

Report on the

# Pike County Board of Education

Pike County, Alabama

October 1, 2004 through September 30, 2005

Filed: April 28, 2006



## Department of Examiners of Public Accounts

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*Ronald L. Jones, Chief Examiner*



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Ronald L. Jones  
*Chief Examiner*

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

Dear Sir:

Under the authority of the *Code of Alabama 1975*, Section 41-5-14, I submit this report on the Pike County Board of Education for the period October 1, 2004 through September 30, 2005.

**SCOPE AND OBJECTIVES**

This report encompasses an audit of the financial statements of the Pike County Board of Education (the "Board") and a review of compliance by the Board with applicable laws and regulations of the State of Alabama and federal financial assistance programs. The audit was conducted in accordance with government auditing standards generally accepted in the United States of America for financial audits. The objectives of the audit were to determine whether the financial statements present fairly the financial position and results of financial operations and whether the Board complied with applicable laws and regulations.

**CONTENTS OF REPORT**

This report includes the following segments:

1. **Report to the Chief Examiner** – contains items pertaining to state legal compliance, agency operations and other matters.
2. **Independent Auditor's Report** – reports on whether the financial information constitutes a fair presentation of the financial position and results of financial operations.
3. **Management's Discussion and Analysis (MD&A)** – a component of Required Supplementary Information (RSI) prepared by the management of the Board introducing the basic financial statements and providing an analytical overview of the Board's financial activities for the year. This information is supplementary information required by the Governmental Accounting Standards Board (GASB). This information has not been audited, and as a result, no opinion is provided about the fairness of the information in accordance with generally accepted accounting principles.

4. **Financial Section** – includes basic financial statements (Exhibits 1 through 6), and notes to the financial statements.
5. **Required Supplementary Information (RSI)** – includes a Budget to Actual Comparison (Exhibit 7), which contains supplementary information required by the Governmental Accounting Standards Board. The MD&A discussed above is also considered RSI.
6. **Supplementary Information** – includes the Schedule of Expenditures of Federal Awards (Exhibit 8), which details federal awards expended during the audit period and Notes to the Schedule of Expenditures of Federal Awards.
7. **Additional Information** – contains basic information related to the Board (Exhibit 9) and the following reports and item required by generally accepted government auditing standards and/or U. S. Office of Management and Budget (OMB) Circular A-133 for federal compliance audits:

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards** (Exhibit 10) – a report on internal control related to the financial statements and on whether the Board complied with laws and regulations which could have a direct and material effect on the Board’s financial statements.

**Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133** (Exhibit 11) – a report on internal control over compliance with requirements of laws, regulations, contracts and grants applicable to major federal programs and an opinion on whether the Board complied with laws, regulations, and the provisions of contracts or grant agreements which could have a direct and material effect on each major program.

**Schedule of Findings and Questioned Costs** (Exhibit 12) – a report summarizing the results of the audit findings relating to the financial statements as required by **Government Auditing Standards** and findings and questioned costs for federal awards as required by OMB Circular A-133.

#### **AUDIT COMMENTS**

The Pike County Board of Education, located in Troy, Alabama, is a governmental agency providing for the general administration and supervision of the public schools and educational interest of Pike County. The Board is composed of six members, who, along with the County Superintendent, are elected by the citizens of Pike County.

#### **SUMMARY OF FEDERAL COMPLIANCE AND FEDERAL INTERNAL CONTROL**

No material instances of noncompliance with applicable laws and regulations or material weaknesses in internal controls were noted regarding the Board’s major federal programs.

Sworn to and subscribed before me this  
the 6<sup>th</sup> day of April, 2006.

Sharon Jones  
Notary Public

Respectfully submitted,

Rhonda C. Barr

Rhonda C. Barr  
Examiner of Public Accounts

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## *Independent Auditor's Report*

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Pike County Board of Education, as of and for the year ended September 30, 2005, which collectively comprise the Pike County Board of Education's basic financial statements as listed in the table of contents as Exhibits 1 through 6. These financial statements are the responsibility of the Pike County Board of Education's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Pike County Board of Education, as of September 30, 2005, and the changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2006 on our consideration of the Pike County Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying Management's Discussion and Analysis (MD&A) and the Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Exhibit 7) are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pike County Board of Education's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 9) as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Ronald L. Jones  
Chief Examiner  
Department of Examiners of Public Accounts<sup>5</sup>

January 27, 2006

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

# *Pike County Board of Education*

## **Management Discussion and Analysis**

**September 30, 2005**

This section of the Pike County School Board's annual financial report represents management's discussion and analysis of the School Board's overall financial position and operating results of the fiscal year that ended on September 30, 2005. Readers are encouraged to read it in conjunction with the School Board's financial statements, which follow this analysis.

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.

### **Financial Highlights**

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

On the government-wide financial statements:

- 1 The assets of the Board exceeded its liabilities at the close of the 2005 fiscal year by \$8.12 million (net assets). Of this amount, there exists a surplus of \$2.79 million in unrestricted net assets. The net assets invested in capital assets and the net assets restricted for capital projects amounted to \$4.90 million and \$424 thousand, respectively. The government-wide financial statements are a long-term availability approach to analyzing the financial statements.
- 2 The total cost of the Board's programs for the year was \$17.99 million. After taking away a portion of these costs paid for with charges for services, intergovernmental aid, interest earnings and other miscellaneous sources, the net cost that required funding from Pike County taxpayers was \$3.59 million.

On the fund financial statements:

- 1 At the end of the current fiscal year, unreserved fund balance for the General Fund was \$2.17 million.
- 2 There was an overall decrease of \$735 thousand in fund balance in governmental funds.

- 3 The Board's long-term debt is \$4.57 million. This debt consists of bonds and warrants in the amount of \$4.0, the proceeds of which are restricted for renovation and new construction and Notes totaling \$.57 for the purchase of new school buses.

### **Using the Financial Statements – An Overview for the User**

The financial section consists of five parts – *management's discussion and analysis* (this section), the *independent auditor's report*, the *basic financial statements*, *required supplementary information*, and *other supplementary information*.

The Board's basic financial statements are comprised of three components:

- 1) *Government-wide financial statements*, 2) *fund financial statements*, and 3) *notes to the basic financial statements*.

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

Instruction includes teacher salaries and benefits, teacher aides, substitute teachers, textbooks, depreciation of instructional buildings, professional development, and classroom instructional materials, supplies and equipment.

Instructional support includes salaries and benefits for school principals, assistant principals, librarians, counselors, school secretaries, school bookkeepers, speech therapists, and school nurses, and professional development expenses.

Operation and maintenance includes utilities security services, janitorial services, maintenance services, and depreciation of maintenance vehicles.

Auxiliary services includes student transportation expenses, such as bus driver salaries and benefits, mechanics, bus aides, vehicle maintenance and repair expenses, vehicle fuel, depreciation of buses and bus shops, and fleet insurance, and food service expenses such as lunchroom managers, cooks, cashiers, and servers' salaries and benefits as well as donated and purchased food, food preparation and service supplies, kitchen and lunchroom equipment and depreciation of food service equipment and facilities.

General administration and central support includes salaries and benefits for the superintendent, assistants, clerical and financial staff, and other personnel that provide system-wide support for the schools. Also included are legal expenses, liability insurance, training for board members and general administrative staff, printing costs, and depreciation of central office equipment and facilities.

Interest and Fiscal Charges includes interest, but not principal payments, on long-term debt issues and other expenses related to the issuance and continuance of debt issues.

