

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

AUDITED FINANCIAL STATEMENTS

June 30, 2010

**BOARD OF EDUCATION OF
SHELBY COUNTY, TENNESSEE**
(A Component Unit of Shelby County, Tennessee)
June 30, 2010

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Watkins Uiberall PLLC
Certified Public Accountants & Financial Advisors
Independent Member of BKR International

INDEPENDENT AUDITORS' 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, 2010, 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 \$11,567,294 and \$5,648,835, as of June 30, 2010, respectively, and total revenues of \$16,358,357 and \$13,005,341, respectively, for the year then ended. Those financial statements were audited by other auditors whose report thereon 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 the 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, 2010, and the respective changes in financial position and 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 8, 2010, on our consideration of the 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 4 through 11, Budgetary Comparison Schedule on page 37, and Schedules of Funding Progress on page 38, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 financial statements as a whole. The combining and individual nonmajor fund financial statements and schedule of construction-in-progress are presented for purposes of additional analysis and are not a required part of the 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 also not a required part of the financial statements. The combining and individual nonmajor fund financial statements, schedule of construction-in-progress, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the financial statements and certain additional procedures, including comparing and



reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Banta, Junley, White & Co.
Watkins Universal, P.C.

Memphis, Tennessee
December 8, 2010

**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, 2010**

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, 2010. 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, 2010 are as follows:

- Total net assets decreased from \$359.9 million in 2009 to \$320.9 million in 2010, primarily due to the recording of the long-term liability for OPEB future payments. This long-term liability increased from \$133.3 million in 2009 to \$150.6 million in 2010. In 2009, the decision was made by the Board to participate in the TSBA GASB 45 Trust during the 2009-10 fiscal year. The Board contributed \$2,000,000 to the Trust during FY 2010.
- Total revenue decreased from \$416.1 million in 2009 to \$408.4 million in 2010, a decrease of \$7.7 million. This decrease was due primarily to the decrease in the Shelby County revenue category, specifically in Bond Proceeds in the CIP Fund. Bond Proceeds have decreased each year as the funds provided by the County as per the Joint Funding Agreement have been used.
- Total expenditures decreased from \$490.1 million in 2009 to \$451.7 million in 2010, a decrease of \$38.4 million, primarily in the areas of Instruction and Plant Operations and Maintenance. The decrease in the Instruction category was due to the reduction in the OPEB allocation amount that took place in 2010. The long-term liability for OPEB increased at a much smaller amount as compared to 2009, and therefore much less OPEB expenditure was allocated to each category in 2010. In the Plant Operation and Maintenance category, the Capital Outlay expenditures decreased due to fewer projects being carried out in 2010 than in 2009.

- Ending governmental fund balances of SCS decreased from \$99.3 million in 2009 to \$77.1 million in 2010, a decrease of \$22.2 million primarily due to the reduction in capital funding and the use of the reserve to balance the General Fund Budget.

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 earned but not used vacation leave).

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. SCS, 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 2010 has been summarized and compared with net assets for 2009.

	2010	2009	Difference	% Change
Assets:				
Current and other assets	\$ 130.4	\$ 143.6	\$ (13.2)	(9.2)%
Capital assets	<u>375.7</u>	<u>376.4</u>	<u>(0.7)</u>	(0.2)%
Total Assets	<u>506.1</u>	<u>520.0</u>	<u>(13.9)</u>	(2.7)%
Liabilities:				
Long-term liabilities	150.6	133.3	17.3	13.0 %
Other liabilities	<u>34.6</u>	<u>26.8</u>	<u>7.8</u>	29.1 %
	<u>185.2</u>	<u>160.1</u>	<u>25.1</u>	15.7 %
Net Assets:				
Invested in capital assets, net of debt	375.7	376.4	(0.7)	(0.2)%
Restricted	17.8	20.2	(2.4)	(11.9)%
Unrestricted	<u>(72.6)</u>	<u>(36.7)</u>	<u>(35.9)</u>	97.8 %
Total Net Assets	<u>\$ 320.9</u>	<u>\$ 359.9</u>	<u>\$ (39.0)</u>	(10.8)%

See next page

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

	2010	2009	Difference	% Change
<u>Governmental Activities</u>				
Program Revenues:				
Operating grants and contributions	\$ 212.2	\$ 199.1	\$ 13.1	6.6 %
Charges for services	33.4	33.7	(0.3)	(0.9)%
General Revenues:				
Shelby County taxes	115.7	130.3	(14.6)	(11.2)%
Local option and state taxes	40.4	41.4	(1.0)	(2.4)%
Other	<u>6.7</u>	<u>11.6</u>	<u>(4.9)</u>	(42.2)%
Total Revenues	408.4	416.1	(7.7)	(1.9)%
Expenses:				
Instruction	281.6	297.5	(15.9)	(5.3)%
Support services	57.4	63.8	(6.4)	(10.0)%
Administration	37.7	38.3	(0.6)	(1.6)%
Plant Operations & maintenance	28.6	37.4	(8.8)	(23.5)%
Transportation	14.5	17.8	(3.3)	(18.5)%
Food services	18.7	22.6	(3.9)	(17.3)%
Student activities	<u>13.2</u>	<u>12.7</u>	<u>0.5</u>	3.9 %
Total Expenses	<u>451.7</u>	<u>490.1</u>	<u>(38.4)</u>	(7.8)%
Increase (Decrease) in Net Assets	(43.3)	(74.0)	30.7	(41.5)%
Net Assets - Beginning of Year	359.9	433.9	(74.0)	(17.1)%
Prior Period Adjustment	<u>4.2</u>	<u>-</u>	<u>4.2</u>	- %
Net Assets - End of Year	<u>\$ 320.8</u>	<u>\$ 359.9</u>	<u>\$ (39.1)</u>	(10.9)%

Revenues

SCS' total revenue decreased \$7.7 million, or 1.9%, in 2010. (See Changes in Net Assets From Operating Results — page 7). This reduction was primarily due to the decrease in the Shelby County revenue category, specifically in Bond Proceeds in the CIP Fund. State BEP revenues increased by \$7.1 million. Our total student average daily membership increased from 46,889 in 2009 to 48,026 in 2010. Property tax revenues and other tax collections from Shelby County remained level with the preceding fiscal year. Bond Proceeds revenue decreased by \$16 million. No Wheel tax revenue was received in the 2010 fiscal year. Interest income was \$1.5 million less than the projected earnings due to a lower rate of return from Local Government Investment Pool (LGIP).

