

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

AUDITED FINANCIAL STATEMENTS

June 30, 2012



**BOARD OF EDUCATION OF  
SHELBY COUNTY, TENNESSEE**  
(A Component Unit of Shelby County, Tennessee)  
June 30, 2012

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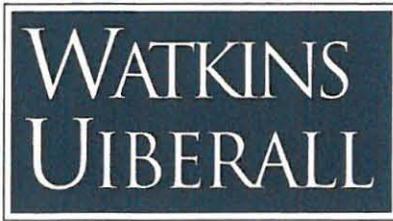
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Watkins Uiberall, PLLC  
Certified Public Accountants & Financial Advisors  
Independent Member of BKR International



## 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, 2012 and the budgetary comparison for the general fund for the year ended June 30, 2012, 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 \$5,949,778 and \$5,736,557, as of June 30, 2012, respectively, and total revenues of \$16,099,622 and \$13,689,328, 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit, and the reports of the other auditors, provides 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, 2012, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the general fund 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 November 16, 2012, on our consideration of the Board of Education of Shelby County, Tennessee internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 and the Schedules of Funding Progress on pages 4 through 12 and 44 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 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 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.

Memphis, Tennessee  
November 16, 2012

*Watkins Uihl, PLLC*  
*Banks, Finley, White & Co.*

**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, 2012**

**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, 2012. 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, 2012 are as follows:

- Total net assets decreased from \$279.2 million in 2011 to \$240.5 million in 2012, primarily due to the recording of the long-term liability for OPEB future payments. This long-term liability increased from \$180.6 million in 2011 to \$209.4 million in 2012.
- Total revenue increased from \$428.2 million in 2011 to \$439.8 million in 2012, an increase of \$11.6 million. Several things contributed to this, including the increase in the State of Tennessee revenue category, specifically in the BEP revenue in the General Fund. BEP revenue increased \$3.7 million in the 2012 fiscal year due to an increase in enrollment for that year. The amount of Wheel Tax revenue also exceeded that received in the previous year by about \$4.0 million. Finally, in the area of grants, Shelby County Schools received the bulk of its Ed Jobs grant funding totaling \$8.6 million for the 2012 fiscal year.

- Total expenditures increased from \$469.9 million in 2011 to \$478.5 million in 2012, an increase of \$8.6 million. Expenditure increases were noted in most of the cost categories but primarily in the areas of Support Services, General Administration, and Transportation. The increase in the Transportation category was due to the increase in the cost of diesel fuel and all related products. In the Support Services category, the increase was due to the amount of Other Post Employment Benefits (OPEB) long-term liability that was allocated to those accounts in excess of that of the previous year. The increase in the General Administration expenditure category was the result of the increase in the health insurance claims costs in the Proprietary Fund. Claims costs in 2012 increased by \$2.5 million from that incurred in the previous fiscal year.
- Ending governmental fund balances of SCS decreased from \$53.1 million in 2011 to \$40.1 million in 2012, a decrease of \$13.0 million primarily due to 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. The system, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

## Governmental funds

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

## Notes to the financial statements

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

## Government-wide financial analysis

(amounts expressed in millions of dollars)

The Statement of Net Assets for 2012 has been summarized and compared with net assets for 2011.

	2012	2011	Difference	% Change
Assets:				
Current and other assets	\$ 80.6	\$ 106.3	\$ (25.7)	(24.2)%
Capital assets	<u>402.0</u>	<u>392.0</u>	<u>10.0</u>	2.6 %
Total Assets	<u>482.6</u>	<u>498.3</u>	<u>(15.7)</u>	(3.2)%
Liabilities:				
Long-term liabilities	209.4	180.6	28.8	15.9 %
Other liabilities	<u>32.7</u>	<u>38.5</u>	<u>(5.8)</u>	(15.1)%
Total Liabilities	<u>242.1</u>	<u>219.1</u>	<u>23.0</u>	10.5 %
Net Assets:				
Invested in capital assets, net of debt	402.0	392.0	10.0	2.6 %
Restricted	25.5	33.0	(7.5)	(22.7)%
Unrestricted	<u>(187.0)</u>	<u>(145.8)</u>	<u>(41.2)</u>	28.3 %
Total Net Assets	<u>\$ 240.5</u>	<u>\$ 279.2</u>	<u>\$ (38.7)</u>	(13.9)%

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

	2012	2011	Difference	% Change
<u>Governmental Activities</u>				
Program Revenues:				
Operating grants and contributions	\$ 199.2	\$ 219.9	\$ (20.7)	(9.4)%
Charges for services	65.6	37.2	28.4	76.3 %
General Revenues:				
Shelby County taxes	113.3	123.7	(10.4)	(8.4)%
Local option and state taxes	42.4	41.7	0.7	1.7 %
Other	<u>19.3</u>	<u>5.7</u>	<u>13.6</u>	238.6 %
Total Revenues	439.8	428.2	11.6	2.7 %
Expenses:				
Instruction	285.4	285.7	(0.3)	(0.1)%
Support services	66.5	61.6	4.9	8.0 %
Administration	44.1	40.7	3.4	8.4 %
Plant Operations & maintenance	29.5	29.7	(0.2)	(0.7)%
Transportation	18.5	17.4	1.1	6.3 %
Food services	19.8	20.4	(0.6)	(2.9)%
Student activities	<u>14.7</u>	<u>14.4</u>	<u>0.3</u>	2.1 %
Total Expenses	<u>478.5</u>	<u>469.9</u>	<u>8.6</u>	1.8 %
Increase (Decrease) in Net Assets	(38.7)	(41.7)	3.0	(7.2)%
Net Assets - Beginning of Year	<u>279.2</u>	<u>320.9</u>	<u>(41.7)</u>	(13.0)%
Net Assets - End of Year	<u>\$ 240.5</u>	<u>\$ 279.2</u>	<u>\$ (38.7)</u>	(13.9)%

Revenues

SCS' total revenue increased \$11.6 million, or 2.7%, in 2012. (See Changes in Net Assets From Operating Results — page 7). This increase was due to several reasons. SCS experienced an increase in the State of Tennessee revenue category; BEP revenue in the General Fund increased by about \$3.7 million. Wheel Tax revenue also increased in 2012 by about \$4.0 million. In addition, there was an increase in grant revenue caused by the Ed Jobs grant which totaled about \$8.6 million in Federal funding for 2012. Our total student average daily membership decreased from 47,230 in 2011 to 45,562 in 2012. Property tax revenues and other tax collections from Shelby County remained level with the preceding fiscal year. Interest income was about \$864,000 less than the projected earnings due to a lower rate of return from Local Government Investment Pool (LGIP).

## Expenses

SCS' total expenses increased \$8.6 million, or 1.8%, in 2012. Expenditure increases were noted in most of the cost categories but primarily in the areas of Support Services, General Administration, and Transportation. The increase in the Transportation category was due to the increase in the cost of diesel fuel and all related products. In the Support Services category, the increase was due to the amount of Other Post Employment Benefits (OPEB) long-term liability that was allocated to those accounts in excess of that of the previous year. The increase in the General Administration expenditure category was the result of the increase in the health insurance claims costs in the Proprietary Fund. Claims costs in 2012 increased by \$2.5 million from that incurred in the previous fiscal year.