Other includes the salaries and benefits for adult and continuing education teachers, preschool teachers and aides, and extended day personnel. Also included are the materials, supplies, equipment, related depreciation, and other expenses for operating programs outside of those for educating students in the kindergarten through 12<sup>th</sup> grade instructional programs.

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

The *statement of net assets* (exhibit #1) is most closely related to a balance sheet. It presents information on all of the board's assets (what it owns) and liabilities (what it owes), with the difference between the two reported as net assets. The net assets reported in this statement represent the accumulation of changes in net assets for the current fiscal year and all fiscal years in the past combined. Over time, the increases or decreases in net assets reported in this statement may serve as a useful indicator of whether the financial position of the school board is improving or deteriorating.

The *statement of activities* (exhibit #2) is most closely related to an income statement. It presents information showing how the Board's net assets changed during the current fiscal year only. All of the current year's revenues and expenses are accounted for in the *statement of activities* regardless of when cash is received or paid. This statement shows gross expenses and offsetting program revenues to arrive at net cost information for each major expense function or activity of the Board. By showing the change in net assets for the year, the reader may be able to determine whether the Board's financial position has improved or deteriorated over the course of the current fiscal year. Factors which may have an impact on the Board's financial condition include: age and condition of facilities, mandated educational programs for which little or no funding is provided, and increases or decreases in funding from state and federal governments, to name a few.

***Fund financial statements*** – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Board used fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The reporting model still requires the Board to present financial statements on a fund basis, but with some modifications. All of the funds of the Board can be classified as governmental funds.

***Governmental Funds*** – Governmental *fund financial statements* begin with (exhibit #3). These statements account for basically the same governmental activities reported in the *government-wide financial statements*. Until now, fund information has been reported in the aggregate by type of fund. As required under the reporting model, the *fund financial statements* presented herein display information on each of the Board's most important governmental funds or *major funds*. This is required in order to better assess the Board's accountability for significant governmental programs or certain dedicated revenue. The Board's only *major fund* for FY 2005 is the General Fund.

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

***Notes to the Basic Financial Statements*** – The *notes to the basic financial statements* provide additional information that is essential for the statements to fairly represent the Board's financial position and its operations. The notes contain important information that is not part of the basic financial statements. However, the notes are an integral part of the statements, not an appendage to them.

After the presentation of the basic financial statements, the new reporting model requires additional required supplementary information to be presented following the notes to the basic financial statements. The required supplementary information provides a comparison of the original adopted budget to the final

amended budget of the Board's General Fund, which is then further compared to the actual operating results for the fiscal year. The comparison of this data allows users to assess management's ability to project and plan for its operations throughout the year.

**Government-Wide Financial Analysis**

As indicated earlier, net assets may serve over time as a useful indicator of a government's financial position. Refer to *Table 1* when reading the following analysis of net assets. The Board's assets exceeded liabilities by \$8.12 million at September 30, 2005.

- 1 Of this figure, 60 percent or \$4.90 million reflects the Board's investment in capital assets (e.g., land, buildings, improvements, furniture and equipment, and transportation equipment), less accumulated depreciation and debt related to the acquisition of the assets. Since these capital assets are used in governmental activities, this portion of net assets is not available for future spending or funding of operations.
- 2 Restricted net assets account for 5 percent or \$424 thousand of total assets. This represents the dollars restricted for capital projects.
- 3 An unrestricted net assets account balance of \$2.79 million exists for other uses.

**Table 1: Summary of Net Assets  
Governmental Activities  
(In millions)**

	<u>9/30/2005</u>	<u>9/30/2004</u>
Current and other assets	\$ 5.41	\$ 6.19
Capital assets	9.46	9.14
Total Assets	\$14.87	\$15.33
Current and other liabilities	\$2.18	\$2.22
Long-term liabilities	4.57	4.84
Total Liabilities	\$6.75	\$7.06
Net Assets:		
Invested in Capital Assets, net of Related Debt	\$4.90	\$5.70
Restricted	.43	.38
Unrestricted	2.79	2.19
Total Net Assets	\$8.12	\$8.27



At the end of the current fiscal year, the Board is able to report positive balances in all categories of net assets.

The results of this year's fiscal operations as a whole are reported in detail in the *Statement of Activities* on (exhibit 2). *Table 2* below condenses the results of operations for the fiscal year into a format where the reader can easily see the total revenues of the Board for the year. It also shows the impact the operations had on changes in net assets as of September 30, 2005.

**Table 2: Summary of Changes in Net Assets from Operating Results  
Governmental Activities**

	<u>9/30/2005</u>	<u>9/30/2004</u>
<b>Revenues:</b>		
Program Revenues		
Charges for services	\$ 1.38	\$ 1.56
Operating grants and contributions	12.39	11.63
Capital grants and contributions	.62	.51
General Revenues:		
Local property taxes	.92	.89
Sales and use taxes	2.78	2.67
Other	.49	.25
<b>Total Revenues</b>	<b>\$18.58</b>	<b>\$17.51</b>
<b>Expenses</b>		
Instruction	\$ 9.36	\$ 9.32
Instructional support	2.49	2.30
Operations and maintenance	1.84	1.62
Auxiliary services	2.74	2.59
General administrative and central support	1.16	.88
Interest and fiscal charges	.20	.21
Other	.19	.16
<b>Total Expenses</b>	<b>\$17.99</b>	<b>\$ 17.08</b>
<b>Increase in Net Assets</b>	<b>\$ .60</b>	<b>\$ .43</b>
<b>Net Assets-Beginning, as Restated (Note 5)</b>	<b>\$ 7.52</b>	<b>\$ 7.84</b>
<b>Net Assets-Ending</b>	<b>\$ 8.12</b>	<b>\$ 8.27</b>

The Board's net assets increased by \$600 thousand during the current fiscal year. This is mainly attributable to an increase in local tax revenues.

**Governmental Activities** – As shown in *Table 2*, the cost of services rendered from the Board’s governmental activities for the year ended September 30, 2005 was \$17.99 million. It is important to note that not all of these costs were borne by the taxpayers of Pike County:

- 1 Some of the cost, \$1.38 million, was paid by users who benefited from services provided during the year, such as Instruction, Instructional Support, Operation and Maintenance, Food Services and Other.
- 2 State and federal governments subsidized certain programs with operating and capital grants and contributions totaling \$13.01 million.
- 3 Other general revenue sources, such as interest earnings etc., provided for \$400 thousand in revenues.
- 4 \$4.19 million of the Board’s total costs of \$17.99 million was financed by district and state taxpayers, as follows: \$924 thousand in property taxes, \$2.78 million in sales and use taxes, and \$486 thousand in other revenues.

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

**Table 3: Net Cost of Governmental Activities**  
 Fiscal Year Ended September 30, 2005  
 (In millions)

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instructional services	\$9.36	(\$1.00)
Instructional support services	\$2.49	(\$.20)
Operations and maintenance services	\$1.84	(\$.97)
Auxiliary services	\$2.74	(\$.34)
General administration and central support	\$1.16	(\$.82)
Interest and fiscal charges	\$.21	(\$.21)
Other expenses	\$.19	(\$.05)
<b>Total</b>	<b>\$17.99</b>	<b>(\$3.59)</b>

### **Fund Level Financial Analysis**

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

**Governmental Funds** – The focus of the Board's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the board's financial requirements (Note that the relationship between the *fund financial statements* and the *government-wide financial statements* are reconciled on (exhibits #4 and #6). At the end of the fiscal year, the Board's governmental funds reported combined ending fund balances of \$3.17 million. Approximately \$2.18 million of this amount constitutes unreserved fund balance of the General fund, which is available as of the end of the fiscal year for spending on near-future operations.