Expenses

SCS' total expenses decreased \$38.4 million, or 7.8%, in 2010. The decrease of \$38.4 million occurred primarily in the areas of Instruction and Plant Operations and Maintenance. The decrease in the Instruction category was due to the reduction in the OPEB allocation amount that took place in 2010. The long-term liability for OPEB increased at a much smaller amount as compared to 2009, and therefore much less OPEB expenditure was allocated to each category in 2010. In the Plant Operation and Maintenance category, the Capital Outlay expenditures decreased due to fewer projects being carried out in 2010 than in 2009.

Governmental Activities

(amounts expressed in millions of dollars)

	Total Cost of Services			Net Cost of Services		
	2010	2009	Percentage Change	2010	2009	Percentage Change
Instructional programs	\$ 281.6	\$ 297.5	(5.3)%	\$ 68.9	\$ 96.8	(28.8)%
Support services	57.4	63.8	(10.0)%	56.0	62.3	(10.1)%
General administration	37.7	38.3	(1.6)%	37.2	37.9	(1.8)%
Operations and maintenance of plant	28.6	37.4	(23.5)%	28.3	37.1	(23.7)%
Student transportation	14.5	17.8	(18.5)%	14.0	17.3	(19.1)%
Food Services	18.7	22.6	(17.3)%	1.6	5.8	(72.4)%
Student activities	<u>13.2</u>	<u>12.7</u>	3.9 %	<u>-</u>	<u>0.1</u>	(100.0)%
Total Expenses	<u>\$ 451.7</u>	<u>\$ 490.1</u>	(7.8)%	<u>\$ 206.0</u>	<u>\$ 257.3</u>	(19.9)%

The net costs of governmental activities shown above presents the total and net cost of seven major SCS activities: instruction, support services, general 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 2010 was \$451.7 million. Federal and State grants, subsidized programs, and contributions financed \$245.6 million of the cost. The district and state taxpayers financed the remainder of SCS' cost, which was \$206.0 million for 2010.

Financial Analysis of SCS's Funds

SCS ended fiscal year 2010 with strong fund balances in its governmental funds. The combined balance of all governmental funds was \$77.1 million. Approximately 52.6% of the total fund balance is unrestricted. The remainder of the fund balance is reserved for future specific spending. Overall, SCS decreased its investment in long-term assets, however, still maintained 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 \$3.2 million less than anticipated. Key factors contributing to that variance were as follows:

- Interest income and other local sources were \$3.3 million less than anticipated
- County Property Taxes and other taxes were \$1.9 million more than anticipated
- Federal Government (IDEA Excess Cost) was \$0.6 million less than budget
- State of Tennessee Education funding was \$2.2 million more than anticipated
- Local option and state sales taxes were \$3.1 million less than anticipated

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

General Fund Expenditures Budget

Actual general fund expenditures were \$17.6 million lower than budgeted. The majority of the variance can be attributed to expenditures in the regular education, support services, general administration, and capital outlay areas. The decision was made to use end of year funds to make asphalt repairs at various schools, replace roofs at three schools, purchase student computers, and purchase fifteen transit buses for transportation of students. SCS had anticipated using \$15.2 million of the reserve to balance the 2010 budget, however only \$0.8 million of that was actually used, leaving \$14.4 million to be put back in the reserve. This, however, was offset by the \$15.6 million adjustment made to correct reported expenditures in years beginning prior to June 30, 2007. Accounting for encumbrances had improperly been done during those years, so this was corrected in 2010. A prior period adjustment of \$4.2 million was also made in 2010 to correct an overstatement of a liability in the General Fund. The combination of these corrections resulted in \$2.7 million being put back in the reserve as of June 30, 2010.

General Fund Balance

The general fund balance decreased 21.4% to \$59.2 million in 2010. The fund balance equals 78 days of expenses. It also represents 16.5% of budgeted expenses. The State BEP requires a reserve equal to 3% of the 2011 budgeted expenses, and \$10.9 million has been reserved accordingly at June 30, 2010.

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. \$5.0 million in capital funds were received in 2010 by SCS under this joint cooperation and settlement agreement.

On December 1, 2009, SCS entered into an agreement with Shelby County Government through the Tennessee State School Bond Authority Act. SCS applied for and was selected by the State to participate in Qualified School Construction Bonds (QSCB I) and was awarded the amount of \$13.4 million for the replacement of Elmore Park Middle School. As of June 30, 2010, only \$74,250 in capital funds had been drawn down by SCS under the QSCB agreement.

Capital Assets

SCS' investment in capital assets for its governmental activities as of June 30, 2010, shown in the table below, amounts to \$375.6 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, and equipment and furniture. Overall, capital assets decreased \$0.8 million for fiscal year 2010. This decrease was due to fewer projects being started in 2010. Several projects were finished, including the replacement to Shadowlawn Middle. Highland Oaks Middle and Donelson Elementary were also finished in 2010. Building these new schools helps the district to meet the mandatory class size limits of the State BEP and to resolve overcrowding issues. Other factors in the reduction to capital assets were the write-off of land, and the annexation of Chimneyrock to Memphis City Schools.

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

	2010	2009	Percentage Change
Land	\$ 22.7	\$ 27.1	(16.2)%
Construction in progress	3.8	22.2	(82.9)%
Equipment and furniture	12.6	11.0	14.5 %
Buildings and improvements	<u>336.5</u>	<u>316.1</u>	6.5 %
Total	<u>\$ 375.6</u>	<u>\$ 376.4</u>	(0.2)%

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 2011 budget on June 21, 2010. There was no increase in the property tax rate for schools for the 2010-11 fiscal year. The use of \$17.1 million in fund balance enabled SCS to balance the \$364 million budget.

The Retirement rates for both certified and classified employees increased dramatically in the 2010-11 fiscal year. In the 2011 fiscal year, the State again provided funding for BEP, Extended Contract and Coordinated School Health in the form of SFSF (State Fiscal Stabilization Funds). The downturn in the economy, particularly the drop in sales tax revenue in Tennessee and the foreclosures of homes in the county, has affected our revenue base and will continue to represent a fiscal challenge to be met.

In the 2011 fiscal year, the State again awarded American Recovery and Reinvestment Act (ARRA) funding in the areas of Title I and IDEA. These funds will allow the district to expand services to additional schools to address the increasing poverty level in Shelby County.

Additional costs to SCS continue to be incurred to implement the Tennessee Diploma Project which changes high school graduation requirements, and requires middle grade reforms. Compliance with National Assessment of Education Progress (NAEP) requires the district to implement new national learning-based standards in grades K-12. SCS also plans to fully implement the Three-Tiered Reading and Math models in grades K-12. Common core standards are currently being developed as part of our compliance with the State model.