## Governmental Activities

(amounts expressed in millions of dollars)

	Total Cost of Services			Net Cost of Services		
	2012	2011	Percentage Change	2012	2011	Percentage Change
Instructional programs	\$ 285.4	\$ 285.7	(0.1)%	\$ 55.5	\$ 63.7	(12.9)%
Support services	66.5	61.6	8.0 %	63.9	59.8	6.9 %
General administration	44.1	40.7	8.4 %	43.7	40.3	8.4 %
Operations and maintenance of plant	29.5	29.7	(0.7)%	29.1	29.3	(0.7)%
Student transportation	18.5	17.4	6.3 %	17.8	16.8	6.0 %
Food Services	19.8	20.4	(2.9)%	3.1	2.8	10.7 %
Student activities	<u>14.7</u>	<u>14.4</u>	2.1 %	<u>0.6</u>	<u>-</u>	0.0 %
Total Expenses	<u>\$ 478.5</u>	<u>\$ 469.9</u>	1.8 %	<u>\$ 213.7</u>	<u>\$ 212.7</u>	0.5 %

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 2012 was \$478.5 million. Federal and State grants, subsidized programs, and contributions financed \$264.8 million of the cost. The district and state taxpayers financed the remainder of SCS' cost, which was \$213.7 million for 2012.

## **Financial Analysis of SCS's Funds**

SCS ended fiscal year 2012 with strong fund balances in its governmental funds. The combined balance of all governmental funds was \$40.1 million. Approximately 16.4% of the total fund balance is unassigned. The remainder of the fund balance is restricted for future specific spending. Overall, SCS increased its investment in long-term assets, while still maintaining adequate cash balances, resulting in a strong financial position.

### **General Fund Budgetary Highlights**

The general fund budget was not amended during the year. Total revenues were \$3.2 million less than anticipated. Key factors contributing to that variance were as follows:

- Shelby County Taxes were \$1.3 million less than anticipated
- Interest income and other sources were \$1.2 million less than budget
- Federal Government (IDEA Excess Cost, EIS) \$0.8 million less than budget

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 \$9.4 million lower than budgeted. The majority of the variance can be attributed to leaner expenditures in the support services area. Sparing use of end of year funds was made for capital projects at the end of 2012. SCS had anticipated using \$17.3 million of the reserve to balance the 2012 budget; however only \$11.9 million was actually needed leaving \$5.4 million to be put back in the reserve as of June 30, 2012.

### **General Fund Balance**

The general fund balance decreased 31.9% to \$28.7 million in 2012. The fund balance equals 38 days of expenses. It also represents 8.0% of budgeted expenses. The State BEP requires a reserve equal to 3% of the 2013 budgeted expenses, and \$10.8 million has been reserved accordingly at June 30, 2012.

## 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. In the 2010 fiscal year, 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. For the year ending June 30, 2012, \$1.4 million in capital funds were spent and drawn down by SCS under the QSCB I agreement. On Oct 6, 2010, SCS entered into another agreement with Shelby County Government through the Tennessee State School Bond Authority Act to apply for QSCB II funds. SCS was awarded \$17.6 million in funding for five construction projects: Elementary and Middle School Gym HVAC, Collierville Middle Replacement, Highland Oaks Elementary Roof, and Southwind Elementary Roof. For the year ending June 30, 2012, \$13.5 million in capital funds were spent and drawn by SCS under the QSCB II agreement.

## Capital Assets

SCS' investment in capital assets for its governmental activities as of June 30, 2012, shown in the table below, amounts to \$401.9 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, and equipment and furniture. Overall, capital assets increased \$9.9 million for fiscal year 2012. Additions and replacements of schools were built to help the district to meet the mandatory class size limits of the State BEP and to resolve overcrowding issues.

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

	2012	2011	Percentage Change
Land	\$ 23.3	\$ 23.3	- %
Construction in progress	23.2	25.6	(9.4)%
Equipment and furniture	15.2	14.9	2.0 %
Buildings and improvements	<u>340.2</u>	<u>328.2</u>	3.7 %
Total	<u>\$ 401.9</u>	<u>\$ 392.0</u>	2.5 %

## 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**

One of the greatest challenges facing Shelby County Schools is the impending merger with Memphis City Schools that will be effective at the beginning of the 2013-14 school year. On December 20, 2010, the Memphis City Schools' Board of Education voted to surrender its charter. This was followed by the Memphis City Council voting to surrender the charter on February 10, 2011, and then by the referendum whereby the voters in the City of Memphis voted to shift the administration of Memphis City Schools to the Shelby County Board of Education. The district will be heavily involved in the decisions regarding the merging of departments and the sharing of services between the two systems that will need to occur before July 1, 2013. The two systems will operate separately until such time, with separate budgets and financials being rendered.

The Shelby County Government approved the 2012 budget on July 30, 2012. The use of \$17.3 million in fund balance enabled SCS to balance the \$367.0 million budget for the 2011-12 fiscal year.

The Retirement rates for both certified and classified employees remained level for the 2012 fiscal year, but have remained level in the 2013 fiscal year. The downturn in the economy in the county continues to represent a fiscal challenge to be met.

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 a data warehouse. SCS was also awarded \$1.2 million dollars for the TIF grant (Teacher Incentive Fund) which was awarded on September 21, 2011. This grant will cover the time period of July 1, 2011 through September 30, 2014.

Shelby County Schools continues to maximize all of the financial resources available in order to provide a quality education for all students in Shelby County.

### **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, 2012

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 15,886,806
Investments	29,929,221
Due from other governments	27,047,686
Other receivables	2,382,699
Inventories	5,468,778
Capital assets, not depreciated	46,538,131
Capital assets, depreciated, net	<u>355,425,714</u>
Total Assets	<u>\$ 482,679,035</u>
<b>Liabilities</b>	
Accounts payable and accrued expenses	\$ 24,589,898
Insurance claims payable	3,614,072
Deferred revenue	282,199
Claims payable	4,251,400
Long-term liability-OPEB	<u>209,444,702</u>
Total Liabilities	<u>242,182,271</u>
<b>Net Assets</b>	
Investment in capital assets	401,963,845
Restricted for:	
Insurance claims	3,976,350
Basic education program	10,793,684
Capital outlays	710,469
Food services	3,710,791
Student activities	6,344,750
Unrestricted	<u>(187,003,125)</u>
Total Net Assets	<u>240,496,764</u>
Total Liabilities and Net Assets	<u>\$ 482,679,035</u>

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

**BOARD OF EDUCATION OF  
SHELBY COUNTY, TENNESSEE**  
**(A Component Unit of Shelby County, Tennessee)**  
Statement of Activities  
For the Year Ended June 30, 2012

	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	\$ 285,400,355	\$ 38,810,387	\$ 191,168,644	\$ (55,421,324)
Support services	66,474,643	2,541,073	-	(63,933,570)
General Administration	44,088,193	423,512	-	(43,664,681)
Operation and maintenance of plant	29,503,650	423,512	-	(29,080,138)
Student transportation	18,492,591	705,854	-	(17,786,737)
Food service	19,788,229	8,710,711	7,992,816	(3,084,702)
Student activities	<u>14,703,893</u>	<u>13,971,670</u>	<u>-</u>	<u>(732,223)</u>
Total Governmental Activities	<u>\$ 478,451,554</u>	<u>\$ 65,586,719</u>	<u>\$ 199,161,460</u>	<u>(213,703,375)</u>
General Revenues:				
Shelby County				113,303,620
Local option and state sales taxes				42,445,709
Other local sources				<u>19,278,514</u>
Total General Revenues				<u>175,027,843</u>
Increase (Decrease) in Net Assets				(38,675,532)
Net Assets - Beginning of Year				<u>279,172,296</u>
Net Assets - End of Year				<u>\$ 240,496,764</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, 2012**