**General Fund** – The general fund is the primary operating fund of the Board. The net increase in general fund balance as a result of operations this year was over \$.83 million. This is due, in part, to the extension of an additional one-cent sales tax for Pike County and Troy City Schools. The Pike County Commission has acted to extend this tax for schools through 2007. The board's total general fund balance is now \$2.28 million.

### **Budgetary Highlights**

As mandated by the State of Alabama, the Board submits to Alabama State Department of Education a balanced budget reflecting the projected Revenues and Expenditure plan for their use prior to the fiscal year commencing October 1 of every year. The original 2005 budget reflected the third year of a four-year extension to an additional one-cent sale tax approved by the Pike County Commission for Pike County and Troy City Schools. The projected \$1.2 million of additional local revenues for FY 04 from the approval of this tax was calculated into the budget. The use of these funds in FY 03, FY 04 and FY 05 was twofold. These dollars were used to improve system infrastructure and to provide additional services to students. A goal during this FY 05 was to increase the system's General Fund – fund balance.

The original FY 05 budget was amended once during the year to reflect any materialistic changes in revenues and expenditures.

**General Fund** – The comparison of the original General fund budget to the final amended budget is comprised of one **amendment**.

Amendment #1 was submitted to include the previous year’s carry-over dollars and other revenues not in the original budget.

**Capital Assets and Debt Administration**

**Capital Assets** – The Board’s investment in capital assets for its governmental activities for the year ended September 30, 2005, amounted to \$4.90 million, net of accumulated depreciation and debt related to the acquisition of the assets. The Board’s investment in capital assets includes land at historical cost, buildings and improvements at historical cost, equipment and furniture at historical cost and construction in progress, and is shown in *Table 4*.

**Table 4: Capital Assets (net of accumulated depreciation)  
Governmental Activities  
(In millions)**

	<u>9/30/2005</u>
Land and land improvements	\$ .43
Construction in progress	1.76
Buildings and Improvements	5.99
Furniture and Equipment	.40
Vehicles	<u>.88</u>
Total Capital Assets	<u>\$ 9.46</u>

The Board restated land improvements at September 30, 2004. The Board expended available resources to acquire \$1.73 million in capital asset additions during the year as follows: Building construction and improvement additions totaled \$1.66 million and vehicles and equipment additions totaled \$78 thousand. These additions are reduced by the current year’s depreciation expense of \$534 thousand and \$484 thousand of capital assets taken out of service during the year. Additional information on the Board's capital assets is presented in the notes to the financial statements.

**Long-Term Debt** – At year-end, the Board had \$4.57 million in long-term debt outstanding. This debt was incurred for Capital Projects and included both new construction and renovation. It also included notes for the purchase of new school buses. *Table 5* provides details.

**Table 5: Outstanding Long-Term Debt  
Fiscal Year Ended September 30, 2005  
(In millions)**

	<u>Beginning Balance</u>	<u>Net Change</u>	<u>Ending Balance</u>
<u>Governmental Activities</u>			
Bonds & Warrants payable	\$4.11	(\$.11)	\$4.00
Notes Payable (Fleet Renewal)	\$.73	(\$.16)	\$.57

Long-term debt activity for the year consisted of the following:

- 1 During 2005, the Board made payment of \$80 thousand toward the principal on its Series 2003 Capital Warrants and payment of \$139 thousand for interest.
- 2 In addition, using state fleet renewal allocations, the Board paid \$158 thousand on notes, which were secured, for the acquisition of buses. The balance due is \$576,260.78 and this annual obligation will continue to be met with state fleet renewal dollars and not local tax dollars. Further information on long-term debt is presented in the notes to the financial statements.

**Economic Factors**

As of the submission of this Management Discussion and Analysis (MD&A) Report of the Annual Audit, the Pike County School District is operating well within the FY 06 State-approved budget. The district anticipates essentially level state funding for FY 07. However, there is a great deal of uncertainty especially with regards to the long-term impact of a proposed 5% pay increase. Also, the district continues to be concerned with the rising costs of employee benefits and fuel prices. However, the district is optimistic that the additional local support (via the additional one-cent sales tax) approved by the Pike County Commission through 2007 will allow the district to provide quality educational opportunities to the children of Pike County while remaining fiscally sound. The district appreciates the support of the Pike County Commission.

**CONTACTING THE SCHOOL BOARD'S FINANCIAL MANAGEMENT**

The financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Board's finances and to show the Board's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Dr. Mark Bazzell, Superintendent; Pike County Board of Education, 101 West Love Street, Troy, Alabama.

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**Statement of Net Assets**  
**September 30, 2005**

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and Cash Equivalents	\$ 1,335,802.78
Investments	2,100,000.00
Receivables, Net (Note 4)	667,129.01
Ad Valorem Property Taxes Receivable, Net	807,512.85
Accrued Interest Receivable	1,619.45
Inventories	29,513.00
Deferred Charges - Warrant Issuance Costs	84,572.12
Restricted Cash and Cash Equivalents	173,596.56
Restricted Cash With Fiscal Agent	18,572.43
Restricted Investments	200,000.00
Capital Assets (Note 5):	
Nondepreciable	1,948,744.63
Depreciable, Net	7,511,932.72
Total Assets	<u>14,878,995.55</u>
<b>Liabilities</b>	
Due to Other Governments	280,433.12
Deferred Revenue	888,816.11
Salaries and Benefits Payable	985,861.26
Accrued Interest Payable	29,236.67
Long-Term Liabilities:	
Portion Due or Payable Within One Year:	
Notes Payable	71,522.58
Bonds and Warrants Payable	112,612.66
Portion Due or Payable After One Year:	
Notes Payable	504,738.20
Bonds and Warrants Payable	3,883,446.07
Total Liabilities	<u>6,756,666.67</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	4,906,930.27
Restricted for:	
Capital Projects	424,050.73
Unrestricted	<u>2,791,347.88</u>
Total Net Assets	<u>\$ 8,122,328.88</u>

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

**Statement of Activities**  
**For the Year Ended September 30, 2005**

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>Governmental Activities</b>			
Instruction	\$ 9,361,222.76	\$ 183,735.55	\$ 8,103,610.96
Instructional Support	2,493,161.21	53,211.97	2,241,934.62
Operation and Maintenance	1,836,870.38	8,881.48	486,914.88
Auxiliary Services:			
Transportation	1,575,652.51	4,553.86	1,112,817.75
Food Service	1,164,937.69	1,032,019.02	62,093.38
General Administrative and Central Support	1,159,591.15	441.11	342,960.22
Interest and Fiscal Charges	208,723.05		
Other	186,007.37	96,718.29	40,091.62
Total Governmental Activities	<u>\$ 17,986,166.12</u>	<u>\$ 1,379,561.28</u>	<u>\$ 12,390,423.43</u>

**General Revenues:**

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

Changes in Net Assets

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

Net Assets - End of Year

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



<u>Capital Grants and Contributions</u>	<u>Net (Expenses) Revenues and Changes in Net Assets Total Governmental Activities</u>
\$ 69,979.53	\$ (1,003,896.72)
366,613.47	(198,014.62)
185,820.00	(974,460.55)
	(272,460.90)
	(70,825.29)
	(816,189.82)
	(208,723.05)
1,556.00	(47,641.46)
<u>\$ 623,969.00</u>	<u>(3,592,212.41)</u>

924,917.15
2,781,216.91
8,654.16
2,948.85
83,535.59
390,926.18
<u>4,192,198.84</u>
599,986.43
<u>7,522,342.45</u>
<u>\$ 8,122,328.88</u>