New sources of funding have become available for the future years. The State awarded SCS \$5.4 million (over four years) through the Race to the Top program. The implementation of this program involves many components: teacher and principal development, professional development, and the district-wide reform for changing the schools' cultures. This reform movement requires that the district adopt the PLC (Professional Learning Community) framework for measuring the improvement in teacher and leadership effectiveness. One of the most prominent offshoots of this program will be the district's development of its own data warehouse which we plan to move forward with in the next fiscal year.

On October 6, 2010, the State awarded SCS \$17.5 million in Qualified School Construction Bonds (QSCB II) for the following construction projects: Collierville Middle Replacement, Middle School Gymnasium HVAC, Elementary School Gymnasium HVAC, Southwind Elementary Roofing, and Highland Oaks Elementary Roofing.

There continues to be a challenge to recruit and maintain highly 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 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, 2010

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 15,583,655
Investments	80,352,276
Due from other governments	29,744,201
Other receivables	1,167,195
Inventories	3,518,396
Capital assets, net	375,685,630
Total Assets	\$ 506,051,353
Liabilities	
Accounts payable and accrued expenses	\$ 29,139,950
Insurance claims payable	2,937,503
Deferred revenue	846,617
Claims payable	1,675,000
Long-term liability-OPEB	150,583,525
Total Liabilities	185,182,595
Net Assets	
Investment in capital assets	375,685,630
Restricted for:	
Insurance claims	12,296,837
Student activities	5,505,780
Unrestricted	(72,619,489)
Total Net Assets	320,868,758
Total Liabilities and Net Assets	\$ 506,051,353

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, 2010

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Functions/Programs	Expenses	Charges for Services	Operating Grants & Contributions	Governmental Activities
Governmental Activities:				
Instructional programs	\$ 281,573,590	\$ 8,237,013	\$ 204,441,495	\$ (68,895,082)
Support services	57,387,741	1,401,047	-	(55,986,694)
General Administration	37,749,659	500,374	-	(37,249,285)
Operation and maintenance of plant	28,574,903	300,224	-	(28,274,679)
Student transportation	14,511,725	500,374	-	(14,011,351)
Food service	18,655,802	9,360,007	7,725,811	(1,569,984)
Student activities	<u>13,167,287</u>	<u>13,105,416</u>	<u>-</u>	<u>(61,871)</u>
Total Governmental Activities	<u>\$ 451,620,707</u>	<u>\$ 33,404,455</u>	<u>\$ 212,167,306</u>	<u>(206,048,946)</u>
General Revenues:				
Shelby County				115,749,031
Local option and state sales taxes				40,354,509
Other local sources				<u>6,686,244</u>
Total General Revenues				<u>162,789,784</u>
Increase (Decrease) in Net Assets				(43,259,162)
Net Assets - Beginning of Year, as Previously Stated				359,928,113
Prior Period Adjustment				<u>4,199,807</u>
Net Assets - Beginning of Year, as Restated				<u>364,127,920</u>
Net Assets - End of Year				<u>\$ 320,868,758</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, 2010

Assets

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Federal Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 15,583,654	\$ 15,583,654
Investments	63,590,770	1,701,107	-	54,454	65,346,331
Receivables:					
Due from Shelby County	1,432,402	7,057,598	-	-	8,490,000
State	7,447,008	-	5,216,532	549,138	13,212,678
Other	350,918	-	-	511,604	862,522
Due from other funds	8,140,505	-	9,611	736,686	8,886,802
Inventories	<u>2,682,880</u>	<u>-</u>	<u>-</u>	<u>835,517</u>	<u>3,518,397</u>
 Total Assets	 <u>\$ 83,644,483</u>	 <u>\$ 8,758,705</u>	 <u>\$ 5,226,143</u>	 <u>\$ 18,271,053</u>	 <u>\$ 115,900,384</u>

Liabilities and Fund Balance

Liabilities:					
Accounts payable	\$ 5,160,071	\$ 589,908	\$ 3,411,822	\$ 120,576	\$ 9,282,377
Accrued payroll expenses	18,909,352	-	714,412	157,530	19,781,294
Due to other funds	52,996	-	1,088,240	7,745,566	8,886,802
Deferred revenue	<u>345,847</u>	<u>-</u>	<u>11,669</u>	<u>489,101</u>	<u>846,617</u>
 Total Liabilities	 <u>24,468,266</u>	 <u>589,908</u>	 <u>5,226,143</u>	 <u>8,512,773</u>	 <u>38,797,090</u>
 Fund Balance:					
Reserved for inventories	2,682,880	-	-	835,517	3,518,397
Reserved for capital outlays	-	8,168,797	-	-	8,168,797
Reserved for food services	-	-	-	3,416,983	3,416,983
Reserved for OPEB	5,000,000	-	-	-	5,000,000
Reserved for basic education program	10,915,052	-	-	-	10,915,052
Reserved for student activities	-	-	-	5,505,780	5,505,780
Unreserved	<u>40,578,285</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>40,578,285</u>
 Total Fund Balance	 <u>59,176,217</u>	 <u>8,168,797</u>	 <u>-</u>	 <u>9,758,280</u>	 <u>77,103,294</u>
 Total Liabilities and Fund Balance	 <u>\$ 83,644,483</u>	 <u>\$ 8,758,705</u>	 <u>\$ 5,226,143</u>	 <u>\$ 18,271,053</u>	 <u>\$ 115,900,384</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, 2010

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

	<u>Amount</u>
Total Fund Balance - Total Governmental Funds	\$ 77,103,294
1. Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	375,685,630
2. Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	8,041,522
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.	12,296,837
4. Long-term liability for OPEB future payments, not included in governmental funds	(150,583,525)
5. Long-term liability for legal claims contingencies, not included in governmental funds	<u>(1,675,000)</u>
Total Net Assets - Governmental Activities	<u>\$ 320,868,758</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, 2010

