

Report on the

Baldwin County Board of Education

Baldwin County, Alabama

October 1, 2011 through September 30, 2012

Filed: May 24, 2013



Department of Examiners of Public Accounts

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Ronald L. Jones, Chief Examiner



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

Dear Sir:

Under the authority of the *Code of Alabama 1975*, Section 41-5-21, we submit this report on the results of the audit of the Baldwin County Board of Education, Baldwin County, Alabama, for the period October 1, 2011 through September 30, 2012.

Sworn to and subscribed before me this
the 2nd day of May, 2013.

Notary Public
My Commission Expires
July 23, 2014

Sworn to and subscribed before me this
the 2nd day of May, 2013.

Notary Public

rb My Commission Expires
July 23, 2014

Respectfully submitted,

Whitney B. Atchison
Examiner of Public Accounts

M. Lynn Benson
Examiner of Public Accounts

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Department of
Examiners of Public Accounts

SUMMARY

**Baldwin County Board of Education
October 1, 2011 through September 30, 2012**

The Baldwin County Board of Education (the "Board") is governed by a seven-member body elected by the citizens of Baldwin County. The members and administrative personnel in charge of governance of the Board are listed on Exhibit 11. The Board is the governmental agency that provides general administration and supervision for Baldwin County public schools, preschool through high school.

This report presents the results of an audit the objectives of which 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, including those applicable to its major federal financial assistance programs. The audit was conducted 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 as well as the requirements of the Department of Examiners of Public Accounts under the authority of the *Code of Alabama 1975*, Section 41-5-14.

An unqualified opinion was issued on the financial statements, which means that the Board's financial statements present fairly, in all material respects, its financial position and the results of its operations for the fiscal year ended September 30, 2012.

Tests performed during the examination did not disclose any material instances of noncompliance with applicable state or local laws and regulations.

Act Number 2011-655, Acts of Alabama, contained the Education Trust Fund budget for fiscal year 2012. The Education Trust Fund budget contained an appropriation of \$2,500,000 to the Baldwin County Board of Education (the "Board") designated for Horizon Oil Spill Relief. According to language in the appropriation bill, the funds being appropriated were to mitigate the loss of local funds for education in Baldwin County. The appropriation bill further stated that any funds received by the Board, up to \$2,500,000, from grants, insurance proceeds, or court settlements from BP for the Horizon Oil Spill Disaster, in the fiscal year beginning October 1, 2011, shall be repaid to the Education Trust Fund.

On September 28, 2011, the Board entered into an agreement with the Baldwin County Commission (the "Commission"). In exchange for an advance of \$2,400,000, the Board transferred, assigned, and conveyed all of its claims and causes of action related to its fiscal year 2010 claim for sales and use taxes, which arise from or are related to the sinking of the Deep Water Horizon rig and subsequent oil spill. By virtue of the assignment, the Baldwin County Commission was to have, at its discretion, full control over the assigned claim and was to be able to seek collection of the claim in such amounts and upon such terms as would be acceptable to the Commission without the advice or consent of the Board. In the event the Commission obtained recovery from its claim, whether by settlement or judgment, the Board would receive its share of claim proceeds, less the \$2,400,000 advanced to the Board after deduction of legal fees and expenses. In May 2012, the Commission settled its claim with BP and determined an acceptable distribution of the proceeds with affected agencies. This settlement included all taxes, not just sales and use taxes. The Board's share was determined to be \$3,018,818.97 after deducting the \$2,400,000 advanced. As of September 30, 2012, the Commission's balance sheet reflected a liability for the Board's share of the BP settlement proceeds in the amount of \$3,018,818.97. The Commission has asked the Board to sign a Release and Covenant not to sue as a condition to receiving its portion of the settlement proceeds. The Commission has not paid this amount to the Board since the Board has not signed the Release and Covenant not to sue BP for any additional damages. The Board desires to maintain their right to file claims against BP for other lost tax revenues in addition to the sales and use taxes originally agreed upon with the Commission. As of February 26, 2013, the Board has not signed the Release and Covenant not to sue and, because of this, has not received their share of the settlement. Because the timing of the actual payment of the settlement proceeds by the Commission to the Board did not occur in fiscal year 2012, the Board has not repaid the \$2,500,000 appropriation to the Education Trust Fund.