**Assets**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Federal Projects Fund</u>	<u>Special Revenue Funds Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ -	\$ -	\$ 1,221,694	\$ 14,665,112	\$ 15,886,806
Investments	22,422,048	-	-	55,081	22,477,129
Receivables:					
Due from Shelby County	5,594,568	-	-	-	5,594,568
State	7,313,073	2,515,549	3,089,530	383,453	13,301,605
Other	615,637	-	-	1,605,982	2,221,619
Due from other funds	10,969,747	10,400	396,146	-	11,376,293
Inventories	<u>4,792,583</u>	<u>-</u>	<u>-</u>	<u>676,195</u>	<u>5,468,778</u>
 Total Assets	 <u>\$ 51,707,656</u>	 <u>\$ 2,525,949</u>	 <u>\$ 4,707,370</u>	 <u>\$ 17,385,823</u>	 <u>\$ 76,326,798</u>

**Liabilities and Fund Balances**

Liabilities:					
Accounts payable	\$ 1,378,370	\$ 390,480	\$ 347,564	\$ 76,607	\$ 2,193,021
Accrued payroll expenses	21,266,781	-	938,453	168,893	22,374,127
Due to other funds	403,552	1,425,000	3,403,522	6,144,219	11,376,293
Deferred revenue	<u>-</u>	<u>-</u>	<u>17,831</u>	<u>264,368</u>	<u>282,199</u>
 Total Liabilities	 <u>23,048,703</u>	 <u>1,815,480</u>	 <u>4,707,370</u>	 <u>6,654,087</u>	 <u>36,225,640</u>
Fund Balances:					
Nonspendable:					
Inventories	4,792,583	-	-	676,195	5,468,778
Restricted for:					
Basic education program	10,793,684	-	-	-	10,793,684
Capital outlays	-	710,469	-	-	710,469
Food services	-	-	-	3,710,791	3,710,791
Student activities	-	-	-	6,344,750	6,344,750
Assigned:					
2013 Budget reserves	6,491,029	-	-	-	6,491,029
Unassigned	<u>6,581,657</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,581,657</u>
 Total Fund Balances	 <u>28,658,953</u>	 <u>710,469</u>	 <u>-</u>	 <u>10,731,736</u>	 <u>40,101,158</u>
 Total Liabilities and Fund Balances	 <u>\$ 51,707,656</u>	 <u>\$ 2,525,949</u>	 <u>\$ 4,707,370</u>	 <u>\$ 17,385,823</u>	 <u>\$ 76,326,798</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, 2012

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

	Amount
Total Fund Balance - Total Governmental Funds	\$ 40,101,158
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	401,963,845
Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds.	8,151,513
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.	3,976,350
Long-term liability for OPEB future payments, not included in governmental funds	(209,444,702)
Long-term liability for legal claims contingencies, not included in governmental funds	(4,251,400)
Total Net Assets - Governmental Activities	\$ 240,496,764

*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, 2012

	General Fund	Capital Projects Fund	Special Revenue Funds		Total Governmental Funds
			Federal Projects Fund	Other Governmental Funds	
Revenues:					
Shelby County	\$ 113,303,620	\$ 14,887,634	\$ -	\$ -	\$ 128,191,254
State of Tennessee	184,897,442	-	-	592,741	185,490,183
Federal government	-	-	31,643,602	8,569,373	40,212,975
Local option and state sales taxes	42,445,709	-	-	-	42,445,709
Charges for current services	2,129,827	-	-	-	2,129,827
Other local sources	<u>2,428,780</u>	<u>-</u>	<u>-</u>	<u>21,917,897</u>	<u>24,346,677</u>
Total Revenues	<u>345,205,378</u>	<u>14,887,634</u>	<u>31,643,602</u>	<u>31,080,011</u>	<u>422,816,625</u>
Expenditures:					
Regular education program	185,823,955	-	10,271,977	288,678	196,384,610
Special education program	33,074,431	-	7,333,157	-	40,407,588
Vocational education program	6,279,565	-	293,031	-	6,572,596
Alternative education program	2,145,532	-	-	-	2,145,532
Early Childhood Development	-	-	1,232,331	-	1,232,331
Support services	45,332,553	-	9,926,605	498,476	55,757,634
General administration	9,411,529	-	-	-	9,411,529
School administration	25,518,431	-	-	12,680	25,531,111
Business administration	4,810,908	-	-	-	4,810,908
Operation and maintenance of plant	27,587,135	-	-	-	27,587,135
Student transportation	11,573,059	-	1,749,807	498,965	13,821,831
Food services	-	-	7,018	16,138,005	16,145,023
Capital outlays	6,345,940	17,164,969	-	-	23,510,909
Student activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,298,824</u>	<u>13,298,824</u>
Total Expenditures	<u>357,903,038</u>	<u>17,164,969</u>	<u>30,813,926</u>	<u>30,735,628</u>	<u>436,617,561</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(12,697,660)</u>	<u>(2,277,335)</u>	<u>829,676</u>	<u>344,383</u>	<u>(13,800,936)</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, 2012  
*(Continued)*

	General Fund	Capital Projects Fund	Special Revenue Funds		Total Governmental Funds
			Federal Projects Fund	Other Governmental Funds	
Other Financing Sources (Uses):					
Transfers in	844,378	-	-	-	844,378
Transfers out	<u>-</u>	<u>-</u>	<u>829,676</u>	<u>14,702</u>	<u>844,378</u>
Total Other Financing Sources (Uses)	<u>844,378</u>	<u>-</u>	<u>(829,676)</u>	<u>(14,702)</u>	<u>-</u>
Net Change in Fund Balances	(11,853,282)	(2,277,335)	-	329,681	(13,800,936)
Fund Balances, Beginning of Year	40,263,147	2,987,804	-	9,859,876	53,110,827
Change in reserve for inventories	<u>249,088</u>	<u>-</u>	<u>-</u>	<u>542,179</u>	<u>791,267</u>
Fund Balances, End of Year	<u>\$ 28,658,953</u>	<u>\$ 710,469</u>	<u>\$ -</u>	<u>\$ 10,731,736</u>	<u>\$ 40,101,158</u>

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

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

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances -  
Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2012

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

	Amount
Net Change in Fund Balances - Total Governmental Funds	\$ (13,800,936)
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.	10,053,027
The net effect of the disposal of certain capital assets including sales and retirements is to decrease net assets.	(53,510)
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).	791,270
Recognition of deferred revenue by Shelby County increases the Board's receivable from Shelby County. This amount is the net change during the period.	1,137,614
Increase in long-term liability for OPEB future payments, not included in governmental funds	(28,816,896)
Increase in long-term liability for legal claims contingencies, not included in governmental funds	(2,076,400)
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.	(5,909,701)
Change in Net Assets of Governmental Activities	\$ (38,675,532)