	General Fund	Capital Projects Fund	Federal Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Shelby County	\$ 114,125,172	\$ 873,848	\$ -	\$ -	\$ 114,999,020
State of Tennessee	177,639,869	-	-	306,393	177,946,262
Federal government	1,006,637	-	25,122,026	7,419,415	33,548,078
Local option and state sales taxes	40,354,509	-	-	-	40,354,509
Charges for current services	1,732,152	-	-	-	1,732,152
Other local sources	4,456,966	-	-	22,213,226	26,670,192
Total Revenues	<u>339,315,305</u>	<u>873,848</u>	<u>25,122,026</u>	<u>29,939,034</u>	<u>395,250,213</u>
Expenditures:					
Regular education program	187,317,569	-	5,733,499	206,124	193,257,192
Special education program	31,796,980	-	9,783,854	-	41,580,834
Vocational education program	6,034,564	-	346,802	-	6,381,366
Alternative education programs	1,583,919	-	-	-	1,583,919
Support services	44,925,835	-	6,344,194	356,176	51,626,205
General administration	11,001,290	-	-	-	11,001,290
School administration	24,870,680	-	-	-	24,870,680
Business administration	4,181,690	-	-	-	4,181,690
Operation and maintenance of plant	26,383,747	-	-	-	26,383,747
Student transportation	11,436,128	-	2,110,890	-	13,547,018
Food services	-	-	-	15,796,977	15,796,977
Capital outlays	7,037,086	7,389,106	-	-	14,426,192
Student activities	-	-	-	12,609,467	12,609,467
Total Expenditures	<u>356,569,488</u>	<u>7,389,106</u>	<u>24,319,239</u>	<u>28,968,744</u>	<u>417,246,577</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(17,254,183)</u>	<u>(6,515,258)</u>	<u>802,787</u>	<u>970,290</u>	<u>(21,996,364)</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, 2010
(Continued)

	General Fund	Capital Projects Fund	Federal Projects Fund	Other Governmental Funds	Total Governmental Funds
Other Financing Sources					
(Uses):					
Transfers in	815,823	-	-	-	815,823
Transfers out	-	-	802,787	13,036	815,823
Total Other Financing Sources	815,823	-	(802,787)	(13,036)	-
(Uses)	815,823	-	(802,787)	(13,036)	-
Net Change in Fund Balances	(16,438,360)	(6,515,258)	-	957,254	(21,996,364)
Fund Balances,					
Beginning of Year, as Previously Stated Prior Period	71,133,281	14,684,055	-	9,268,645	95,085,981
Adjustment	4,199,807	-	-	-	4,199,807
Beginning of Year, as Restated	75,333,088	14,684,055	-	9,268,645	99,285,788
Change in reserve for inventories	281,489	-	-	(467,619)	(186,130)
Fund Balances, End of Year	\$ 59,176,217	\$ 8,168,797	\$ -	\$ 9,758,280	\$ 77,103,294

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, 2010

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

	Amount
Net Change in Fund Balances - Total Governmental Funds	\$ (21,996,364)
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.	6,684,181
The net effect of the disposal of certain capital assets including sales and retirements is to decrease net assets.	(7,441,055)
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).	(186,130)
Recognition of deferred revenue by Shelby County increases the Board's receivable from Shelby County. This amount is the net change during the period.	750,011
Increase in long-term liability for OPEB future payments, not included in governmental funds	(17,291,328)
Increase in long-term liability for legal claims contingencies, not included in governmental funds	(1,025,000)
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.	(2,753,477)
Change in Net Assets of Governmental Activities	\$ (43,259,162)

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, 2010

Assets

	<u>Governmental Activities - Internal Service Fund</u>
Investments	\$ 15,005,945
Accounts receivable	<u>308,619</u>
 Total Assets	 <u>\$ 15,314,564</u>

Liabilities and Net Assets

Liabilities	
Accounts payable	\$ 80,224
Insurance claims payable	<u>2,937,503</u>
 Total Liabilities	 3,017,727
 Net Assets	
Restricted for insurance claims	<u>12,296,837</u>
 Total Liabilities and Net Assets	 <u>\$ 15,314,564</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, 2010

	<u>Governmental Activities - Internal Service Fund</u>
Operating Revenues:	
Premium received	\$ 38,785,852
Operating Expenses:	
Claims incurred	36,665,044
Insurance premiums	1,825,557
Administrative expenses	<u>3,130,125</u>
Total Operating Expenses	<u>41,620,726</u>
Operating Income (Loss)	<u>(2,834,874)</u>
Nonoperating Revenue:	
Interest Income	79,612
Other Income	<u>1,785</u>
Total Nonoperating Revenue	<u>81,397</u>
Change in Net Assets	(2,753,477)
Net Assets - Beginning of Year	<u>15,050,314</u>
Net Assets - End of Year	<u>\$ 12,296,837</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, 2010**

	<u>Governmental Activities - Internal Service Fund</u>
Cash Flows From Operating Activities:	
Premiums received	\$ 38,889,393
Claims paid	(36,967,145)
Payments to vendors	(4,953,858)
Other receipts	<u>1,785</u>
Net Cash Provided by Operating Activities	<u>(3,029,825)</u>
Cash Flows From Investing Activities:	
Interest income	79,612
Decrease in investments	<u>2,950,213</u>
Net Cash Used In Investing Activities	<u>3,029,825</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 (Loss)	\$ (2,834,874)
Other Income	1,785
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities:	
Changes in Operating Assets and Liabilities:	
Decrease in accounts receivable	103,541
Increase in accounts payable	1,824
Decrease in insurance claims payable	<u>(302,101)</u>
Total Cash Provided by Operating Activities	<u>\$ (3,029,825)</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, 2010

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.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Governmental Accounting Standards

The financial statements of the Board have been prepared in accordance with generally accepted accounting principles (GAAP) followed in the United States of America. In the United States the Governmental Accounting Standards Board (GASB) is the established and recognized standard-setting body for governmental accounting and financial reporting. The GASB periodically issues new or revised standards that are implemented by 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, 2010, 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 plus certificates of deposit with original maturities greater than three months. The investment in State Treasurer's Local Government Investment Pool (LGIP) is stated at cost plus accrued interest, which approximates fair market value. The investment in certificates of deposit is stated at cost 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 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 68.67% and 31.33% was distributed to the City of Memphis Schools and Shelby County Schools, respectively.

Other post employment benefits

Effective July 1, 2007, the Board implemented GASB Statement 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions. Prior to implementation of GASB Statement 45, the Board accounted for other post employment 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.

Subsequent Events

Subsequent events were reviewed by the Board through December 8, 2010, which is the date of the financial statements were available to be issued.