**Balance Sheet**  
**Governmental Funds**  
**September 30, 2005**

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash and Cash Equivalents	\$ 1,012,907.91	\$ 496,491.43	\$ 1,509,399.34
Cash with Fiscal Agent		18,572.43	18,572.43
Investments	2,000,000.00	300,000.00	2,300,000.00
Receivables, Net (Note 4)	561,064.51	106,064.50	667,129.01
Ad Valorem Property Taxes Receivable, Net	807,512.85		807,512.85
Interfund Receivables	3,423.71		3,423.71
Inventories		29,513.00	29,513.00
<b>Total Assets</b>	<b>4,384,908.98</b>	<b>950,641.36</b>	<b>5,335,550.34</b>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Due to Other Governments	280,433.12		280,433.12
Interfund Payables		3,423.71	3,423.71
Deferred Revenue	873,481.97	15,334.14	888,816.11
Salaries and Benefits Payable	941,882.66	43,978.60	985,861.26
<b>Total Liabilities</b>	<b>2,095,797.75</b>	<b>62,736.45</b>	<b>2,158,534.20</b>
<b>Fund Balances</b>			
Reserved for:			
Encumbrances	110,000.00		110,000.00
Inventories		29,513.00	29,513.00
Capital Projects		385,668.26	385,668.26
Unreserved:			
General Fund	2,179,111.23		2,179,111.23
Special Revenue Funds		472,723.65	472,723.65
<b>Total Fund Balances</b>	<b>2,289,111.23</b>	<b>887,904.91</b>	<b>3,177,016.14</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 4,384,908.98</b>	<b>\$ 950,641.36</b>	<b>\$ 5,335,550.34</b>

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

***Reconciliation of the Balance Sheet of Governmental Funds to the  
Statement of Net Assets  
September 30, 2005***

Total Fund Balances - Governmental Funds (Exhibit 3) \$ 3,177,016.14

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

Capital Assets used in the governmental activities are not financial resources and  
therefore are not reported as assets in governmental funds. (Note 5) 9,460,677.35

Accrued interest receivable is not available soon enough to pay for the current  
periods expenditures, and therefore is not shown in the funds. 1,619.45

Deferred issuance costs are reported as current expenditures in the funds. However,  
deferred issuance costs are amortized over the life of the warrants and are included in  
the governmental activities in the Statement of Net Assets.

Deferred Charges - Warrant Issuance Costs 84,572.12

Certain liabilities are not due and payable in the current period and are not reported  
as liabilities in the funds. These liabilities at year-end consist of:

	Amounts Due or Payable Within One Year	Amounts Due or Payable After One Year	
Notes Payable	\$ 71,522.58	\$ 504,738.20	
Bonds and Warrants Payable	112,612.66	3,883,446.07	
Accrued Interest Payable	29,236.67		
Total	\$ 213,371.91	\$ 4,388,184.27	(4,601,556.18)

Total Net Assets - Governmental Activities (Exhibit 1) \$ 8,122,328.88

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

***Statement of Revenues, Expenditures and Changes in Fund Balances***  
***Governmental Funds***  
***For the Year Ended September 30, 2005***

	General Fund	Other Governmental Funds	Total Governmental Funds
<b><u>Revenues</u></b>			
State	\$ 9,685,355.28	\$ 622,413.00	\$ 10,307,768.28
Federal	102,764.32	3,450,492.00	3,553,256.32
Local	3,791,524.97	790,084.39	4,581,609.36
Other		36,200.91	36,200.91
Total Revenues	13,579,644.57	4,899,190.30	18,478,834.87
<b><u>Expenditures</u></b>			
Current:			
Instruction	7,195,338.44	1,964,793.91	9,160,132.35
Instructional Support	1,846,229.29	630,683.24	2,476,912.53
Operation and Maintenance	1,663,142.41	113,315.05	1,776,457.46
Auxiliary Services:			
Transportation	1,365,272.36	14,868.56	1,380,140.92
Food Service	231.00	1,321,377.41	1,321,608.41
General Administrative and Central Support	756,210.67	293,230.21	1,049,440.88
Other	28,789.79	151,313.48	180,103.27
Capital Outlay	19,200.00	1,717,891.11	1,737,091.11
Debt Service:			
Principal Retirement		269,382.98	269,382.98
Interest and Fiscal Charges		208,061.28	208,061.28
Other Debt Service	1,365.00		1,365.00
Total Expenditures	12,875,778.96	6,684,917.23	19,560,696.19
Excess (Deficiency) of Revenues Over Expenditures	703,865.61	(1,785,726.93)	(1,081,861.32)
<b><u>Other Financing Sources (Uses)</u></b>			
Indirect Cost	211,421.53		211,421.53
Other Sources	108,522.25		108,522.25
Sale of Capital Assets	26,827.00		26,827.00
Transfers In		437,167.99	437,167.99
Transfers Out	(218,077.68)	(219,090.31)	(437,167.99)
Total Other Financing Sources (Uses)	128,693.10	218,077.68	346,770.78
Net Change in Fund Balances	832,558.71	(1,567,649.25)	(735,090.54)
Fund Balances at Beginning of Year	1,456,552.52	2,455,554.16	3,912,106.68
Fund Balances at End of Year	\$ 2,289,111.23	\$ 887,904.91	\$ 3,177,016.14

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

***Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended September 30, 2005***

Net Changes in Fund Balances - Total Governmental Funds (Exhibit 5) \$ (735,090.54)

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

Governmental funds report capital outlays as expenditures. However, in the  
Statement of Activities, the cost of those assets is allocated over their useful  
lives as depreciation expense. This is the amount by which capital outlay  
(\$1,737,091.11) exceeded depreciation expense (\$534,107.68) in the current period. 1,202,983.43

Repayment of principal on long-term debt is an expenditure in the governmental funds,  
but the repayment reduces long-term liabilities in the Statement of Net Assets.

Bond and Warrant Principal Repaid	\$ 110,975.13	
Note Principal Repaid	158,407.85	
Total Principal Repaid	<u>269,382.98</u>	269,382.98

Warrant issuance costs are not reported as expenditures in the  
governmental funds. (3,094.10)

A net decrease in Accrued Interest Receivable reported in the Statement of Activities  
does not change current financial resources and therefore is not reported in the  
governmental funds. (1,204.57)

A net increase in Accrued Interest Payable reported in the Statement of Activities does  
not change current financial resources and therefore is not reported in the  
governmental funds. 703.23

In the Statement of Activities, only the gain or loss on the sale of capital assets is  
reported, whereas in the governmental funds, the proceeds from the sale increase  
financial resources.

Sale of Capital Assets	(26,827.00)	
Loss on Disposition of Capital Assets	\$ (106,867.00)	
	<u>(133,694.00)</u>	(133,694.00)

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 599,986.43

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

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2005***

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**Note 1 – Summary of Significant Accounting Policies**

The financial statements of the Pike County Board of Education (the “Board”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government’s accounting policies are described below.

**A. Reporting Entity**

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

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

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete. Based on the application of these criteria, there are no component units which should be included as part of the financial reporting entity of the Board.

**B. Government-Wide and Fund Financial Statements**

**Government-Wide Financial Statements**

The statement of net assets and the statement of activities display information about the Board. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Board’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The Board does not allocate indirect expenses to the various functions. Program revenues include (a) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or program and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2005***

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**Fund Financial Statements**

The fund financial statements provide information about the Board's funds. Separate statements for each fund category are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Board reports the following major governmental fund:

- ◆ **General Fund** – The general fund is the primary operating fund of the Board. It is used to account for all financial resources except those required to be accounted for in another fund. The Board primarily receives revenues from the Education Trust Fund (ETF) and local taxes. Amounts appropriated from the ETF were allocated to the school board on a formula basis.