*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)**  
Schedule of Revenues, Expenditures, and Changes in Fund Balances -  
Budget and Actual (Budgetary Basis) - General Fund  
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget- Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Shelby County	\$ 114,647,805	\$114,647,805	\$ 113,303,620	\$ (1,344,185)
State of Tennessee	185,740,228	185,740,228	184,897,442	(842,786)
Federal Government	745,808	745,808	-	(745,808)
Local option and State sales taxes	41,667,690	41,667,690	42,445,709	778,019
Charges for current services	1,937,000	1,937,000	2,129,827	192,827
Other local sources	<u>3,686,166</u>	<u>3,686,166</u>	<u>2,428,780</u>	<u>(1,257,386)</u>
Total Revenues	<u>348,424,697</u>	<u>348,424,697</u>	<u>345,205,378</u>	<u>(3,219,319)</u>
Expenditures:				
Regular education program	187,101,216	187,101,216	185,823,955	1,277,261
Special education program	34,593,864	34,593,864	33,074,431	1,519,433
Vocational education program	6,611,755	6,611,755	6,279,565	332,190
Alternative education program	2,212,132	2,212,132	2,145,532	66,600
Support services	50,216,947	50,216,947	45,332,553	4,884,394
General administration	11,635,095	11,635,095	9,411,529	2,223,566
School administration	27,161,455	27,161,455	25,518,431	1,643,024
Business administration	5,049,292	5,049,292	4,810,908	238,384
Operation and maintenance of plant	27,659,434	27,659,434	27,587,135	72,299
Student transportation	12,455,514	12,455,514	11,573,059	882,455
Capital outlays	<u>2,585,200</u>	<u>2,585,200</u>	<u>6,345,940</u>	<u>(3,760,740)</u>
Total Expenditures	<u>367,281,904</u>	<u>367,281,904</u>	<u>357,903,038</u>	<u>9,378,866</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(18,857,207)</u>	<u>(18,857,207)</u>	<u>(12,697,660)</u>	<u>6,159,547</u>
Other Financing Sources (Uses):				
Transfers in	1,579,363	1,579,363	844,378	(734,985)
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>1,579,363</u>	<u>1,579,363</u>	<u>844,378</u>	<u>(734,985)</u>
Net Change in Fund Balances	<u>\$ (17,277,844)</u>	<u>\$ (17,277,844)</u>	(11,853,282)	<u>\$ 5,424,562</u>
Fund Balance-GAAP Basis-Beginning of Year			40,263,147	
Change in Reserve for Inventories			<u>249,088</u>	
Fund Balance-GAAP Basis-End of Year			<u>\$ 28,658,953</u>	

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

**BOARD OF EDUCATION OF  
SHELBY COUNTY, TENNESSEE**  
**(A Component Unit of Shelby County, Tennessee)**  
Statement of Net Assets - Proprietary Fund  
June 30, 2012

**Assets**

	<u>Governmental Activities - Internal Service Fund</u>
Investments	\$ 7,635,036
Accounts receivable	<u>161,080</u>
Total Assets	<u>\$ 7,796,116</u>

**Liabilities and Net Assets**

Liabilities	
Accounts payable	\$ 205,694
Insurance claims payable	<u>3,614,072</u>
Total Liabilities	3,819,766
Net Assets	
Restricted for insurance claims	<u>3,976,350</u>
Total Liabilities and Net Assets	<u>\$ 7,796,116</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, 2012

	<u>Governmental Activities - Internal Service Fund</u>
Operating Revenues:	
Premium received	\$ 43,596,565
Operating Expenses:	
Claims incurred	40,137,605
Insurance premiums	1,466,388
Administrative expenses	<u>7,925,510</u>
Total Operating Expenses	<u>49,529,503</u>
Operating Income (Loss)	<u>(5,932,938)</u>
Nonoperating Revenue:	
Interest Income	14,724
Other Income	<u>8,513</u>
Total Nonoperating Revenue	<u>23,237</u>
Change in Net Assets	(5,909,701)
Net Assets - Beginning of Year	<u>9,886,051</u>
Net Assets - End of Year	<u>\$ 3,976,350</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, 2012

	<u>Governmental Activities - Internal Service Fund</u>
Cash Flows From Operating Activities:	
Premiums received	\$ 44,026,748
Claims paid	(39,385,849)
Payments to vendors	(9,333,802)
Other receipts	<u>8,513</u>
Net Cash Provided (Used) by Operating Activities	<u>(4,684,390)</u>
Cash Flows From Investing Activities:	
Interest income	14,724
Decrease in investments	<u>4,669,666</u>
Net Cash Provided (Used) In Investing Activities	<u>4,684,390</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)	\$ (5,932,938)
Other Income	8,513
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Changes in Operating Assets and Liabilities:	
Increase in accounts receivable	430,183
Increase in accounts payable	58,096
Decrease in insurance claims payable	<u>751,756</u>
Total Cash Provided (Used) by Operating Activities	<u>\$ (4,684,390)</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, 2012

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

Determination of the Reporting Entity

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.

## 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.

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.

## Proprietary Funds

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.

## Major and Nonmajor Funds

The General Fund, Capital Projects Fund, and the Federal Projects Fund are classified as major funds. The Special Revenue Funds are classified as non-major funds. See above for descriptions.

## Measurement Focus

Measurement focus is a term used to describe which transactions are recorded within the various financial statements.

The government wide financial statements are reported using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

### Budgeting and Budgetary Control

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.

### Basis of Accounting

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.

The government-wide financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange-like transactions are recognized when the exchange takes place.

The fund financial statements, the General, Federal, Special Revenue, and Capital Projects Funds, are prepared on the modified accrual basis of accounting. Under this basis of accounting, revenues are recognized in the accounting period in which they become susceptible to accrual, which is defined as being both measurable and available to finance expenditures of the fiscal period. Expenditures are recognized on the modified accrual basis which is defined as when

measurable and when the related liability is incurred. When both restricted and unrestricted resources are available for use, it is the Board's policy to use restricted resources first, then unrestricted resources as they are needed. Revenue susceptible to accrual under the modified accrual basis is principally:

- a. Property taxes collected by Shelby County but not yet remitted to the Board.
- b. Grants and subsidies from other governments, to the extent measurable and available.
- c. Interest earned on investments as of year-end.

The Proprietary Fund utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenue is recorded as earned and expenses are recorded when the liability is incurred or economic asset used. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. All other revenue is considered nonoperating revenue.

#### 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.

#### 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.

### Realty and Personal Property Taxes

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 \$4.02 per \$100 of assessed value includes \$1.91 for both the city and county schools.

Distribution of the \$1.91 to the city and county school systems is based on the average daily attendance of each system. Approximately 69.24% and 30.76% was distributed to the City of Memphis Schools and Shelby County Schools, respectively.

### Cash Equivalents

Shelby County maintains a cash pool, of which the County Trustee is custodian. This pool is generally available for use by all Shelby County funds and related entities. At June 30, 2012, cash and cash equivalents include amounts in the pool and demand deposits at various financial institutions.

### 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.

### 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.

### Equity Classifications

In the government-wide financial statements, equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets.

- b. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Governmental fund balances are reported, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, as either Nonspendable, Restricted, Committed, Assigned and/or Unassigned.

The Shelby County Board of Education reports fund balance in its governmental funds in the classifications prescribed by GASB Statement 54. By doing so, the Board reflects the amount to which they are “bound to honor constraints on the specific purposes for which amounts in the fund can be spent.” Of the five categories allowed by GASB Statement 54, the District reports only four of these components in the 2012 fiscal year: Nonspendable, Restricted, Assigned, and Unassigned.

The Nonspendable Fund Balance reflects the amounts that can only be spent for inventories. The Restricted Fund Balance category reflects the resources that are subject to legal restrictions, such as BEP (Basic Education Program), capital outlay, the nutrition program, and student activities. The Assigned Fund Balance reflects the amount that the Board designated the Superintendent to assign funds to eliminate a projected budgetary deficit for the 2013 fiscal year. The District reports the residual net resources left after what is categorized in the other three components as Unassigned Fund Balance. This category is only reported in the General Fund.

#### Minimum Fund Balance Policy

In order to maintain and protect the long-term financial capacity of Shelby County Schools, total fund balance restricted for education in the General Fund is maintained at a level not less than required by Tennessee Code Annotated (TCA) 49-3-352.