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 \$6,684,181 difference are as follows:

Capital outlay	\$ 16,541,924
Depreciation expense	<u>(9,857,743)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental funds	\$ <u>6,684,181</u>

Another element of that reconciliation explains that "Recognition of Deferred Revenue by Shelby County decreases the Receivable from Shelby County." The details of this \$- are as follows:

Change in Deferred Property taxes	\$ <u>750,011</u>
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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, 2010 consisted of the following:

Tennessee Local Government Investment Pool (LGIP)	\$ 42,115,170
Certificates of Deposit (due from July 2010 to October 2010)	<u>37,750,904</u>
Total investments for disclosure purposes	79,866,074
Add deposit in transit to LGIP	<u>6,406,964</u>
Less amount reported as cash equivalents	<u>(5,921,558)</u>
Total Investments per financial statements	<u>\$ 80,351,480</u>

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, 2009	\$ 27,070,727	\$ 22,262,410	\$ 31,872,509	\$ 433,278,715	\$ 514,484,361
Increases/Transfers	-	13,375,848	3,166,076	31,806,429	48,348,353
Decreases/Transfers	<u>(4,326,060)</u>	<u>(31,806,429)</u>	<u>(1,251,133)</u>	<u>(5,004,570)</u>	<u>(42,388,192)</u>
Balance, June 30, 2010	<u>22,744,667</u>	<u>3,831,829</u>	<u>33,787,452</u>	<u>460,080,574</u>	<u>520,444,522</u>
Accumulated Depreciation:					
Balance, July 1, 2009	-	-	20,855,197	117,186,663	138,041,860
Increases	-	-	1,524,231	8,333,512	9,857,743
Decreases	-	-	<u>(1,236,306)</u>	<u>(1,904,405)</u>	<u>(3,140,711)</u>
Balance, June 30, 2010	-	-	<u>21,143,122</u>	<u>123,615,770</u>	<u>144,758,892</u>
Total Capital Assets, Net	<u>\$ 22,744,667</u>	<u>\$ 3,831,829</u>	<u>\$ 12,644,330</u>	<u>\$ 336,464,804</u>	<u>\$ 375,685,630</u>

Depreciation expense was charged to governmental functions as follows:

Instructional programs	\$ 8,575,361
Student transportation	1,059,496
General administration	13,747
Food services	173,941
Operation and maintenance of plant	<u>35,198</u>
	<u>\$ 9,857,743</u>

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:

Interfund receivables and payables consist of the following:

Receivable Fund	Payable Fund	Amount
General Fund	School Cafeteria Fund	\$ 6,798,178
General Fund	Federal Projects Fund	1,182,522
General Fund	Miscellaneous Governmental Funds	173,577
Miscellaneous Governmental Funds	Student Activities Fund	<u>732,525</u>
		<u>\$ 8,886,802</u>

The interfund amounts payable to the General Fund represents amounts advanced to the payable funds to cover short-term cash flow requirements.

Transfers during the year were as follows:

Transfers Out:	Transfers In:	Amount:
Federal Funds	General Fund	\$ 802,787
Other Governmental Funds	General Fund	<u>13,036</u>
Total transfers		<u>\$ 815,823</u>

Transfers are used to offset cash advances from General Fund during outstanding billing period for Federal Funds.

NOTE 7 - 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.tn.gov/treasury/tcrs/Schools.

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, 2010 was 6.42% 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, 2010, 2009, and 2008 were \$12,573,101, \$12,432,237, and \$11,249,258, 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 <http://www.tn.gov/treasury/tcrs/PS/>.

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, 2010 was 8.08% 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, 2010, Shelby County Board of Education's annual pension cost of \$3,964,193 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, 2007 actuarial valuation using the frozen entry age 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 8 years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010.

<u>Fiscal Year End</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2010	\$ 3,964,193	100%	\$ -
June 30, 2009	\$ 3,877,828	100%	\$ -
June 30, 2008	\$ 3,837,688	100%	\$ -

Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the plan was 88.23% funded. The actuarial accrued liability for benefits was \$125.17 million, and the actuarial value of assets was \$110.44 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$14.73 million. The covered payroll (annual payroll of active employees covered by the plan) was \$47.33 million, and the ratio of the UAAL to the covered payroll was 31.11%.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year 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.

NOTE 8 - 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. The Board has recognized accrued liabilities for certain other claims and judgments of \$1,675,000. The liabilities are based on property damage and personal injury lawsuits arising in the course of operations. The Board believes this is a reasonable measure of the ultimate settlement of these matters.

At June 30, 2009, the Board had \$15,254,230 in construction contracts outstanding.

NOTE 9 - 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, 2010 totaled \$2,937,503. Changes in the balances of claims liabilities for the year ended June 30, 2010 are as follows:

Unpaid claims, beginning of year	\$ 3,239,604
Incurred claims (including IBNR)	36,665,044
Claims payments	<u>(36,967,145)</u>
Unpaid claims, end of year	<u>\$ 2,937,503</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 10 - 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 2010, the Board contributed \$5,104,254 to the Plan. Plan members receiving benefits contribute 30 percent of their premium costs. In fiscal year 2010, total member contributions were \$1,008,987. Additionally, the Board contributed \$2,000,000 to the Tennessee School Boards Association GASB 45 Trust to prefund benefits. Effective July 1, 2010, The Board's Employee Benefit Committee has approved a freeze of Board contributions at the amount paid in fiscal 2010; any deficit funding would be made up by plan members.

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	\$ 22,733,055	\$ 4,067,966	\$ 26,801,021
Interest on Net OPEB Obligation	6,381,871	282,739	6,664,610
Adjustment to annual required contribution	<u>(7,907,617)</u>	<u>(350,334)</u>	<u>(8,257,951)</u>
Annual OPEB Cost	21,207,309	4,000,371	25,207,680
Contributions made(Actuarial assumption)	<u>7,223,269</u>	<u>693,083</u>	<u>7,916,352</u>
Increase in Net OPEB Obligation	13,984,040	3,307,288	17,291,328
Net OPEB Obligation - Beginning of Year	<u>127,637,425</u>	<u>5,654,772</u>	<u>133,292,197</u>
Net OPEB Obligation - End of Year	<u>\$ 141,621,465</u>	<u>\$ 8,962,060</u>	<u>\$ 150,583,525</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 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, 2010	\$ 25,207,680	31.6 %	\$ 150,583,525
June 30, 2009	\$ 88,438,855	12.8 %	\$ 133,292,197
June 30, 2008	\$ 66,470,839	15.5 %	\$ 56,148,408

Funded Status and Funding Progress

As of June 30, 2010, the actuarial accrued liability for insurance and life benefits was \$244,220,410, of which \$2,000,000 has been funded. The covered payroll (annual payroll of active employees covered by the Plan) was \$245,061,956, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 99.6 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

Projections 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, 2009:

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 10 percent for Pre-65 and 9 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. For life insurance, employees pay 30% of the total active rate which was \$0.209 per \$1,000 in 2008.

In the July 1, 2008 actuarial valuation, the projected unit credit method was used. A discount rate of 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 dollar amount on a closed basis over thirty years.