The following officials/administrative personnel were invited to an exit conference to discuss this report: Dr. Alan Lee, Superintendent; John Wilson, Chief School Financial Officer; Jean McCutchen, Former Chief School Financial Officer; Patsy Chastang, Interim Chief School Financial Officer; and Board Members: Frank Trione, Robert A. Wills, Elmer McDaniel, Norman Moore, Angie Swiger, Robert Callahan, Jr. and Tracy Roberts. The following individuals attended the exit conference held at the offices of the Baldwin County Board of Education: Dr. Alan Lee, Superintendent; John Wilson, Chief School Financial Officer; Patsy Chastang, Interim Chief School Financial Officer and Norman Moore, Board Member. The following individual participated in the exit conference via teleconference: Jean McCutchen, former Chief School Financial Officer. Also present were representatives from the Department of Examiners of Public Accounts which included: Christina Smith, Audit Manager; Whitney Atchison, Examiner; and Lynn Benson, Examiner.

Independent Auditor's Report

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Baldwin County Board of Education, as of and for the year ended September 30, 2012, which collectively comprise the Baldwin County Board of Education's basic financial statements as listed in the table of contents as Exhibits 1 through 7. These financial statements are the responsibility of the Baldwin County Board of Education's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Baldwin County Board of Education, as of September 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2013 on our consideration of the Baldwin 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.

Accounting principles generally accepted in the United States of America require that the accompanying Management's Discussion and Analysis (MD&A) and the Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Exhibits 8 and 9), be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted principally of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Baldwin County Board of Education's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 10) is presented for the purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

February 26, 2013

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Management's Discussion and Analysis
(Required Supplementary Information)

**BALDWIN COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For The Year Ended September 30, 2012**

The Baldwin County Board of Education's (the "Board") discussion and analysis presents the overall financial position and operating results of the fiscal year that ended September 30, 2012. Readers are encouraged to read it in conjunction with the transmittal letter at the front of this report and the Board's financial statements, which follow this analysis. The Management's Discussion and Analysis (MD&A) reflects 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*.

Financial Highlights

The Board's Net Assets increased by \$24,586,527 in FY 2012. The activities revenues overall were \$278,503,891 in FY 2012 and \$281,869,058 in FY 2011, resulting in a decrease of \$3,365,167 or 1% less than prior year. Local ad valorem decreased by 6%; however, sales tax increased by 2%. The Penny Sales Tax that was levied in 2010 will expire on 5-31-13; however, the citizens of Baldwin County voted in November, 2012 to renew the Penny Tax for five years. Penny Sales Tax Revenue recognized for FY 2012 was \$28,968,747. The FY 2012 expenditures decreased from 2011 by 1.2%. Overall, there was an increase mainly due to change in Net Assets for beginning of FY2012 year. Refer to Table 2 for specific details of each category.

The General Fund revenues and other sources of funds exceeded expenditures and other uses by \$18,820,131. Additionally, the General Fund on the modified accrual basis reflects a fund balance of \$26,956,520 which exceeds the State required fund balance of one month. In comparison to the previous year's General Fund balance of \$8,136,389, the Board realized a significant increase in fund balance at year end.

Overview of the Financial Statement and Use of This Report

The following graphic is provided for your review and understanding of the financial statements and this report as a whole. This annual financial report consists of four parts:

- Independent Auditor's Report
- Required Supplementary Information (including the MD&A)
- Basic Financial Statements (District-wide or Board-wide and Fund Financial Statements)
- Supplemental Information