#### Order of Expenditure of Funds

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 54, when multiple categories of fund balances are available, such as restricted and unrestricted resources in the General Fund, Capital Projects Fund, and Special Revenue Funds, the district will start spending from the most restricted category and spend those funds first before moving down to the next category with available funds. GASB Statement No. 54 required Shelby County Schools to adopt a spending prioritization policy. The policy enacted by the Board requires that funds be spent in the following order: Restricted, Committed, Assigned, and Unassigned.

### 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.

### **NOTE 2 – CASH AND CASH EQUIVALENTS:**

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.

### **NOTE 3 - INVESTMENTS:**

The Board's investments at June 30, 2012 consisted of the following:

Tennessee Local Government Investment Pool (LGIP)	\$ 34,128,013
Certificates of Deposit	<u>-</u>
	34,128,013
Add deposit in transit to LGIP	5,103,283
Less amount reported as cash equivalents	<u>(9,302,075)</u>
Total Investments per financial statements	<u>\$ 29,929,221</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 4 – ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES:**

Payables as of year-end for Shelby County Schools' individual major funds and nonmajor, and internal service funds in the aggregate are as follows:

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Federal Fund</u>	<u>Special Revenue Fund</u>	<u>Internal Service Fund</u>
Accounts payable	\$ 1,378,370	\$ 390,480	\$ 347,564	\$ 76,607	\$ 205,694
Accrued payroll expenses	<u>21,266,781</u>	<u>-</u>	<u>938,453</u>	<u>168,893</u>	<u>-</u>
Total	<u>\$ 22,645,151</u>	<u>\$ 390,480</u>	<u>\$ 1,286,017</u>	<u>\$ 245,500</u>	<u>\$ 205,694</u>

**NOTE 5 – GENERAL LONG-TERM OBLIGATIONS:**

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

Changes in long-term liabilities during the year were:

	<u>Balance Due June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Due June 30, 2012</u>	<u>Due Within One Year</u>
Governmental Activities:					
Claims payable	\$ 2,175,000	\$ 2,600,000	\$ (523,600)	\$ 4,251,400	\$ -
Other Postemployment benefit obligations	<u>180,627,807</u>	<u>47,175,292</u>	<u>(18,358,397)</u>	<u>209,444,702</u>	<u>-</u>
Total	<u>\$ 182,802,807</u>	<u>\$ 49,775,292</u>	<u>\$ (18,881,997)</u>	<u>\$ 213,696,102</u>	<u>\$ -</u>

## **NOTE 6 - RETIREMENT PLANS:**

### 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](http://www.tn.gov/treasury/tcrs/Schools).

### Funding policy - teachers

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, 2012 was 9.05% 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, 2012, 2011, and 2010 were \$18,696,266, \$18,256,591, and \$12,573,101, 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, 2012 was 8.78% 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, 2012, Shelby County Board of Education's annual pension cost of \$4,634,670 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, 2009 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 3.0 percent annual rate of inflation, (c) 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), (d) projected 3.5 percent annual in the Social Security wage base, and (e) projected post retirement increases of 2.5 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 ten-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, 2009 was 6 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

Fiscal Year Ending	Trend information		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2012	\$ 4,634,670	100%	\$ -
June 30, 2011	\$ 4,419,473	100%	\$ -
June 30, 2010	\$ 3,964,193	100%	\$ -

### Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was 97.44% funded. The actuarial accrued liability for benefits was \$139.44 million, and the actuarial value of assets was \$135.87 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$3.57 million. The covered payroll (annual payroll of active employees covered by the plan) was \$49.54 million, and the ratio of the UAAL to the covered payroll was 7.20%.

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 7 - 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 \$10,053,027 difference are as follows:

Capital outlay	\$ 23,462,809
Depreciation expense	<u>(13,409,782)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental funds	<u>\$ 10,053,027</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 \$1,137,614 are as follows:

Change in Deferred Property taxes	<u>\$ 1,137,614</u>
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**NOTE 8 - 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, 2011	\$ 23,325,374	\$ 25,580,039	\$ 36,552,807	\$ 460,145,766	\$ 545,603,986
Increases/Transfers	-	22,724,528	3,055,720	22,774,372	48,554,620
Decreases/Transfers	-	(25,091,810)	(872,485)	(69,341)	(26,033,636)
Balance, June 30, 2012	<u>23,325,374</u>	<u>23,212,757</u>	<u>38,736,042</u>	<u>482,850,797</u>	<u>568,124,970</u>
Accumulated Depreciation:					
Balance, July 1, 2011	-	-	21,668,806	131,970,852	153,639,658
Increases	-	-	2,713,574	10,696,208	13,409,782
Decreases	-	-	(874,644)	(13,671)	(888,315)
Balance, June 30, 2012	<u>-</u>	<u>-</u>	<u>23,507,736</u>	<u>142,653,389</u>	<u>166,161,125</u>
Total Capital Assets, Net	<u>\$ 23,325,374</u>	<u>\$ 23,212,757</u>	<u>\$ 15,228,306</u>	<u>\$ 340,197,408</u>	<u>\$ 401,963,845</u>

Depreciation expense was charged to governmental functions as follows:

Instructional programs	\$ 10,916,578
Student transportation	2,211,150
Food services	189,722
Operation and maintenance of plant	<u>92,332</u>
	<u>\$ 13,409,782</u>

**NOTE 9 - 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 \$4,251,400. 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, 2012, the Board had \$1,571,416 in construction contracts outstanding.

**NOTE 10 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:**

Interfund receivables and payables consist of the following:

Receivable Fund	Payable Fund	Amount
General Fund	School Cafeteria Fund	\$ 5,181,629
General Fund	Federal Projects Fund	3,007,376
General Fund	Miscellaneous Governmental Funds	962,590
Federal Project Funds	General Fund	799,698
General Fund	Capital Projects Fund	1,414,600
Capital Projects Fund	General Fund	<u>10,400</u>
		<u>\$ 11,376,293</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	\$ 829,676
Other Governmental Funds	General Fund	<u>14,702</u>
Total Transfers		<u>\$ 844,378</u>

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

**NOTE 11 - RISK MANAGEMENT:**

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, 2012 totaled \$3,614,072. Changes in the balances of claims liabilities for the year ended June 30, 2012 are as follows:

Unpaid claims, beginning of year	\$	2,862,316
Incurred claims (including IBNR)		38,634,093
Claims payments		<u>(37,882,337)</u>
Unpaid claims, end of year	\$	<u>3,614,072</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 12 – CHARTER SCHOOLS:**

In 2002, the State of Tennessee passed the Tennessee Public Charter Schools Act. The Act permits the Board of Education to authorize public charter schools with the primary purpose to improve learning for all students and close the achievement gap between high and low performing students. An agreement is entered between the sponsor of the charter school and the Board. The charter is approved for an initial period of ten years, but can be revoked by the Board or the State if the school violates certain requirements of the Act. Each school must be operated by a not-for-profit organization with exemption from Federal taxation under 501(c)3 of the Internal Revenue Code and is responsible for establishing their own governing body separate from that of the Board. The charter schools are supported by the Board as a pass-through from various funding sources. In 2010, the State of Tennessee amended the Charter Schools Act requiring the State to distribute the BEP for capital outlay directly to the charter schools. For the year ended June 30, 2012, total funds remitted to the charter school totaled \$135,366.

Upon dissolution, any unencumbered public funds, property and improvements, furnishings, and equipment purchased with public funds shall revert to full ownership of the Board. All debts are the responsibility of the charter school.