NOTE 11 - PRIOR PERIOD ADJUSTMENTS:

During the period ended June 30, 2010, the Board discovered errors made in the prior years. Beginning Net Assets and General Fund balances for the year ended June 30, 2010 have been restated to reflect the change. Details of the prior period adjustments are as follows:

General Fund due to Cafeteria Fund was overstated in year prior to June 30, 2007	\$ <u>4,199,807</u>
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**BOARD OF EDUCATION OF SHELBY COUNTY, TENNESSEE
REQUIRED SUPPLEMENTARY 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, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget- Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Shelby County	\$ 115,128,597	\$115,128,597	\$ 116,987,894	\$ 1,859,297
State of Tennessee	175,146,915	175,146,915	177,333,641	2,186,726
Federal Government	1,914,705	1,914,705	1,312,864	(601,841)
Local option and State sales taxes	43,421,191	43,421,191	40,354,509	(3,066,682)
Charges for current services	2,000,000	2,000,000	1,732,152	(267,848)
Other local sources	<u>4,903,428</u>	<u>4,903,428</u>	<u>1,594,244</u>	<u>(3,309,184)</u>
Total Revenues	<u>342,514,836</u>	<u>342,514,836</u>	<u>339,315,304</u>	<u>(3,199,532)</u>
Expenditures:				
Regular education program	181,500,032	181,500,032	177,865,253	3,634,779
Special education program	32,899,776	32,899,776	31,437,343	1,462,433
Vocational education program	6,333,543	6,333,543	6,030,818	302,725
Alternative education programs	1,809,587	1,809,587	1,583,669	225,918
Support services	48,693,973	48,693,973	46,249,053	2,444,920
General administration	13,338,481	13,338,481	10,993,894	2,344,587
School administration	25,336,547	25,336,547	24,870,026	466,521
Business administration	4,612,109	4,612,109	4,149,654	462,455
Operation and maintenance of plant	27,556,543	27,556,543	26,204,832	1,351,711
Student transportation	10,868,337	10,868,337	9,596,905	1,271,432
Capital outlays	<u>5,555,000</u>	<u>5,555,000</u>	<u>1,967,170</u>	<u>3,587,830</u>
Total Expenditures	<u>358,503,928</u>	<u>358,503,928</u>	<u>340,948,617</u>	<u>17,555,311</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(15,989,092)</u>	<u>(15,989,092)</u>	<u>(1,633,313)</u>	<u>14,355,779</u>
Other Financing Sources (Uses):				
Transfers in	802,919	802,919	815,823	12,904
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>802,919</u>	<u>802,919</u>	<u>815,823</u>	<u>12,904</u>
Net Change in Fund Balances	<u>\$ (15,186,173)</u>	<u>\$ (15,186,173)</u>	(817,490)	<u>\$ 14,368,683</u>
Fund Balance-GAAP Basis-Beginning of Year			71,133,281	
Change in encumbrances			(15,620,870)	
Change in Reserve for Inventories			281,489	
Prior Period Adjustment			<u>4,199,807</u>	
Fund Balance-GAAP Basis-End of Year			<u>\$ 59,176,217</u>	

**BOARD OF EDUCATION OF
SHELBY COUNTY, TENNESSEE**
(A Component Unit of Shelby County, Tennessee)
Schedule of Funding Progress
Shelby County Board of Education Defined Benefit Plan
(dollar amounts in thousands)

For the Year Ended June 30, 2010

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, 2009	\$ 110,442	\$ 125,169	\$ 14,727	88.23 %	\$ 47,330	31.12 %
June 30, 2007	\$ 103,860	\$ 111,892	\$ 8,032	92.82 %	\$ 38,818	20.69 %

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the Entry Age actuarial cost method went into effect during the year of the 2007 actuarial valuation, therefore only the two most recent valuations are presented.

Schedule of Funding Progress
Other Post Employment Benefits Plan (OPEB)
For the Year Ended June 30, 2010

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, 2009	\$ 2,000,000	\$244,220,410	\$242,220,410	0.8%	\$245,061,956	99.6%
June 30, 2008	\$ -	\$787,583,902	\$787,583,902	0%	\$240,049,979	328.1%
June 30, 2007	\$ -	\$548,585,497	\$548,585,497	0%	\$220,714,209	248.6%

The Board began recognition of OPEB on July 1, 2007. Limited trend information may be discerned from the three valuations made to date. The change in AAL for OPEB from the June 30, 2008 to the June 30, 2009 valuation date was due to actuarial assumption changes related to reduction in claim costs for post-65 retirees. Effective January 1, 2011, post-65 retirees formerly covered under the self-insured plan will be covered under an insured Medicare Supplement plan which is estimated to reduce claim cost by 63% to 72% depending on age. Additional reductions are anticipated due to census changes, changes in retiree contributions, and any retirements or terminations that did not occur as expected in the prior valuation.

**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, 2010

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 - EXPENDITURES EXCEEDED APPROPRIATIONS:

No expenditures exceeded appropriations approved by the County Commission in the General Fund for the year ended June 30, 2010.

SUPPLEMENTAL INFORMATION

**BOARD OF EDUCATION OF
SHELBY COUNTY, TENNESSEE**
(A Component Unit of Shelby County, Tennessee)
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2010

Assets

	Special Revenue Funds			Total Other Governmental Funds
	Miscellaneous Governmental Funds	School Cafeteria Fund	School Student Activity Fund	
Cash and cash equivalents	\$ 501,625	\$10,330,983	\$ 4,751,046	\$ 15,583,654
Investments	-	-	54,454	54,454
Accounts receivable				
State	549,138	-	-	549,138
Other	-	511,604	-	511,604
Due from other funds	4,161	-	732,525	736,686
Inventories	<u>-</u>	<u>724,707</u>	<u>110,810</u>	<u>835,517</u>
 Total Assets	 <u>\$ 1,054,924</u>	 <u>\$11,567,294</u>	 <u>\$ 5,648,835</u>	 <u>\$ 18,271,053</u>

Liabilities and Fund Balances

Liabilities:				
Accounts payable	\$ 23,100	\$ 65,231	\$ 32,245	\$ 120,576
Accrued payroll expenses	106,738	50,792	-	157,530
Due to other funds	903,272	6,842,294	-	7,745,566
Deferred revenues	<u>21,814</u>	<u>467,287</u>	<u>-</u>	<u>489,101</u>
 Total Liabilities	 <u>1,054,924</u>	 <u>7,425,604</u>	 <u>32,245</u>	 <u>8,512,773</u>
Fund Balances:				
Reserved for inventories	-	724,707	110,810	835,517
Reserved for state matching funds-food service	-	3,416,983	-	3,416,983
Reserved for school student activities	<u>-</u>	<u>-</u>	<u>5,505,780</u>	<u>5,505,780</u>
 Total Fund Balances	 <u>-</u>	 <u>4,141,690</u>	 <u>5,616,590</u>	 <u>9,758,280</u>
 Total Liabilities and Fund Balances	 <u>\$ 1,054,924</u>	 <u>\$11,567,294</u>	 <u>\$ 5,648,835</u>	 <u>\$ 18,271,053</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, 2010