**BALDWIN COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For The Year Ended September 30, 2012**

**Required Components of Annual Financial Report
Figure 1**

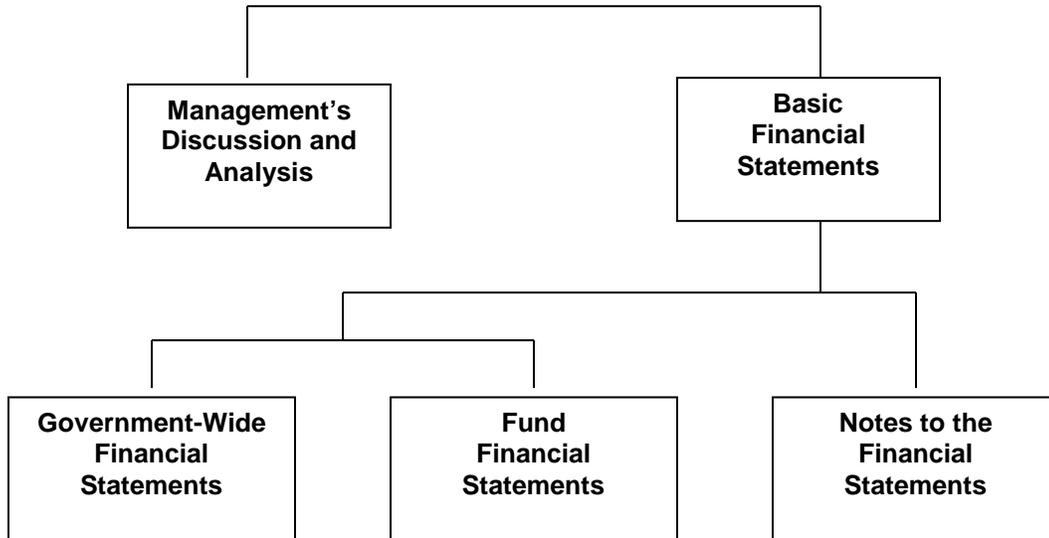


Figure 1 depicts the major features of the Board's financial statements. The focus of the financial statements is on the Board as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Board's accountability.

Government-Wide Financial Statements

The first two statements are government-wide financial statements — the *Statement of Net Assets* and the *Statement of Activities*. These provide both long-term and short-term information about the Board's overall financial status. The focus of the *Statement of Net Assets* (the "Unrestricted Net Assets") is designed to be similar to bottom line results for the Board and its activities.

The *Statement of Net Assets* presents information on all of the Board's assets less liabilities which results in net assets. The statement is designed to display the financial position of the Board. Over time, increases and decreases in net assets help determine whether the Board's financial position is improving or deteriorating.

The *Statement of Activities* provides information which shows how the Board's net assets changed as a result of the year's activities. The statement uses the accrual basis of accounting. All of the revenues and expenses are reported regardless of the timing of when cash is received or paid. The statement identifies the extent to which each expenditure function draws from general revenues of the Board (primarily local taxes) or is financed through charges for services (such as lunchrooms) and intergovernmental aid (primarily federal programs and state appropriations).

**BALDWIN COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For The Year Ended September 30, 2012**

Fund Financial Statements

The fund financial statements provide more detailed information about the Board's most significant funds — not the Board as a whole. A fund is a grouping of related accounts that is used to keep track of specific sources of funding and spending for particular purposes. The Board uses fund accounting to ensure and demonstrate fiscal accountability. Two kinds of funds — governmental funds and fiduciary funds — are presented in the fund financial statements.

Governmental funds - Most of the Board's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. The governmental funds statements — the *Balance Sheet* and the *Statement of Revenues, Expenditures and Changes in Fund Balances* — are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Board's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information that explains the relationship (or differences) between them.

Fiduciary funds - Fiduciary funds are used to account for assets held by the Board in a trustee capacity or as an agent for others. Activities from fiduciary funds are not included in the government-wide financial statements because the Board cannot use these assets for its operations. Fiduciary funds of the Board are reported in the *Statement of Fiduciary Net Assets* using an accrual basis of accounting.

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

Required Supplementary Information

In addition to the basic financial statements and the accompanying notes, this report also presents certain *Required Supplementary Information* (RSI) other than the MD&A consisting of a budgetary comparison schedule for the General Fund and each major special revenue fund that has a legally adopted annual budget. The schedule includes an accompanying note explaining the differences between actual amounts as reported on the basis of budgeting and the GAAP basis of reporting.

Financial Analysis of the Board as a Whole

As noted earlier, the Baldwin County Board of Education has no business-type activities. Consequently, all of the Board's net assets are reported as Governmental Activities.