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

**Governmental Fund Types:**

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

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the Board gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2005***

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Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within sixty (60) days of the end of the current fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. General long-term debt issued and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the Board funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Board's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

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

**1. Deposits and Investments**

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

Statutes authorize the board to invest in obligations of the U. S. Treasury, obligations of any state of the United States, general obligations of any Alabama county or city board of education secured by the pledged of the three-mill school tax and certificates of deposit.

Investments consist of certificates of deposit and are reported at cost.



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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2005***

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**2. Receivables**

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

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

Receivables due from other governments include amounts due from grantors for grants issued for specific programs.

**3. Inventories**

Inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

**4. Restricted Assets**

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

**5. Capital Assets**

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

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2005***

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

	Capitalization Threshold	Estimated Useful Life
Land Improvements (Exhaustible)	\$50,000	20 years
Buildings	\$50,000	50 years
Building Improvements	\$50,000	20 years
Equipment and Furniture	\$ 5,000	5 - 20 years
Vehicles	\$ 5,000	8 - 10 years

**6. Long-Term Obligations**

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Warrant issuance costs, are deferred and amortized over the life of the bonds. Warrant issuance costs are reported as deferred charges.

In the fund financial statements, governmental fund types recognized the warrant issuance costs, during the period in which the debt was issued.

**7. Net Assets/Fund Equity**

Net assets are reported on the government-wide financial statements and are required to be classified for accounting and reporting purposes into the following net asset categories:

- ◆ **Invested in Capital Assets, Net of Related Debt** – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Any significant unspent related debt proceeds at year-end related to capital assets are not included in this calculation.
- ◆ **Restricted** – Constraints imposed on net asset by external creditors, grantors, contributors, laws or regulations of other governments, or law through constitutional provision or enabling legislation.
- ◆ **Unrestricted** – Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2005***

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Fund equity is reported in the fund financial statements. Governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

**Note 2 – Stewardship, Compliance, and Accountability**

**Budgets**

An annual budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund with the exception of salaries and benefits, which are budgeted only to the extent expected to be paid rather than on the modified accrual basis of accounting, and for motor vehicle ad valorem tax, and sales and use tax that are budgeted only to the extent expected to be received rather than on the modified accrual basis of accounting. All other governmental funds adopt annual budgets on the modified accrual basis of accounting. The Capital Projects Funds usually adopt project-length budgets. All appropriations lapse at fiscal year-end.

On or before October 1 of each year, each county board of education shall prepare and submit to the State Superintendent of Education the annual budget to be adopted by the County Board of Education. The Superintendent or County Board of Education shall not approve any budget for operations of the school for any fiscal year which shall show expenditures in excess of income estimated to be available plus any balances on hand.

**Note 3 – Deposits and Investments**

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

***Notes to the Financial Statements***  
***For the Year Ended September 30, 2005***

**Note 4 – Receivables**

On September 30, 2005, receivables for the Board’s individual major fund and nonmajor funds in the aggregate are as follows:

	General Fund	Other Governmental Funds	Total
<b>Receivables:</b>			
Sales Taxes	\$525,885.59	\$	\$525,885.59
Intergovernmental	35,178.92	106,064.50	141,243.42
<b>Total Receivables</b>	<b>\$561,064.51</b>	<b>\$106,064.50</b>	<b>\$667,129.01</b>

Governmental funds report deferred revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At September 30, 2005, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	\$ Unavailable	Unearned
Ad Valorem Property Taxes Receivable	\$807,512.85	\$
Motor Vehicle Ad Valorem Taxes	16,620.60	49,348.52
Grant Drawdowns Prior to Meeting All Eligibility Requirements		613.88
Prepaid Child Nutrition Program Lunches		14,720.26
<b>Total Deferred/Unearned Revenue for Governmental Funds</b>	<b>\$824,133.45</b>	<b>\$64,682.66</b>

**Notes to the Financial Statements**  
**For the Year Ended September 30, 2005**

**Note 5 – Capital Assets**

Capital asset activity for the year ended September 30, 2005, was as follows:

	Balance 10/01/2004 (*)	Additions/ Reclassifications (**)	Retirements/ Reclassifications (**)	Balance 9/30/2005
<b>Governmental Activities:</b>				
<b>Capital Assets, Not Being Depreciated:</b>				
Land	\$ 192,129.33	\$	\$	\$ 92,129.33
Construction in Progress	574,015.36	1,410,929.34	(228,329.40)	1,756,615.30
<b>Total Capital Assets, Not Being Depreciated</b>	<b>766,144.69</b>	<b>1,410,929.34</b>	<b>(228,329.40)</b>	<b>1,948,744.63</b>
<b>Capital Assets Being Depreciated:</b>				
Land Improvements (Exhaustible)	1,087,707.00			1,087,707.00
Buildings	8,686,319.29	340,313.64	(241,400.00)	8,785,232.93
Buildings Improvements	1,375,417.31	136,008.04		1,511,425.35
Equipment and Furniture	884,464.00	58,969.49	(25,200.00)	918,233.49
Vehicles	2,845,341.33	19,200.00	(217,804.00)	2,646,737.33
<b>Total Capital Assets Being Depreciated</b>	<b>14,879,248.93</b>	<b>554,491.17</b>	<b>(484,404.00)</b>	<b>14,949,336.10</b>
<b>Less Accumulated Depreciation for:</b>				
Land Improvements (Exhaustible)	(788,770.00)	(58,435.40)		(847,205.40)
Buildings	(3,943,103.92)	(165,228.11)	118,286.00	(3,990,046.03)
Buildings Improvements	(253,047.07)	(59,354.52)		(312,401.59)
Equipment and Furniture	(481,628.14)	(56,051.50)	14,620.00	(523,059.64)
Vehicles	(1,787,456.57)	(195,038.15)	217,804.00	(1,764,690.72)
<b>Total Accumulated Depreciation</b>	<b>(7,254,005.70)</b>	<b>(534,107.68)</b>	<b>350,710.00</b>	<b>(7,437,403.38)</b>
<b>Total Capital Assets, Being Depreciated, Net</b>	<b>7,625,243.23</b>	<b>20,383.49</b>	<b>(133,694.00)</b>	<b>7,511,932.72</b>
<b>Total Governmental Activities Capital Assets, Net</b>	<b>\$ 8,391,387.92</b>	<b>\$1,431,312.83</b>	<b>\$(362,023.40)</b>	<b>\$ 9,460,677.35</b>
(*) See Note 12.				
(**) Reclassifications totaled \$228,329.40				

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

	Current Year Depreciation Expense
<b>Governmental Activities:</b>	
Instruction	\$200,456.96
Instructional Support	15,676.07
Operation and Maintenance	60,371.40
<b>Auxiliary Services:</b>	
Food Service	56,064.05
Transportation	195,511.59
General Administration and Central Support	3,217.61
Other	2,810.00
<b>Total Depreciation Expense - Governmental Activities</b>	<b>\$534,107.68</b>

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*Notes to the Financial Statements*  
*For the Year Ended September 30, 2005*

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**Note 6 – Defined Benefit Pension Plan**

**A. Plan Description**

The Board contributes to the Teachers' Retirement System of Alabama, a cost-sharing multiple-employer public employee retirement system for the various state-supported educational agencies and institutions. This plan is administered by the Retirement Systems of Alabama.