	Special Revenue Funds			Total Other Governmental Funds
	Miscellaneous Governmental Funds	School Cafeteria Fund	School Student Activity Fund	
Revenues:				
State of Tennessee	\$ -	\$ 306,393	\$ -	\$ 306,393
Federal government	-	7,419,415	-	7,419,415
Other local sources	<u>575,336</u>	<u>8,632,549</u>	<u>13,005,341</u>	<u>22,213,226</u>
Total Revenues	<u>575,336</u>	<u>16,358,357</u>	<u>13,005,341</u>	<u>29,939,034</u>
Expenditures:				
Regular education program	206,124	-	-	206,124
Support services	356,176	-	-	356,176
Food services	-	15,796,977	-	15,796,977
Student activities	<u>-</u>	<u>-</u>	<u>12,609,467</u>	<u>12,609,467</u>
Total Expenditures	<u>562,300</u>	<u>15,796,977</u>	<u>12,609,467</u>	<u>28,968,744</u>
Excess of Revenue Over Expenditures	<u>13,036</u>	<u>561,380</u>	<u>395,874</u>	<u>970,290</u>
Other Financing Sources:				
Transfers in (out)	<u>(13,036)</u>	<u>-</u>	<u>-</u>	<u>(13,036)</u>
Net Increase (Decrease) in Fund Balances	-	561,380	395,874	957,254
Fund Balance, beginning of year	732,525	4,044,987	4,491,133	9,268,645
Change in Reserve for Inventories Reclassification	<u>-</u> <u>(732,525)</u>	<u>(464,677)</u> <u>-</u>	<u>(2,942)</u> <u>732,525</u>	<u>(467,619)</u> <u>-</u>
Fund Balance, end of year	<u>\$ -</u>	<u>\$ 4,141,690</u>	<u>\$ 5,616,590</u>	<u>\$ 9,758,280</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, 2010

	Title I	Carl Perkins	IDEA Part B	IDEA Preschool	Title II	Early Childhood Education Pilot Project	Other Non-Major Programs	Total
Revenues	\$ <u>6,791,098</u>	\$ <u>475,992</u>	\$ <u>14,094,804</u>	\$ <u>330,449</u>	\$ <u>1,133,879</u>	\$ <u>1,331,277</u>	\$ <u>964,527</u>	\$ <u>25,122,026</u>
Expenditures								
Regular education program	3,742,290	-	-	-	554,637	1,331,277	105,295	5,733,499
Special education program	-	-	9,470,189	313,665	-	-	-	9,783,854
Vocational education program	-	346,802	-	-	-	-	-	346,802
Support services	2,818,939	110,806	2,071,782	5,538	522,316	-	814,813	6,344,194
Student transportation	-	-	<u>2,110,890</u>	-	-	-	-	<u>2,110,890</u>
Total Expenditures	<u>6,561,229</u>	<u>457,608</u>	<u>13,652,861</u>	<u>319,203</u>	<u>1,076,953</u>	<u>1,331,277</u>	<u>920,108</u>	<u>24,319,239</u>
Excess of Revenue Over Expenditures	\$ <u>229,869</u>	\$ <u>18,384</u>	\$ <u>441,943</u>	\$ <u>11,246</u>	\$ <u>56,926</u>	\$ <u>-</u>	\$ <u>44,419</u>	\$ <u>802,787</u>

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

	Construction Program Expenditures For the Year Ended June 30, 2010	Cumulative Construction In Progress As of June 30, 2010
Bon Lin Middle	\$ 33,114	\$ -
Southwind High	361,260	16,743
Highland Oaks Middle	1,020,138	-
Donelson Elementary	1,230,439	-
Shadowlawn Middle Replacement	2,882,952	-
Ellendale Roof	96,250	-
Millington Middle Roof	448,869	-
Gray's Creek Maintenance Facility	173,294	-
Shelby County Schools-Roofing	2,643,491	1,173,051
Gray's Creek New Central Office	1,451,056	1,305,965
Millington High Replacement	181,799	181,799
Millington High Master Plan	113,794	113,794
Millington High Grandstands	179,700	-
Elmore Park Middle Replacement	873,848	873,848
Shelby County Schools-High School Gyms HVAC	3,424,395	-
Farmington Elementary-Kitchen Exhaust	66,900	66,900
Germantown Elementary-Lighting System	234,814	-
Shelby County Schools-Fire Alarms	99,729	99,729
	<u>15,515,842</u>	<u>3,831,829</u>
Total	<u>\$ 15,515,842</u>	<u>\$ 3,831,829</u>

**BOARD OF EDUCATION OF
SHELBY COUNTY, TENNESSEE
(A Component Unit of Shelby County, Tennessee)
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2010**