The following table reflects a Summary of Net Assets compared to the prior year. For more detailed information see the Statement of Net Assets

**BALDWIN COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For The Year Ended September 30, 2012**

**Table 1
Summary of Net Assets
As of September 30, 2012**

		<u>FY2012</u>	<u>FY 2011</u>	<u>Variance</u>
Current and Other Assets	\$	120,122,038	102,529,980	17,592,058
Capital Assets, Net of Depreciation		386,745,205	393,006,865	-6,261,660
Total Assets		506,867,243	495,536,845	11,330,398
Current and Other Liabilities		66,382,047	72,073,816	-5,691,769
Long-term Liabilities		207,336,601	214,900,961	-7,564,360
Total Liabilities		273,718,648	286,974,777	-13,256,129
Net Assets				
Invested in Capital Assets, Net of Related Debt		182,719,107	186,193,128	-3,474,021
Restricted for:				
Capital Projects		3,675,143	1,475,490	2,199,653
Debt Service		3,590,877	1,675,456	1,915,421
Other Purposes		11,259,400	9,790,181	1,469,219
Unrestricted		31,904,068	9,427,813	22,476,255
Total Net Assets	\$	233,148,595	208,562,067	24,586,528

The Board's total net assets were \$233,148,595 at the close of the fiscal year 2012. Net assets restricted for capital projects/debt service totaled \$7,266,020 which is 3.12% of total net assets. Those restricted for other purposes included the Child Nutrition Fund, the Sales Tax Fund and the E-Rate Fund. Assets Restricted for Other Purposes totaled \$11,259,400 or 4.83% of Total Net Assets. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by enabling legislation, debt covenants, or other legal requirements, totaled \$31,904,068 or 13.68% of net assets. The total net assets increased \$24,586,527 from the prior fiscal year. The Board's total net assets amount is indicative of the Board's ability to operate and pay bills for the next year. The Board's total revenues and expenditures are reflected in the following Table 2 that depicts a comparison to fiscal year 2011.

**BALDWIN COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For The Year Ended September 30, 2012**

**Table 2
Baldwin County Board of Education
Changes in Net Assets**

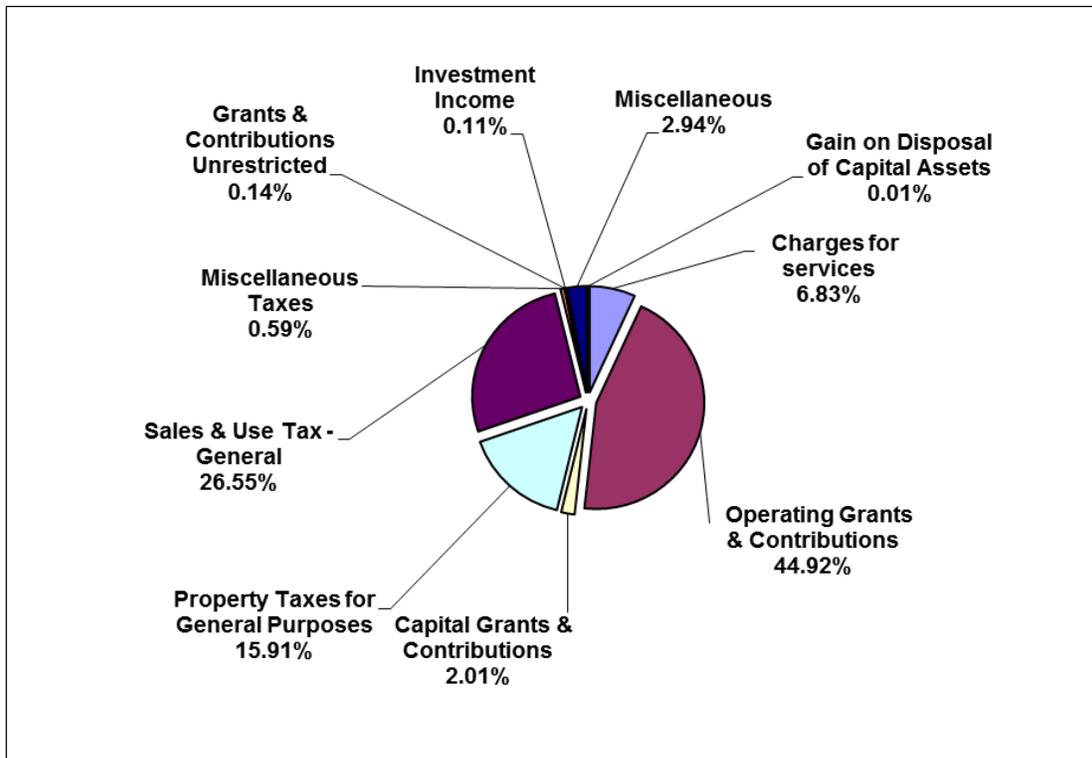
	<u>FY2012</u>	<u>FY 2011</u>	<u>Variance</u>
<u>REVENUES</u>			
Program revenues:			
Charges for services	\$ 19,019,219	\$ 18,412,611	\$ 606,609
Operating grants and contributions	125,090,218	123,567,496	1,522,722
Capital grants and contributions	5,595,645	6,813,725	-1,218,079
General revenues:			
Property taxes for general purposes	44,312,181	47,364,801	-3,052,620
Sales & Use Tax - General/Specific	73,930,523	72,628,783	1,301,740
Miscellaneous Taxes	1,639,729	1,676,624	-36,895
Grants and Contributions not Restricted for			
Specific Programs	397,421	2,887,278	-2,489,857
Investment Income	315,488	76,273	239,215
Net Inc.(Dec.) in Fair Value of Investment			
Miscellaneous	8,184,525	8,417,860	-233,335
Gain on Disposition of Capital Assets	18,942	23,608	-4,666
Gain on Extinguishment of Debt			
Total Revenues	\$ 278,503,891	\$ 281,869,058	\$ -3,365,167
<u>EXPENSES</u>			
Governmental Activities:			
Instruction	141,375,972	142,845,206	-1,469,234
Instructional Support services	40,386,841	40,330,533	56,308
Operation and Maintenance	25,238,488	24,890,539	347,950
Auxiliary Services			
Student Transportation Services	11,794,040	11,939,435	-145,395
Food Services	12,807,923	12,248,835	559,088
General Administration and Central Support			
Other	7,133,152	7,168,367	-35,214
Interest on Long-Term Debt	7,051,854	10,205,942	-3,154,088
Interest on Long-Term Debt	8,129,094	7,414,558	714,536
Total Expenses	253,917,364	257,043,414	-3,126,050
Change in Net Assets	24,586,527	24,825,644	-239,117
Net Assets - Beginning of year, as restated	\$ 208,562,068	183,736,424	24,825,644
Net Assets - end of year	\$ 233,148,595	208,562,068	24,586,527