Substantially all employees of the Board are members of the Teachers' Retirement System. Membership is mandatory for covered or eligible employees of the Board. Benefits vest after 10 years of creditable service. Vested employees may retire with full benefits at age 60 or after 25 years of service. Retirement benefits are calculated by two methods with the retiree receiving payment under the method which yields the highest monthly benefit. The methods are (1) Minimum Guaranteed, or (2) Formula, of which the Formula method usually produces the highest monthly benefit. Under this method retirees are allowed 2.0125% of their average final salary (best three of the last ten years) for each year of service. Disability retirement benefits are calculated in the same manner. Pre-retirement death benefits in the amount of the annual salary for the fiscal year preceding death are provided to plan members.

The Teachers' Retirement System was established as of October 1, 1941, under the provisions of Act Number 419, Acts of Alabama 1939, for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by state-supported educational institutions. The responsibility for general administration and operation of the Teachers' Retirement System is vested in the Board of Control (currently 14 members). Benefit provisions are established by the *Code of Alabama 1975*, Sections 16-25-1 through 16-25-113, as amended, and Sections 36-27B-1 through 36-27B-6, as amended.

The Retirement Systems of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Teachers' Retirement System of Alabama. That report may be obtained by writing to The Retirement Systems of Alabama, 135 South Union Street, Montgomery, Alabama 36130-2150.

**Notes to the Financial Statements**  
**For the Year Ended September 30, 2005**

**B. Funding Policy**

Employees are required by statute to contribute 5 percent of their salary to the Teachers' Retirement System. The Board is required to contribute the remaining amounts necessary to fund the actuarially determined contributions to ensure sufficient assets will be available to pay benefits when due. Each year the Teachers' Retirement System recommends to the Legislature the contribution rate for the following fiscal year, with the Legislature setting this rate in the annual appropriation bill. The percentages of the contributions and the amount of contributions made by the Board and the Board's employees equal the required contributions for each year as follows:

Fiscal Year Ended September 30,	2005	2004	2003
Total Percentage of Covered Payroll	12.03%	11.56%	10.02%
<b>Contributions:</b>			
Percentage Contributed by the Board	7.03%	6.56%	5.02%
Percentage Contributed by the Employees	5.00%	5.00%	5.00%
Contributed by the Board	\$ 649,611.86	\$ 600,018.31	\$445,513.12
Contributed by Employees	462,030.93	457,333.27	443,738.40
Total Contributions	<u>\$1,111,642.79</u>	<u>\$1,057,351.58</u>	<u>\$889,251.52</u>

**Note 7 – Other Postemployment Benefits (OPEB)**

The Public Education Employees' Health Insurance Fund (PEEHIF) was established in 1983 under the provisions of Act Number 455 to provide a uniform plan of health insurance for current and retired employees of state educational institutions. The plan is administered by the Public Education Employees' Health Insurance Board (PEEHIB). The employer's share of premiums for retired Board employee's health insurance is included as part of the premium for active employees and is funded on a pay-as-you go basis. Retirees who are eligible for Medicare benefits must pay \$1.14 per month for coverage while those who are not eligible must pay \$78.00 per month for the coverage. The estimated portion of health insurance premiums paid by the Board for retired employees was approximately \$639,541.80 for fiscal year 2005. The Board has no responsibility for the payment of health care benefits, beyond the payment of the premium, for retired employees.

**Notes to the Financial Statements**  
**For the Year Ended September 30, 2005**

**Note 8 – Construction and Other Significant Commitments**

At September 30, 2005, the Board was obligated under the following significant construction contracts:

Pike County High School Phase 2	\$48,975.00
Total	<u>\$48,975.00</u>

**Note 9 – Long-Term Debt**

During fiscal year 2002-2003, the Board issued \$3,485,000.00 of Capital Outlay School Warrants to construct or acquire certain capital improvements to public schools that are under the administration of the Board, and to pay the expenses of issuing the 2003 warrants. The Series 2003 Warrants are secured by the Board's pledge of its share of the 5 Mill County School Tax.

During fiscal year 1999-2000, the Board, as part of a pooled bond issuance with other school systems within the State of Alabama, issued Capital Improvement Pool Bonds, Series 1999D in anticipation of their Public School Fund allocations, which are received from the Alabama Department of Education. The Alabama Department of Education withholds the required debt service payments from the Board's Public School Fund allocation. The proceeds from these bonds provided funds for the acquisition, construction and renovation of school facilities.

Long-Term Notes Payable were incurred to purchase school buses.

The following is a summary of general long-term debt transactions for the Board for the year ended September 30, 2005:

	Debt Outstanding 10/1/2004	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 9/30/2005	Amounts Due Within One Year
<b>Governmental Activities:</b>					
<b>Bonds, Warrants and Notes Payable:</b>					
Series 2003 Capital Outlay Warrants	\$3,410,000.00	\$	\$ 80,000.00	\$3,330,000.00	\$ 80,000.00
Series 1999D Capital Improvement Pool Bonds	697,033.86		30,975.13	666,058.73	32,612.66
Total Bonds and Warrants Payable	4,107,033.86		110,975.13	3,996,058.73	112,612.66
Long-Term Notes Payable	734,668.63		158,407.85	576,260.78	71,522.58
Governmental Activities Long-Term Liabilities	<u>\$4,841,702.49</u>	\$	<u>\$269,382.98</u>	<u>\$4,572,319.51</u>	<u>\$184,135.24</u>

Payments on the Series 2003 Warrants payables are made by the debt service fund with property taxes. Payments on the Capital Improvement Pool Bonds, Series 1999D are made by the Bonds and Warrants Fund with public school funds withheld from the Board's allocation from the State Department of Education. The long-term notes payable are paid from fleet renewal monies received from the State Department of Education.



**Notes to the Financial Statements**  
**For the Year Ended September 30, 2005**

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

Fiscal Year Ending	Capital Improvement Pool Warrants Series 1999D		Capital Outlay School Warrants Series 2003		Long-Term Notes Payable		Total Principal and Interest Requirements to Maturity
	Principal	Interest	Principal	Interest	Principal	Interest	
September 30, 2006	\$ 32,612.66	\$ 37,378.20	\$ 80,000.00	\$ 135,835.00	\$ 71,522.58	\$ 23,108.00	\$ 380,456.44
2007	34,319.13	35,666.04	80,000.00	132,635.00	54,836.83	20,088.58	357,545.58
2008	36,129.03	33,864.28	85,000.00	129,335.00	57,019.34	17,906.07	359,253.72
2009	38,025.12	31,967.52	85,000.00	125,935.00	59,288.71	15,636.70	355,853.05
2010	39,921.20	30,066.26	90,000.00	122,435.00	61,648.40	13,277.01	357,347.87
2011-2015	236,907.17	113,019.10	505,000.00	554,275.00	271,944.92	27,575.88	1,708,722.07
2016-2020	248,144.42	35,619.76	625,000.00	441,675.00			1,350,439.18
2021-2025			780,000.00	298,380.00			1,078,380.00
2026-2030			1,000,000.00	110,500.00			1,110,500.00
<b>Totals</b>	<b>\$666,058.73</b>	<b>\$317,581.16</b>	<b>\$3,330,000.00</b>	<b>\$2,051,005.00</b>	<b>\$576,260.78</b>	<b>\$117,592.24</b>	<b>\$7,058,497.91</b>

**Bond Issuance Costs**

The Board has bond issuance costs in connection with the issuance of its Series 2003 Capital Outlay School Warrants. The issuance costs are being amortized using the straight-line method over a period of thirty years.