Catalog of Federal Domestic Assistance Number	Program Name	Grantor	Pass-Through Entity	Receivable (Deferred Revenue) June 30, 2009	Receipts	Expenditures	Receivable (Deferred Revenue) June 30, 2010
U.S. Department of Agriculture Pass-Thru Programs:							
Child Nutrition Cluster:							
10.553	School Breakfast Program	U.S. Department of Agriculture	Tennessee Department of Education	\$ 114,966	\$ 1,512,644	\$ 1,397,678	\$ -
10.555	National School Lunch Program - Non-Cash Assistance	U.S. Department of Agriculture	Tennessee Department of Education	627,488	893,562	725,580	459,506
10.555	National School Lunch Program - Cash Assistance	U.S. Department of Agriculture	Tennessee Department of Education	<u>509,180</u>	<u>6,530,919</u>	<u>6,021,739</u>	<u>-</u>
	Total Child Nutrition Cluster/ U.S. Department of Agriculture			1,251,634	8,937,125	8,144,997	459,506
U.S. Department of Education Direct Programs:							
84.184L	Safe Schools/Healthy Students Grants	U.S. Department of Education		<u>206,421</u>	<u>347,496</u>	<u>146,725</u>	<u>5,650</u>
	Total Direct Programs			206,421	347,496	146,725	5,650
U.S. Department of Education Pass-Thru Programs:							
Title I, Part A Cluster:							
84.010A	Title I Grants to Local Educational Agencies	U.S. Department of Education	Tennessee Department of Education	423,448	5,199,722	5,311,185	534,911
84.389	Title I, Part A (ARRA)	U.S. Department of Education	Tennessee Department of Education	<u>-</u>	<u>1,861,194</u>	<u>1,941,780</u>	<u>80,586</u>
	Total Title I, Part A Cluster			423,448	7,060,916	7,252,965	615,497
Special Education Cluster:							
84.027	Special Education - Grants to States	U.S. Department of Education	Tennessee Department of Education	753,360	9,422,076	11,911,076	3,242,360
84.027A	Special Education-AYP Grant	U.S. Department of Education	Tennessee Department of Education	17,526	17,526	-	-
84.173	Special Education - Preschool Grants	U.S. Department of Education	Tennessee Department of Education	33,145	147,083	177,798	63,860
84.391A	IDEA Part-B (ARRA)	U.S. Department of Education	Tennessee Department of Education	-	2,152,698	3,190,363	1,037,665
84.392A	IDEA Preschool (ARRA)	U.S. Department of Education	Tennessee Department of Education	<u>-</u>	<u>140,581</u>	<u>152,650</u>	<u>12,069</u>
	Total Special Education Cluster			804,031	11,879,964	15,431,887	4,355,954
Education Technology State Grants Cluster:							
84.318X	Enhancing Education Through Technology	U.S. Department of Education	Tennessee Department of Education	8	30,881	30,873	-
84.386	Enhancing Education Through Technology (ARRA)	U.S. Department of Education	Tennessee Department of Education	<u>-</u>	<u>49,997</u>	<u>79,429</u>	<u>29,432</u>
	Total Education Technology State Grants Cluster			8	80,878	110,302	29,432
84.048A	Vocational Education-Basic Grant to States	U.S. Department of Education	Tennessee Department of Education	46,506	452,937	475,992	69,561
84.367A	Improving Teacher Quality	U.S. Department of Education	Tennessee Department of Education	54,511	992,995	1,023,577	85,093
84.351C	Professional Development for Art Education	U.S. Department of Education	Tennessee Department of Education	-	37,924	100,207	62,283
84.186A	Safe and Drug-Free Schools and Communities	U.S. Department of Education	Tennessee Department of Education	12,420	68,527	90,022	33,915
84.298A	Innovative Programs-Title V-A	U.S. Department of Education	Tennessee Department of Education	(14,404)	2,597	15,776	(1,225)
84.365A	English Language Acquisition	U.S. Department of Education	Tennessee Department of Education	<u>30,656</u>	<u>153,507</u>	<u>149,931</u>	<u>27,080</u>
	Total Pass-Thru Programs			<u>1,357,176</u>	<u>20,730,245</u>	<u>24,650,659</u>	<u>5,277,590</u>
	Total U.S. Department of Education			1,563,597	21,077,741	24,797,384	5,283,240
U.S. Department of Health & Human Services Pass-Thru Program:							
93.558	Early Childhood Education Pilot Project	U.S. Department of Health & Human Services	Shelby County, TN	<u>103,982</u>	<u>1,094,915</u>	<u>1,331,277</u>	<u>340,344</u>
	Total Federal Expenditures			\$ <u>2,919,213</u>	\$ <u>31,109,781</u>	\$ <u>34,273,658</u>	\$ <u>6,083,090</u>

**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, 2010

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, 2010, 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 earned by the organization using the accrual method of accounting.

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, 2010, the Board of Education of Shelby County, Tennessee had food commodities totaling \$459,506 in inventory.

FEDERAL EXPENDITURES RECONCILIATION

The following schedule reconciles federal expenditures per Schedule of Federal Awards to Federal government revenue per Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds:

Federal expenditures per Schedule of Federal Awards	\$ 34,273,658
Less commodities - non-cash expenditures	<u>(725,580)</u>
Federal revenue per Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	\$ <u>33,548,078</u>

**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 governmental activities, each major fund and the aggregate remaining fund information 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, 2010, which collectively comprise Board of Education of Shelby County, Tennessee's basic financial statements and have issued our report thereon dated December 8, 2010. 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material



weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be material weakness.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. [Finding # 2010-01]

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*.

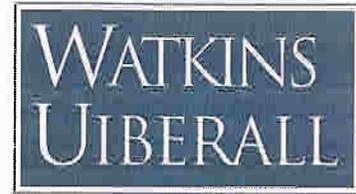
We noted certain other matters that we reported to management of the Board of Education of Shelby County, Tennessee in a separate letter dated December 8, 2010.

The Board of Education of Shelby County, Tennessee's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit 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, others within the entity, 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, Finley, White & Co.
Wathin Urbeall, PLLC*

Memphis, Tennessee
December 8, 2010



Watkins Uiberall PLLC
Certified Public Accountants & Financial Advisors
Independent Member of BKR International

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT OR MATERIAL EFFECT ON 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 Board of Education of Shelby County, Tennessee's compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Board of Education of Shelby County, Tennessee's major federal programs for the year ended June 30, 2010. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.



Internal Control over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133,, 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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 management, the Board of Education of Shelby County, Tennessee, others within the entity, 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.

Memphis, Tennessee
December 8, 2010

Banks, Finley White & Co.
Watson Universal P/C

BOARD OF EDUCATION OF SHELBY COUNTY, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**BOARD OF EDUCATION OF
SHELBY COUNTY, TENNESSEE
(A Component Unit of Shelby County, Tennessee)
Schedule of Findings and Questioned Cost
For the Year Ended June 30, 2010**

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? | Yes |
| b. Significant deficiencies identified that are not considered to be material weaknesses? | No |

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. Cluster: Title I, Part A | |
| CFDA #84.010A | |
| CFDA #84.389 | |
| c. Cluster: Special Education | |
| CFDA #84.027 | |
| CFDA #84.173 | |
| CFDA #84.391A | |
| CFDA #84.392A | |

- d. CFDA #84.367A, Improving Teacher Quality
 - e. CFDA #93.558, Early Childhood Education Pilot Project
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

Finding #2010-01

CONDITION: The Board discovered errors made in the prior years, which amounted to a \$4,199,807 understatement of Net Assets in a prior year. Beginning Net Assets and General Fund balances for the year ended June 30, 2010 have been restated in the accompanying financial statements to reflect the change.

CRITERIA: The Board should have internal controls in place that will allow management or its employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

CAUSE OF CONDITION: At the time of the misstatement, management personnel had changed without the carryover of information necessary for the preparation of its financial statements.

EFFECT OF CONDITION: The Net Assets and General Fund balances were understated in a prior year.

RECOMMENDATION: Management should develop a system for documenting and recording information needed for the year-end financial closing process that can be passed on to new employees as necessary.

CLIENT RESPONSE: Procedures have been developed and implemented to require a comprehensive review of all year-end journal entries made by staff. Subsequent to year-end, each journal entry is reviewed to determine whether reversing entries are required, thereby completing the accounting cycle of that fiscal year.

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

- A. No Findings or Questioned Costs.