**BALDWIN COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For The Year Ended September 30, 2012**

Graph 1 reflected below depicts the percentage breakdown of revenues. Program revenues, specifically operating grants and contributions, are the largest component of total revenues.

- Operating grants and contributions contribute 44.9 % of total revenues. The major sources of revenues in this category are State foundation program funds, state transportation operating funds, and state and federal funds restricted for specific programs.
- Local tax revenues, primarily property taxes and sales taxes make up 42.5% of all revenues and are used to provide \$119,882,433 for expenses not covered by program revenues. (See Table 3)

Graph 1



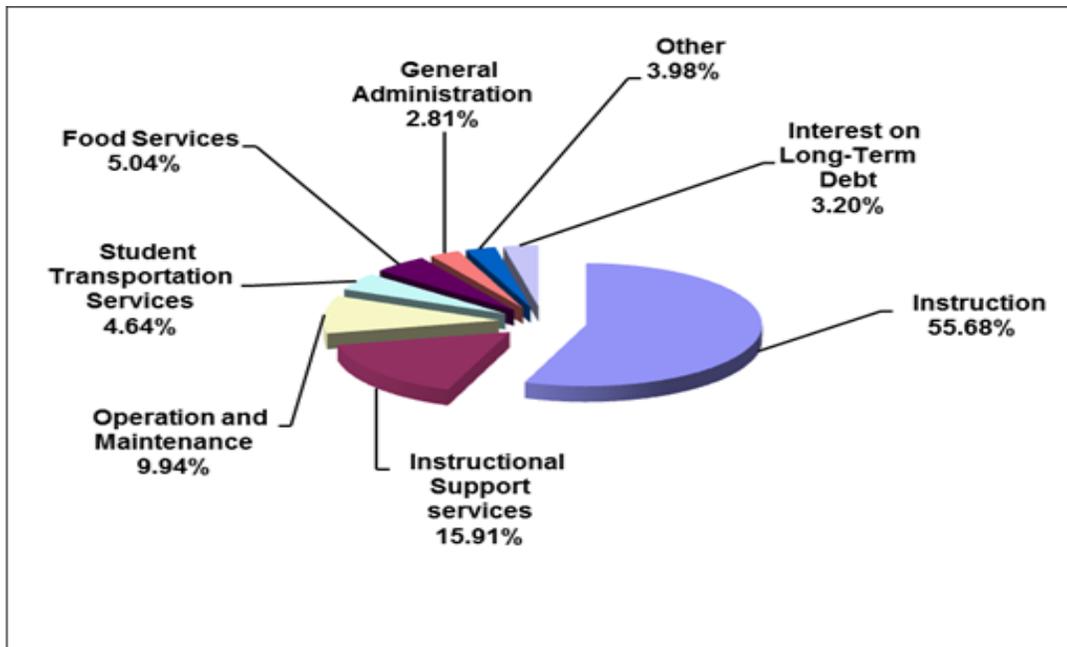
Instructional services expenses, primarily salaries and benefits for classroom teachers, are the largest expense function of the Board (55.7%). The expenses are reflected in Table 2 as well as in Graph 2 below showing the percentage breakdown of expense categories.

