetary Assistance:
10.550	Commodity Assistance

Type B**

16.710	Public Safety Partnership and Communit
84.041	Impact Aid
84.048A	Vocational Education - Basic Grants to S
84.173	Special Education - Preschool Grants
84.186A	Safe and Drug-free Schools and Commu
84.213	Even Start - State Education Agencies
84.215K	FIE Earmark Grant Awards
84.287C	21st Century Community Learning Cente
84.293B	Foreign Language Assistance Program
84.298A	Innovative programs
84.318X	Enhancing Education Through Technolo
84.365A	English Language Acquisition
84.938B	Homeless Youth
	Total

** Type A programs are defined as federal programs of an auditee for which total Federal awards expen



**BOARD OF EDUCATION OF
SHELBY COUNTY, TENNESSEE**
(A Component Unit of Shelby County, Tennessee)
Notes to the Schedule of Expenditures of Federal and State Awards

For the Year Ended June 30, 2008

BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal and State Awards (the schedule) has been generally prepared on the accrual basis of accounting. The purpose of the schedule is to present a summary of those activities represented by Board of Education of Shelby County, Tennessee for the year ended June 30, 2008, which have been financed by the U.S. Government (federal awards). For the purpose of the schedule, federal awards include all of federal assistance and procurement relationships entered into directly and indirectly with the Board of Education of Shelby County, Tennessee. It is not intended to and does not present either the financial position or the changes in net assets of Board of Education of Shelby County, Tennessee. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the financial statements.

Individual awards within each category of federal awards are identified by CFDA number and program name if the award is individually significant to the category of award. All other awards are presented in total by funding agency.

REVENUE AND EXPENDITURE RECOGNITION

Revenue is recognized when received or when earned by the organization.

Expenditures for direct costs are recognized as incurred using the accrual method of accounting and the cost accounting principles contained in the U.S. Office of Management and Budget (OMB) Circular A-87, Cost Principles for State, Local and Indian Tribal Governments. Under those cost principles, certain types of expenditures are not allowable or are limited as to reimbursement.

FOOD DONATION

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2008, the Board of Education of Shelby County, Tennessee had food commodities totaling \$334,664 in inventory.



**BOARD OF EDUCATION OF SHELBY COUNTY, TENNESSEE
REPORTS ON INTERNAL CONTROL AND COMPLIANCE**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Superintendent and School Board
Board of Education of Shelby County, Tennessee

We have audited the financial statements of the Board of Education of Shelby County, Tennessee (a component unit of Shelby County, Tennessee), as of and for the year ended June 30, 2008, and have issued our report thereon dated December 23, 2008. Our report was modified to include a reference to other auditors. 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. Other auditors audited the financial statements of the School Cafeteria Fund and the School Activity Fund, as described in our report on the Board of Education of Shelby County, Tennessee's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board of Education of Shelby County, Tennessee's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board of Education of Shelby County, Tennessee's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board of Education of Shelby County, Tennessee's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.



A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Board of Education of Shelby County, Tennessee's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Board of Education of Shelby County, Tennessee's financial statements that is more than inconsequential will not be prevented or detected by the Board of Education of Shelby County, Tennessee's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting. See reference number 2008-01.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Board of Education of Shelby County, Tennessee's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board of Education of Shelby County, Tennessee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Board of Education of Shelby County, Tennessee in a separate letter dated December 23, 2008.

The Board of Education of Shelby County, Tennessee's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Board of Education of Shelby County, Tennessee's response and, accordingly, we express no opinion on it.



This report is intended solely for the information and use of the Superintendent and Members of the Board of Education of Shelby County, Tennessee, State of Tennessee, 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.

Banks, Smiley, White & Co.
Watkins Liberal, PLLC

Memphis, Tennessee
December 23, 2008

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Superintendent and School Board
Board of Education of Shelby County, Tennessee

Compliance

We have audited the compliance of the Board of Education of Shelby County, Tennessee 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 June 30, 2008. The Board of Education of Shelby County, Tennessee's major federal programs are identified in the summary of auditor'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 of Education of Shelby County, Tennessee's management. Our responsibility is to express an opinion on the Board of Education of Shelby County, Tennessee'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 of Education of Shelby County, Tennessee'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 of Education of Shelby County, Tennessee's compliance with those requirements.

In our opinion, the Board of Education of Shelby County, Tennessee 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 June 30, 2008.