	Issuance Costs
Total Issuance Costs	\$92,823.05
Amount Amortized Prior Years	(5,156.83)
Balance Issuance Costs	87,666.22
Current Amount Amortized	(3,094.10)
Balance Issuance Costs	\$84,572.12

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2005***

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**Note 10 – Risk Management**

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. The Board has insurance for its buildings and contents through the State Insurance Fund (SIF) part of the State of Alabama, Department of Finance, Division of Risk Management, which operates as a common risk management and insurance program for state owned properties and county boards of education. The Board pays an annual premium based on the amount of coverage requested. The SIF is self-insured up to \$3.5 million per occurrence and purchases commercial insurance for claims in excess of \$3.5 million. Automobile liability insurance is purchased from a commercial carrier. Errors and omissions insurance is purchased from the Alabama Risk Management for Schools (ARMS), a public entity risk pool. The ARMS collects the premiums and purchases excess insurance for any amount of coverage requested by pool participants in excess of the coverage provided by the pool. Employee health insurance is provided through the Public Education Employees' Health Insurance Fund (PEEHIF), administered by the Public Education Employees Health Insurance Board (PEEHIB). The Fund was established to provide a uniform plan of health insurance for current and retired employees of state educational institutions and is self-sustaining. Monthly premiums for employee and dependent coverage are determined annually by the plan's actuary and are based on anticipated claims in the upcoming year, considering any remaining fund balance on hand available for claims. The Board contributes a specified amount monthly to the PEEHIF for each employee of state educational institutions. The Board's contribution is applied against the employees' premiums for the coverage selected and the employee pays any remaining premium.

Settled claims resulting from these risks have not exceeded the Board's coverage in any of the past three fiscal years.

The Board does not have insurance coverage for job-related injuries. Board employees who are injured while on the job are entitled to salary and fringe benefits of up to ninety working days in accordance with *Code of Alabama 1975*, Section 16-1-18.1(d). Any unreimbursed medical expenses and costs, which the employee incurs as a result of an on-the-job injury, may be filed for reimbursement with the State Board of Adjustment.

***Notes to the Financial Statements***  
***For the Year Ended September 30, 2005***

**Note 11 – Interfund Receivables and Payables**

**Interfund Receivables and Payables**

The interfund receivables and payables at September 30, 2005, were as follows:

	<u>Interfund Receivables</u>
	General Fund
<u>Interfund Payables</u>	
Other Governmental Funds	\$3,423.71
Totals	<u>\$3,423.71</u>

**Interfund Transfers**

The amounts of interfund transfers during the fiscal year ended September 30, 2005, were as follows:

	<u>Transfers In</u>
	Other Governmental Funds
<u>Transfers Out</u>	
General Fund	\$218,077.68
Other Governmental Funds	219,090.31
Totals	<u>\$437,167.99</u>

The Board typically used transfers to fund ongoing operating subsidies and to recoup certain expenditures paid on-behalf of the local schools and to meet debt service requirements.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2005***

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**Note 12 – Restatement of Net Assets**

The beginning net assets balance was restated to correct the amount recorded for buildings and to record accumulated depreciation balances for land improvements, which were omitted in prior years.

The impact of the restatement on the net assets as previously reported is as follows:

	Governmental Activities
Net Assets, October 1, 2004, as Previously Reported	\$8,275,115.85
Restatement:	
Land Improvements – Accumulated Depreciation	(734,773.40)
Buildings	(18,000.00)
Net Assets, October 1, 2004, as Restated	<u>\$7,522,342.45</u>

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*Required Supplementary Information*

***Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual - General Fund  
For the Year Ended September 30, 2005***

	Budgeted Amounts		Actual Amounts
	Original	Final	Budgetary Basis
<b>Revenues</b>			
State	\$ 9,530,185.00	\$ 9,679,296.00	\$ 9,685,355.28
Federal	89,472.00	99,598.00	102,764.32
Local	3,267,745.00	3,409,495.00	3,860,378.44
Total Revenues	12,887,402.00	13,188,389.00	13,648,498.04
<b>Expenditures</b>			
Current:			
Instruction	7,219,019.00	7,147,190.00	7,210,042.03
Instructional Support	1,817,194.00	1,869,912.00	1,832,238.53
Operation and Maintenance	1,430,835.00	1,501,762.00	1,663,997.63
Auxiliary Services	1,236,331.00	1,376,634.00	1,365,855.61
General Administration and Central Support	625,188.00 <sup>c</sup>	694,264.00	756,210.67
Other	32,843.00	39,843.00	28,789.79
Capital Outlay			19,200.00
Debt Service		1,365.00	1,365.00
Total Expenditures	12,361,410.00	12,630,970.00	12,877,699.26
Excess (Deficiency) of Revenues Over Expenditures	525,992.00	557,419.00	770,798.78
<b>Other Financing Sources (Uses)</b>			
Indirect Cost	202,923.00	259,568.00	211,421.53
Other Sources			135,349.25
Transfers Out	(361,482.00)	(218,078.00)	(218,077.68)
Total Other Financing Sources (Uses)	(158,559.00)	41,490.00	128,693.10
Net Change in Fund Balances	367,433.00	598,909.00	899,491.88
Fund Balances at Beginning of Year	2,147,850.00	2,147,850.00	2,147,850.33
Fund Balances at End of Year	\$ 2,515,283.00	\$ 2,746,759.00	\$ 3,047,342.21

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	\$	\$ 9,685,355.28
		102,764.32
(1) (2)	(68,853.47)	3,791,524.97
	(68,853.47)	13,579,644.57
(3)	14,703.59	7,195,338.44
(3)	(13,990.76)	1,846,229.29
(3)	855.22	1,663,142.41
(3)	352.25	1,365,503.36
		756,210.67
		28,789.79
		19,200.00
		1,365.00
	1,920.30	12,875,778.96
	(66,933.17)	703,865.61
		211,421.53
		135,349.25
		(218,077.68)
		128,693.10
	(66,933.17)	832,558.71
(4)	(691,297.81)	1,456,552.52
	\$ (758,230.98)	\$ 2,289,111.23

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***Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual - General Fund  
For the Year Ended September 30, 2005***

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**Explanation of differences:**

- (1) The Board budgets sales and use taxes as collected, rather than on the modified accrual basis. (GAAP)
- (2) The Board budgets ad valorem taxes as collected, rather than on the modified accrual basis. (GAAP)
- (3) The Board budgets salaries and benefits only to the extent expected to be paid, rather than on the modified accrual basis. (GAAP)

Net Decrease in Fund Balances - Budget to GAAP

- (4) The amount reported as "fund balance" on the budgetary basis of accounting derives from the basis of accounting used in preparing the Board's budget. (See Note 2.) This amount differs from the fund balance reported in the statement of revenues, expenditures and changes in fund balances (Exhibit 5) because of the cumulative effect of transactions such as those described above.