## **NOTE 13 - 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. Effective July 1, 2010, the Board's Employee Benefit Committee approved a freeze of Board contributions at the amount paid in fiscal 2010; any deficit funding would be made up by plan members. For fiscal year 2012, the Board contributed \$5,053,376 to the Plan. In fiscal year 2012, total member contributions were \$1,412,956. No contributions were made by the Board in fiscal year 2012 to the Tennessee School Board Association GASB 45 Trust.

### 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	\$ 33,510,135	\$ 4,633,767	\$ 38,143,902
Interest on Net OPEB Obligation	8,416,359	615,031	9,031,390
Adjustment to annual required contribution	<u>(10,428,500)</u>	<u>(762,070)</u>	<u>(11,190,570)</u>
Annual OPEB Cost	31,497,994	4,486,728	35,984,722
Contributions made(Actuarial assumption)	<u>6,236,357</u>	<u>931,470</u>	<u>7,167,827</u>
Increase in Net OPEB Obligation	25,261,637	3,555,258	28,816,895
Net OPEB Obligation - Beginning of Year	<u>168,327,186</u>	<u>12,300,621</u>	<u>180,627,807</u>
Net OPEB Obligation - End of Year	<u>\$ 193,588,823</u>	<u>\$ 15,855,879</u>	<u>\$ 209,444,702</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, 2012	\$ 35,984,723	19.0 %	\$ 209,444,703
June 30, 2011	\$ 36,857,684	18.5 %	\$ 180,627,807
June 30, 2010	\$ 25,207,680	31.6 %	\$ 150,583,525

### Funded Status and Funding Progress

As of June 30, 2012, the actuarial accrued liability for insurance and life benefits was \$334,840,841, of which \$3,000,000 has been funded through contributions from the Board plus actuarial earnings on investments. The covered payroll (annual payroll of active employees covered by the Plan) was \$237,564,653, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 141.0 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, 2010:

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

Mortality – Life expectancies were based on mortality tables: RP-2000 Combined Mortality Projected to 2015 using Projection Scale AA.

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 9.5 percent for pre-65 and 8.5 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. Basic life insurance is provided to the retiree at no cost to the retiree. The current rate paid by the Board for life coverage was \$0.219 per \$1,000 in 2010.

In the July 1, 2010 actuarial valuation, the Unit Credit actuarial Cost 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.

*See next page*

**NOTE 14 – FUND BALANCES BY PURPOSE:**

Following is more detailed information on the governmental fund balances:

	<b>General Fund</b>	<b>Capital Projects Fund</b>	<b>Special Revenue Fund</b>	<b>Total Governmental Funds</b>
<b>Fund Balances:</b>				
<b>Nonspendable:</b>				
Inventories	\$ 4,792,583	\$ -	\$ -	\$ 4,792,583
Food Services Inventory	-	-	676,195	676,195
<b>Restricted for:</b>				
Capital Projects	-	710,469	-	710,469
BEP	10,793,684	-	-	10,793,684
Food Services	-	-	3,710,791	3,710,791
Student Activities	-	-	6,344,750	6,344,750
<b>Assigned:</b>				
2013 Budget reserves	6,491,029	-	-	6,491,029
<b>Unassigned:</b>				
General purpose	<u>6,581,657</u>	<u>-</u>	<u>-</u>	<u>6,581,657</u>
Total Fund Balances	<u>\$ 28,658,953</u>	<u>\$ 710,469</u>	<u>\$ 10,731,736</u>	<u>\$ 40,101,158</u>

**NOTE 15 - SUBSEQUENT EVENTS**

The merger with Memphis City Schools is set to be effective at the beginning of the 2013-14 school year. On December 20, 2010, the Memphis City Schools' Board of Education voted to surrender its charter. This was followed by the Memphis City Council voting to surrender the charter on February 10, 2011, and then by the referendum whereby the voters in the City of Memphis voted to shift the administration of Memphis City Schools to the Shelby County Board of Education. Decisions regarding the merging of departments and the sharing of services between the two systems continue to be made as the date of merger approaches on July 1, 2013. The two systems continue to operate separately until such time, with separate budgets and financials being rendered. A combined budget will be prepared for the 2013-2014 fiscal year.

**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 Funding Progress  
Shelby County Board of Education Defined Benefit Plan  
(dollar amounts in thousands)

For the Year Ended June 30, 2012

Actual Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2011	\$ 135,868	\$ 139,437	\$ 3,569	97.44 %	\$ 49,536	7.20 %
June 30, 2009	\$ 110,442	\$ 115,444	\$ 5,001	95.67 %	\$ 47,330	10.57 %

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial cost method. The two most recent valuations are presented herein.

Schedule of Funding Progress  
Other Post Employment Benefits Plan (OPEB)  
For the Year Ended June 30, 2012

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, 2012	\$ 3,000,000	\$334,840,841	\$331,840,841	0.89%	\$237,564,653	141.0%
June 30, 2011	\$ 3,000,000	\$337,515,237	\$334,515,237	0.88%	\$251,851,782	134.0%
June 30, 2010	\$ 2,000,000	\$244,220,410	\$242,220,410	0.80%	\$245,061,956	99.6%

The Board began recognition of OPEB on July 1, 2007. Effective January 1, 2011, post 65 retirees formerly covered under the self-insured plan were converted to coverage under the insured Medicare Supplement plan which significantly reduced claim costs. Additional reductions are anticipated each year due to census changes, changes in retiree contributions, and any retirements or terminations that did not occur as expected in the prior valuation.

## **SUPPLEMENTAL INFORMATION**

**BOARD OF EDUCATION OF  
SHELBY COUNTY, TENNESSEE**  
**(A Component Unit of Shelby County, Tennessee)**  
Combining Balance Sheet - Nonmajor Governmental Funds  
June 30, 2012

Assets

	Special Revenue Funds			Total Other Governmental Funds
	Miscellaneous Governmental Funds	School Cafeteria Fund	School Student Activity Fund	
Cash and cash equivalents	\$ 579,730	\$ 8,528,238	\$ 5,557,144	\$ 14,665,112
Investments	-	-	55,081	55,081
Accounts receivable				
State	383,453	-	-	383,453
Other	229,252	644,205	732,525	1,605,982
Inventories	-	551,863	124,332	676,195
 Total Assets	 \$ 1,192,435	 \$ 9,724,306	 \$ 6,469,082	 \$ 17,385,823

Liabilities and Fund Balances

Liabilities:				
Accounts payable	\$ 49,107	\$ 27,500	\$ -	\$ 76,607
Accrued payroll expenses	121,176	47,717	-	168,893
Due to other funds	962,590	5,181,629	-	6,144,219
Deferred revenues	59,562	204,806	-	264,368
 Total Liabilities	 1,192,435	 5,461,652	 -	 6,654,087
Fund Balances:				
Unspendable:				
Inventories	-	551,863	124,332	676,195
Restricted for:				
Food services	-	3,710,791	-	3,710,791
School student activities	-	-	6,344,750	6,344,750
 Total Fund Balances	 -	 4,262,654	 6,469,082	 10,731,736
 Total Liabilities and Fund Balances	 \$ 1,192,435	 \$ 9,724,306	 \$ 6,469,082	 \$ 17,385,823

*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)**  
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances -  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2012