Internal Control over Compliance

The management of the Board of Education of Shelby County, Tennessee, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Board of Education of Shelby County, Tennessee's internal control over compliance with the requirement 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board of Education of Shelby County, Tennessee's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and 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. However, this report is a matter of public record and its distribution is not limited.

Memphis, Tennessee
December 23, 2008

Banks, Judy White & Co.
Watkins Universal PLLC



**BOARD OF EDUCATION OF SHELBY COUNTY, TENNESSEE
REPORTS ON INTERNAL CONTROL AND COMPLIANCE**



**BOARD OF EDUCATION OF
SHELBY COUNTY, TENNESSEE**
(A Component Unit of Shelby County, Tennessee)
Schedule of Findings
For the Year Ended June 30, 2008

Section I: Summary of Auditor's Results

Financial Statements:

- | | |
|---|-------------|
| 1. Type of auditor's report issued on the financial statements. | Unqualified |
| 2. Material noncompliance relating to the financial statements. | No |
| 3. Internal control over financial reporting: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified that are not considered to be material weaknesses? | Yes |

Federal Awards:

- | | |
|---|-------------|
| 4. Type of auditor's report issued on compliance for major federal programs | Unqualified |
| 5. Internal control over major programs: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified that are not considered to be material weaknesses? | No |
| 6. Any audit findings reported as required by Section __.510(a) of Circular A-133? | No |
| 7. Federal programs identified as major programs: | |
| a. Cluster: Child Nutrition
CFDA #10.553
CFDA #10.555 | |
| b. CFDA #84.010, Title I Grants to Local Educational Agencies | |
| c. CFDA #84.367, Improving Teacher Quality | |
| d. CFDA #84.027, Special Education - Grants to States | |
| e. CFDA #84.148, Safe Schools/Healthy Students Grants | |
| f. CFDA #10.550, Commodities Assistance | |
| g. CFDA #93.558, Early Childhood Education Pilot Project | |
| h. CFDA # 84.048, Vocational Education - Basic Grants to States | |



- | | |
|--|-----------|
| 8. The dollar threshold used to distinguish between type A and type B programs: | \$650,000 |
| 9. Auditee qualified as a low-risk auditee? | No |
| 10. Prior fiscal year audit findings and questioned costs relative to federal awards which would require auditee to prepare a summary schedule of prior audit findings as discussed in Section ____ .315(b) of OMB Circular A-133? | No |

Section II: Findings - Financial Statement Audit

A. Governmental Funds:

Finding - Financial Statement Audit - Significant Deficiency

2008-01 Trial Balance

Condition - Trial balances at June 30, 2008 were out of balance in the aggregate amount of \$4,063,359.

Criteria - A basic rule of double-entry accounting is that for every credit there must be an equal debit. If debits do not equal credits, then an error has been made. The trial balance is a tool to detect such errors in the accounting process. Trial balances should be run on a monthly basis in order to discover any out of balance situations, which would make it easier to locate the errors and correct them. Monthly trial balances narrow the time frame in which an error may have occurred, resulting in fewer transactions through which to search for corrections.

Effect - Because of the failure of management to prepare balanced trial balances, management would not be able to prepare financial statements in accordance with generally accepted accounting principles that are free of material misstatement.

Recommendations - Procedures should be established to prepare monthly trial balances, research any out-of-balance situations and correct them on a timely basis. Additionally, monitoring procedures should be implemented by management to verify that monthly trial balances are prepared and reviewed. The accounting software should be modified to insure that out-of-balance entries cannot be made and that current year transactions cannot be posted to prior years.



Response: Procedures have been put in place to “lock” the fiscal year in the APECS.net system once entries are finished being recorded for the year-end process. Once a fiscal year is “locked”, no entries can be made, and this procedure will therefore prevent any out-of-balance situations that could occur. The only person who has authority to “lock” or “unlock” a fiscal year is the CFO.

As an additional control, monthly trial balances will be produced and evaluated for all funds maintained in APECS.net. Also, the “List of Unbalanced Finance Documents” report will be run on a monthly basis as well to ensure that any out-of-balance situations are noted and addressed prior to year-end.

Section III: Findings and Questioned Costs - Major Federal Awards Programs

A. No Findings or Questioned Costs.



**BOARD OF EDUCATION OF
SHELBY COUNTY, TENNESSEE**
(A Component Unit of Shelby County, Tennessee)
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2008

There were no findings.