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\$ (63,341.40)

(5,512.07)

1,920.30

\$ (66,933.17)

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*Supplementary Information*

***Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2005***

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>
<b><u>U. S. Department of Education</u></b>		
<b><u>Direct Programs</u></b>		
Impact Aid	84.041	
Indian Education - Grants to Local Educational Agencies	84.060	
<b><u>Passed Through State Department of Education</u></b>		
Vocational Education - Basic Grants to States	84.048	N/A
Title I Grants to Local Educational Agencies	84.010	N/A
Reading First State Grants (M)	84.357	N/A
Innovative Education Program Strategies	84.298	N/A
Safe and Drug-Free Schools and Communities - State Grants	84.186	N/A
Comprehensive School Reform Demonstration	84.332	N/A
Rural Education	84.358	N/A
Special Education Cluster:		
Special Education - Preschool Grants	84.173	N/A
Special Education - Grants to States	84.027	N/A
Sub-Total Special Education Cluster		
Improving Teacher Quality State Grants	84.367	N/A
Education Technology State Grants	84.318	N/A
<b><u>Passed Through State Department of Rehabilitation Services</u></b>		
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	N/A
Total U. S. Department of Education		
<b><u>U. S. Department of Agriculture</u></b>		
<b><u>Passed Through State Department of Education</u></b>		
Nutrition Cluster:		
National School Lunch Program	10.555	N/A
School Breakfast Program	10.553	N/A
Sub-Total Nutrition Cluster (M)		
Food Distribution Program (N)	10.550	N/A
Total U. S. Department of Agriculture		
Sub-Total Forward		

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
10/01/2004-09/30/2005	\$ 2,948.85	\$ 2,948.85	\$ 2,948.85	\$ 2,948.85
07/01/2004-06/30/2005	201,257.00	201,257.00	201,257.00	201,257.00
10/01/2004-09/30/2005	65,682.00	65,682.00	65,682.00	65,682.00
10/01/2004-09/30/2005	1,051,457.42	1,051,457.42	1,051,457.42	1,051,457.42
10/01/2004-09/30/2005	227,592.82	227,592.82	227,592.82	227,592.82
10/01/2004-09/30/2005	6,921.14	6,921.14	6,921.14	6,921.14
10/01/2004-09/30/2005	21,896.00	21,896.00	21,896.00	21,896.00
10/01/2004-09/30/2005	90,000.00	90,000.00	90,000.00	90,000.00
10/01/2004-09/30/2005	31,946.74	31,946.74	31,946.74	31,946.74
10/01/2004-09/30/2005	16,741.00	16,741.00	16,741.00	16,741.00
10/01/2004-09/30/2005	552,307.86	552,307.86	552,307.86	552,307.86
	569,048.86	569,048.86	569,048.86	569,048.86
10/01/2004-09/30/2005	227,813.89	227,813.89	227,813.89	227,813.89
10/01/2004-09/30/2005	34,392.39	34,392.39	34,392.39	34,392.39
10/01/2004-09/30/2005	18,633.02	18,633.02	18,633.02	18,633.02
	2,549,590.13	2,549,590.13	2,549,590.13	2,549,590.13
10/01/2004-09/30/2005	214,053.21	214,053.21	214,053.21	214,053.21
10/01/2004-09/30/2005	627,712.51	627,712.51	627,712.51	627,712.51
	841,765.72	841,765.72	841,765.72	841,765.72
10/01/2004-09/30/2005	62,085.00	62,085.00	62,085.00	62,085.00
	903,850.72	903,850.72	903,850.72	903,850.72
	\$ 3,453,440.85	\$ 3,453,440.85	\$ 3,453,440.85	\$ 3,453,440.85

***Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2005***

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>
Sub-Total Brought Forward		
<b><u>Social Security Administration</u></b>		
<b><u>Passed Through State Department of Education</u></b>		
Social Security - Disability Insurance	96.001	N/A
<b><u>U. S. Department of Homeland Security</u></b>		
<b><u>Passed Through Alabama Emergency Management Agency</u></b>		
Public Assistance Grant	97.036	N/A
<b><u>Other Federal Assistance</u></b>		
<b><u>U. S. Department of Defense</u></b>		
<b><u>Direct Programs</u></b>		
ROTC	N/A	

Total Expenditures of Federal Awards

(M) = Major Program

(N) = Non-Cash Assistance

N/A = Not Available or Not Applicable

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

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
	\$ 3,453,440.85	\$ 3,453,440.85	\$ 3,453,440.85	\$ 3,453,440.85
10/01/2004-09/30/2005	1,860.00	1,860.00	1,860.00	1,860.00
10/01/2004-09/30/2005	14,359.29	14,359.29	14,359.29	14,359.29
10/01/2004-09/30/2005	83,596.18	83,596.18	83,596.18	83,596.18
	<u>\$ 3,553,256.32</u>	<u>\$ 3,553,256.32</u>	<u>\$ 3,553,256.32</u>	<u>\$ 3,553,256.32</u>

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*Notes to the Schedule of Expenditures  
of Federal Awards  
For the Year Ended September 30, 2005*

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**Note 1 – Basis of Presentation**

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



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*Additional Information*

***Board Members and Administrative Personnel***  
***October 1, 2004 through September 30, 2005***

<b>Board Members</b>			<b>Term Expires</b>
Hon. Linda Steed	President	236 Clayton Street Brundidge, AL 36010	2010
Hon. Herbert Reynolds	Vice-President	513 North Main Street Brundidge, AL 36010	2006
Hon. W. Greg Price	Member	601 Second Avenue Troy, AL 36081	2008
Hon. Wyman Botts	Member	2829 Alabama Highway 93 Troy, AL 36081	2010
Hon. Earnest Green	Member	193 County Road 7727 Troy, AL 36081	2008
Hon. Adam Register	Member	3199 County Road 2214 Troy, AL 36079	2006
<b><u>Administrative Personnel</u></b>			
Mark Bazzell, Ed.D.	Superintendent	101 West Love Street Troy, AL 36081	2006
Ms. Gail Lambert	Custodian of Funds	101 West Love Street Troy, AL 36081	9/1/2005
Ms. Jennifer Hornsby	CSFO/Custodian of Funds	101 West Love Street Troy, AL 36081	Indefinite

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***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***

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We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Pike County Board of Education as of and for the year ended September 30, 2005, which collectively comprise the Pike County Board of Education's basic financial statements and have issued our report thereon dated January 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Pike County Board of Education's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Pike County Board of Education'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*.

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***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***

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This report is intended solely for the information and use of management, other state officials, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Ronald L. Jones  
Chief Examiner

Department of Examiners of Public Accounts

January 27, 2006

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## ***Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133***

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### **Compliance**

We have audited the compliance of the Pike County Board of Education with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2005. The Pike County Board of Education's major federal programs are identified in the Summary of Examiner's Results Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Pike County Board of Education's management. Our responsibility is to express an opinion on the Pike County Board of Education'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 Pike County Board of Education'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 Pike County Board of Education's compliance with those requirements.

In our opinion, the Pike County Board of Education complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2005.

### **Internal Control Over Compliance**

The management of the Pike County Board of Education is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Pike County Board of Education's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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***Report on Compliance With Requirements Applicable to Each  
Major Program and Internal Control Over Compliance in  
Accordance With OMB Circular A-133***

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, other state officials, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Ronald L. Jones  
Chief Examiner

Department of Examiners of Public Accounts

January 27, 2006

***Schedule of Findings and Questioned Costs***  
***For the Year Ended September 30, 2005***

**Section I - Summary of Examiner's Results**

**Financial Statements**

Type of opinion issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?        Yes   X   No

Reportable condition(s) identified that are not considered to be material weakness(es)?        Yes   X   None reported

Noncompliance material to financial statements noted?        Yes   X   No

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified?        Yes   X   No

Reportable condition(s) identified that are not considered to be material weakness(es)?        Yes   X   None reported

Type of opinion issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?        Yes   X   No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553 and 10.555 84.357	Child Nutrition Cluster Reading First

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

Auditee qualified as low-risk auditee?   X   Yes        No

***Schedule of Findings and Questioned Costs***  
***For the Year Ended September 30, 2005***

**Section II – Financial Statement Findings (GAGAS)**

Ref. No.	Type of Finding	Finding/Noncompliance	Questioned Costs
		No matters were reportable.	

**Section III – Federal Awards Findings and Questioned Costs**

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
			No matters were reportable.	