	<u>Special Revenue Funds</u>			<u>Total Other Governmental Funds</u>
	<u>Miscellaneous Governmental Funds</u>	<u>School Cafeteria Fund</u>	<u>School Student Activity Fund</u>	
Revenues:				
State of Tennessee	\$ 208,451	\$ 384,290	\$ -	\$ 592,741
Federal government	576,557	7,992,816	-	8,569,373
Other local sources	<u>506,053</u>	<u>7,722,516</u>	<u>13,689,328</u>	<u>21,917,897</u>
Total Revenues	<u>1,291,061</u>	<u>16,099,622</u>	<u>13,689,328</u>	<u>31,080,011</u>
Expenditures:				
Regular education program	288,678	-	-	288,678
Support services	455,476	43,000	-	498,476
School administration	12,680	-	-	12,680
Food services	20,560	16,117,445	-	16,138,005
Student transportation	498,965	-	-	498,965
Student activities	<u>-</u>	<u>-</u>	<u>13,298,824</u>	<u>13,298,824</u>
Total Expenditures	<u>1,276,359</u>	<u>16,160,445</u>	<u>13,298,824</u>	<u>30,735,628</u>
Excess of Revenue Over Expenditures	<u>14,702</u>	<u>(60,823)</u>	<u>390,504</u>	<u>344,383</u>
Other Financing Sources:				
Transfers in (out)	<u>(14,702)</u>	<u>-</u>	<u>-</u>	<u>(14,702)</u>
Net Increase (Decrease) in Fund Balances	-	(60,823)	390,504	329,681
Fund Balance, beginning of year	-	3,784,648	6,075,228	9,859,876
Change in Reserve for Inventories	<u>-</u>	<u>538,829</u>	<u>3,350</u>	<u>542,179</u>
Fund Balance, end of year	<u>\$ -</u>	<u>\$ 4,262,654</u>	<u>\$ 6,469,082</u>	<u>\$ 10,731,736</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)**  
Schedule of Revenues and Expenditures - By Type (Budgetary Basis) -  
Federal Projects Funds  
For the Year Ended June 30, 2012

	Title I	Carl Perkins	IDEA Part B	IDEA Preschool	Title II	Early Childhood Education Pilot Project	Race to the Top	ED Jobs	Other Non-Major Programs	Total
Revenues	\$ <u>5,515,212</u>	\$ <u>485,067</u>	\$ <u>12,873,155</u>	\$ <u>460,970</u>	\$ <u>737,572</u>	\$ <u>1,232,328</u>	\$ <u>1,177,145</u>	\$ <u>8,626,073</u>	\$ <u>536,080</u>	\$ <u>31,643,602</u>
Expenditures										
Regular education program	2,476,177	-	-	-	606,911	-	-	7,072,397	116,491	10,271,976
Special education program	-	-	6,979,126	354,031	-	-	-	-	-	7,333,157
Early Childhood Development	-	-	-	-	-	1,232,328	-	-	-	1,232,328
Vocational education program	-	293,031	-	-	-	-	-	-	-	293,031
Support services	2,855,411	184,807	3,648,624	90,770	99,719	-	1,127,101	1,518,351	401,826	9,926,609
Student transportation	-	-	1,721,500	-	-	-	-	28,307	-	1,749,807
Food services	-	-	-	-	-	-	-	7,018	-	7,018
Total Expenditures	<u>5,331,588</u>	<u>477,838</u>	<u>12,349,250</u>	<u>444,801</u>	<u>706,630</u>	<u>1,232,328</u>	<u>1,127,101</u>	<u>8,626,073</u>	<u>518,317</u>	<u>30,813,926</u>
Excess of Revenues Over Expenditures	\$ <u>183,624</u>	\$ <u>7,229</u>	\$ <u>523,905</u>	\$ <u>16,169</u>	\$ <u>30,942</u>	\$ <u>-</u>	\$ <u>50,044</u>	\$ <u>-</u>	\$ <u>17,763</u>	\$ <u>829,676</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, 2012	Cumulative Construction In Progress June 30, 2012
Bolton High School - Intercom System	\$ 144,170	\$ -
Shadowlawn Middle - Gym Bleachers	85,261	-
Shelby County Schools Fire Alarms	109,087	-
Gray's Creek New Central Office	5,148,325	10,464,674
Millington High Replacement	1,338,942	-
Elmore Park Middle Replacement	1,222,590	-
Macon-Hall Elem Addition	473,265	-
Collierville Middle Replacement	11,723,712	12,299,253
Middle School Gym HVAC	10,636	-
Elementary School Gym HVAC	1,655,287	-
Southwind Elem Roofing	197,180	-
Highland Oaks Elem Roofing	190,150	-
Millington High Master Plan II, III, IV	<u>425,923</u>	<u>448,830</u>
Total	<u>\$ 22,724,528</u>	<u>\$ 23,212,757</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)**  
Schedule of Expenditures of Federal and State Awards  
For the Year Ended June 30, 2012

Catalog of Federal Domestic Assistance Number	Program Name	Grantor	Pass-Through Entity	Receivable (Deferred Revenue) June 30, 2011	Receipts	Expenditures	Receivable (Deferred Revenue) June 30, 2012
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	\$ 165,605	\$ 1,862,000	\$ 1,696,395	\$ -
10.555	National School Lunch Program - Non-Cash Assistance	U.S. Department of Agriculture	Tennessee Department of Education	287,580	779,201	616,195	124,574
10.555	National School Lunch Program - Cash Assistance	U.S. Department of Agriculture	Tennessee Department of Education	642,109	6,938,529	6,296,420	-
10.582	Fresh Fruits & Vegetables	U.S. Department of Agriculture	Tennessee Department of Education	<u>6,999</u>	<u>55,498</u>	<u>20,560</u>	<u>(27,939)</u>
	Total Child Nutrition Cluster/ U.S. Department of Agriculture			1,102,293	9,635,228	8,629,570	96,635
U.S. Department of Education Direct Programs:							
84.184L	Safe Schools/Healthy Students Grants	U.S. Department of Education		<u>5,650</u>	-	-	<u>5,650</u>
	Total Direct Programs			5,650	-	-	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	402,280	5,138,030	5,123,426	387,676
84.389	Title I, Part A (ARRA)	U.S. Department of Education	Tennessee Department of Education	<u>166,643</u>	<u>558,429</u>	<u>391,786</u>	<u>-</u>
	Total Title I, Part A Cluster			568,923	5,696,459	5,515,212	387,676
Special Education Cluster:							
84.027	Special Education - Grants to States	U.S. Department of Education	Tennessee Department of Education	4,842,514	14,405,077	10,516,095	953,532
84.173	Special Education - Preschool Grants	U.S. Department of Education	Tennessee Department of Education	20,803	368,352	354,635	7,086
84.391A	IDEA Part-B (ARRA)	U.S. Department of Education	Tennessee Department of Education	2,148,562	4,505,622	2,357,060	-
84.392A	IDEA Preschool (ARRA)	U.S. Department of Education	Tennessee Department of Education	<u>102,987</u>	<u>209,321</u>	<u>106,334</u>	<u>-</u>
	Total Special Education Cluster			7,114,866	19,488,372	13,334,124	960,618
Education Technology State Grants Cluster:							
84.318X	Enhancing Education Through Technology	U.S. Department of Education	Tennessee Department of Education	(659)	11,338	11,997	-
84.386	Enhancing Education Through Technology	U.S. Department of Education	Tennessee Department of Education	11,784	12,327	543	-
84.386	Enhancing Education Through Technology	U.S. Department of Education	Tennessee Department of Education	<u>-</u>	<u>4,822</u>	<u>4,822</u>	<u>-</u>
	Total Education Technology State Grants Cluster			11,125	28,487	17,362	-

**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, 2012  
(Continued)

Catalog of Federal Domestic Assistance Number	Program Name	Grantor	Pass-Through Entity	Receivable (Deferred Revenue) June 30, 2011	Receipts	Expenditures	Receivable (Deferred Revenue) June 30, 2012
84.048A	Vocational Education-Basic Grant to States	U.S. Department of Education	Tennessee Department of Education	13,047	397,292	403,273	19,028
84.048A	Carl D. Perkins Vocation and Education Act	U.S. Department of Education	Tennessee Department of Education	-	-	81,794	81,794
84.367A	Improving Teacher Quality	U.S. Department of Education	Tennessee Department of Education	55,046	700,349	720,209	74,906
84.351C	Professional Development for Art Education	U.S. Department of Education	Tennessee Department of Education	35,583	416,642	395,494	14,435
84.196A	Title X, Part C, McKinney-Vento Homeless Discretionary	U.S. Department of Education	Tennessee Department of Education	-	41,368	62,800	21,432
84.298A	Innovative Programs-Title V-A	U.S. Department of Education	Tennessee Department of Education	(1,225)	-	-	(1,225)
84.364A	English Language Acquisition	U.S. Department of Education	Tennessee Department of Education	32,272	159,102	153,846	27,016
84.364A	English Language Acquisition	U.S. Department of Education	Tennessee Department of Education	75,520	115,692	47,454	7,282
84.374A	Teacher Incentive Fund	U.S. Department of Education	Tennessee Department of Education	-	70,168	264,154	193,986
84.387	Title X, McKinney-Vento Homeless Assistance Act (ARRA)	U.S. Department of Education	Tennessee Department of Education	-	7,823	7,823	-
84.395	Tennessee First to the Top	U.S. Department of Education	Tennessee Department of Education	2,134	980,037	1,177,145	199,242
84.287C	21st Century Community Learning Centers Program	U.S. Department of Education	Tennessee Department of Education	118,973	163,667	160,509	115,815
84.410	Education Jobs	U.S. Department of Education	Tennessee Department of Education	715,125	8,230,811	8,626,073	1,110,387
84.397	Extended Contract (ARRA)	U.S. Department of Education	Tennessee Department of Education	401,909	401,909	-	-
84.397	Family Resource Center (ARRA)	U.S. Department of Education	Tennessee Department of Education	7,901	7,901	-	-
84.397	Coordinated School Health (ARRA)	U.S. Department of Education	Tennessee Department of Education	21,379	21,379	-	-
	Subtotal			<u>1,477,664</u>	<u>11,714,140</u>	<u>12,100,574</u>	<u>1,864,098</u>
	Total Pass-Thru Programs			<u>9,172,578</u>	<u>36,927,458</u>	<u>30,967,272</u>	<u>3,212,392</u>
	Total U.S. Department of Education			<u>9,178,228</u>	<u>36,927,458</u>	<u>30,967,272</u>	<u>3,218,042</u>
	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>290,187</u>	<u>1,327,884</u>	<u>1,232,328</u>	<u>194,631</u>
	Total U.S. Department of Health & Human Services			<u>290,187</u>	<u>1,327,884</u>	<u>1,232,328</u>	<u>194,631</u>
	Total Federal Expenditures			<u>\$ 10,570,708</u>	<u>\$ 47,890,570</u>	<u>\$ 40,829,170</u>	<u>\$ 3,509,308</u>
	Other Grants - State Only:						
N/A	Coordinated School Health	Tennessee Department of Education	Tennessee Department of Education	\$ -	\$ 145,917	\$ 165,867	\$ 19,950
N/A	Family Resource Center	Tennessee Department of Education	Tennessee Department of Education	-	5,572	28,101	22,529
N/A	Fuel Up to Play	Southeast United Dairy Association, Inc.	Southeast United Dairy Association, Inc.	-	4,000	4,000	-
N/A	Tennessee Arts Commission - Student Ticket Subsidy	Tennessee Arts Commission	Tennessee Department of Education	-	12,742	12,680	(62)
N/A	Pollution Control	Shelby County Government	Shelby County Government	-	267,384	498,965	231,581
N/A	Youth Risk Behavior Survey	Youth Risk Behavior Survey	Tennessee Department of Education	-	1,800	1,800	-
	Total Other Grants			<u>\$ -</u>	<u>\$ 437,415</u>	<u>\$ 711,413</u>	<u>\$ 273,998</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, 2012

**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, 2012, 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**

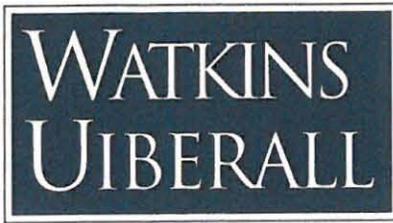
Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2012, the Board of Education of Shelby County, Tennessee had food commodities totaling \$124,574 in inventory.

**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	\$ 40,829,170
Less commodities - non-cash expenditures	<u>(616,195)</u>
Federal revenue per Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	\$ <u>40,212,975</u>

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



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



**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 as of and for the year ended June 30, 2012, which collectively comprise Board of Education of Shelby County, Tennessee's basic financial statements and have issued our report thereon dated November 16, 2012. 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 Student 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**

Management of the Board of Education of Shelby County, Tennessee is responsible for establishing and maintaining effective 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.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

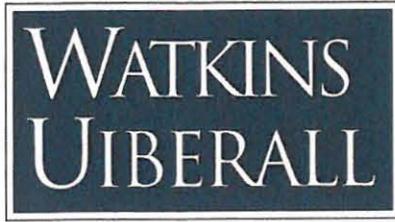
### **Compliance and Other Matters**

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*.

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.

Memphis, Tennessee  
November 16, 2012

Watkins Uihouall, PLLC  
Brent H. Finley, CPA



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, 2012. 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 of 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, 2012.

## 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 requirements 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.

The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of the Board of Education of Shelby County, Tennessee's major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on compliance but not to provide an opinion on the effectiveness of internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board of Education of Shelby County, Tennessee's compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.

Memphis, Tennessee  
November 16, 2012

*Watkins Uihlman, P.C.  
Banks, Jenkins, White & Co.*

**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, 2012

**Section I: Summary of Auditor's Results**

Financial Statements:

- |   |             |
|---|-------------|
| 1. Type of auditor's report issued on the financial statements.                           | Unqualified |
| 2. Material noncompliance relating to the financial statements.                           | No          |
| 3. Internal control over financial reporting:   |             |
| a. Material weaknesses identified?  | No          |
| b. Significant deficiencies identified that are not considered to be material weaknesses? | 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: Special Education (IDEA)  |             |
| CFDA #84.027  |             |
| CFDA #84.173  |             |
| CFDA #84.391A (ARRA)  |             |
| CFDA #84.392A (ARRA)  |             |
| b. CFDA #84.410, Education Jobs Fund  |             |
| 8. The dollar threshold used to distinguish between type A and type B programs:           | \$1,224,876 |
| 9. Auditee qualified as a low-risk auditee?   | No          |

10. Prior fiscal year audit findings and questioned costs relative to federal awards which would require auditee to prepare a summary schedule of prior audit findings as discussed in Section \_\_\_\_ .315(b) of OMB Circular A-133? No

**Section II: Findings - Financial Statement Audit**

- A. No Findings

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

- A. No Findings or Questioned Costs.

**BOARD OF EDUCATION OF  
SHELBY COUNTY, TENNESSEE**  
**(A Component Unit of Shelby County, Tennessee)**  
Summary Schedule of Prior Year Audit Findings  
Year Ended June 30, 2012

None