- In addition to teacher salaries and benefits, instructional services includes teacher aides, substitute teachers, textbooks, depreciation of instructional buildings, professional development, and classroom instructional materials, supplies, and equipment.

**BALDWIN COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For The Year Ended September 30, 2012**

- Instructional support services 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 services include utilities, security services, janitorial services, maintenance services, and depreciation of maintenance vehicles.
- Auxiliary Services includes transportation and food service expenses. In addition to bus driver salaries and benefits, student transportation services includes mechanics, bus aides, vehicle maintenance and repair expenses, vehicle fuel, depreciation of buses and bus shops, and fleet insurance. Food services includes salaries and benefits for cooks, servers, lunchroom managers, and cashiers, as well as donated and purchased food, food preparation and service supplies, kitchen and lunchroom equipment, and depreciation of equipment and facilities.
- General administrative services include 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.
- Debt service includes interest, but not principal payments, on long-term debt issues and other expenses related to the issuance and continuance of debt issues.
- Other expenses include the salaries and benefits for adult and continuing education teachers, preschool teachers and aides, extended day personnel, and community education instructors. Also included are the materials, supplies, equipment, related depreciation, and other expenses for operating programs outside of those for educating students in the K through 12 instructional programs.

Graph 2

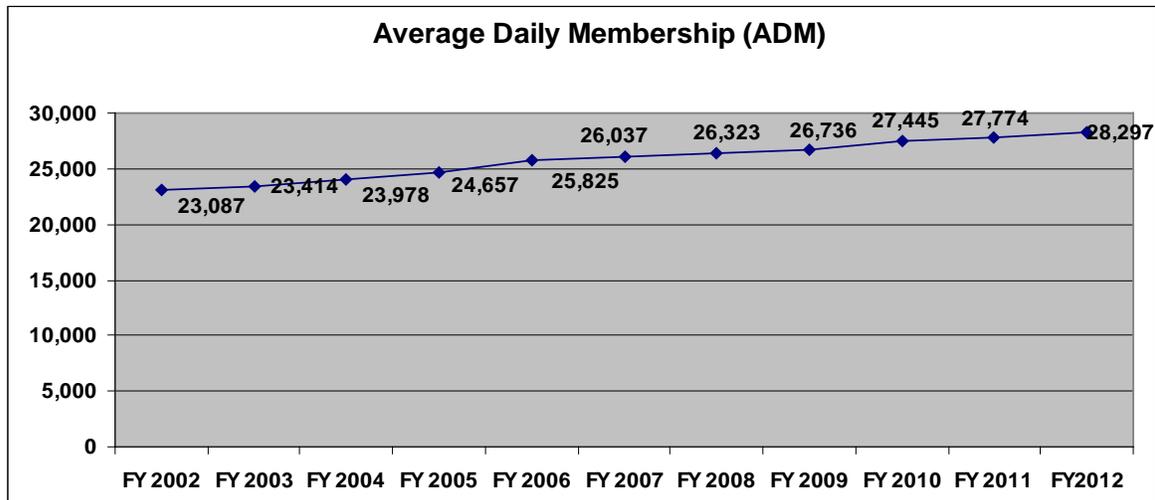


**BALDWIN COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For The Year Ended September 30, 2012**

As stated previously, the Board experienced an increase in net assets for the year in the amount of \$24,586,527. The level of the increase in net assets can be attributed to the following factors:

- Sales Tax revenue increased by 1.8% with the added help of the Penny Tax.
- The Board was able to reduce the overall expenditures by 1.2% in comparison to FY2011.
- Net assets for beginning of the year increased by 13.5%.
- The Board continues to experience growth in the student population despite the loss of state and local revenues. This growth trend presents a challenge to the Board's ability to be able to materially reduce expenditures in order to accommodate any revenue losses. The average daily membership (ADM) has grown by 5,210 or 22.6% since FY 2002 reflected in Graph 3.

Graph 3



Net Cost of Services

Total cost of services was \$253,917,364. The net cost of governmental activities was a negative -\$104,212,282 as shown in Table 3. This means that the local funds portion of revenue was used to fund the amount not covered from various program revenues.

**BALDWIN COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For The Year Ended September 30, 2012**

**Table 3
Net Cost of Services**

	<u>FY 2012</u>		<u>FY 2011</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction	\$ 141,375,972	-44,462,252	\$ 142,845,206	\$ -48,512,995
Instructional Support	40,386,841	-18,866,281	40,330,533	-16,257,686
Operation and Maintenance	25,238,488	-22,823,951	24,890,539	-23,618,336
Student Transportation	11,794,040	-1,270,212	11,939,435	-979,606
Food Service	12,807,923	-2,129,348	12,248,835	-1,001,620
General Admin & Central Supp.	7,133,152	-6,407,564	7,168,367	-6,361,665
Other	7,051,854	-7,051,854	7,414,558	-1,311,732
Interest on Long-Term Debt	8,129,094	-1,200,820	10,205,942	-10,205,942
	\$ 253,917,364	\$ -104,212,282	\$ 257,043,414	\$ -108,249,583

Financial Analysis of the Board's Funds

The analysis of governmental funds serves the purpose of looking at what resources came into the funds, how they were spent, and what is available for future expenditures. Did the Board generate enough revenue to pay for current obligations? What is available for spending at the end of the year? The financial performance of the Board as a whole is reflected in its governmental funds as well. At the end of the fiscal year, the Board's governmental funds reported combined ending fund balances of \$59,029,207. Approximately \$26,081,659 of this amount constitutes unreserved fund balance of the General Fund that is available as of the end of the fiscal year for spending on future operations. Again, this specific amount of fund balance is due to the full accrual of salaries required for financial statement presentation.

General Fund - The General Fund is the primary operating fund of the Board in providing educational services to students from kindergarten through 12th grade including pupil transportation. Table 4 reflects a summary of General Fund Revenues for the most recent two-year period.

**Table 4
General Fund Revenues**

	<u>FY 2012</u>	<u>FY 2011</u>	<u>Variance</u>
State	\$ 104,908,320	\$ 96,444,624	\$ 8,463,696
Federal			0
Local	109,092,907	113,206,466	-4,113,559
Other	1,265,406	1,105,427	159,979
Total	\$ 215,266,633	210,756,517	\$ 4,510,116

**BALDWIN COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For The Year Ended September 30, 2012**

Total General Fund revenue increased by \$4,510,116 from the previous year due to 8.78% increase in State revenues; however, there was a slight decrease of 3.63% in local tax revenues for the year. This decrease is a result of Ad Valorem revenue decreasing approximately 6.4% when compared to FY 2011. It should be noted that each school system is required to provide a minimum equivalent of ten mills of ad valorem tax to participate in the Foundation Program. The ten mill equivalent match for Baldwin County was \$43,331,150 in Fiscal year 2012, the highest in the State. Table 5 reflects a comparison of General Fund expenditures for FY 2012 and FY 2011.

**Table 5
General Fund Expenditures**

	<u>FY 2012</u>	<u>FY 2011</u>	<u>Increase (Decrease)</u>
Instruction	\$ 117,293,717	\$ 116,923,768	\$ 369,949
instructional Support	35,134,499	28,411,968	6,722,531
Operation and Maintenance	10,490,862	10,528,713	-37,851
Auxiliary Services	9,601,128	8,468,150	1,132,978
General Admin & Central Supp.	6,302,379	6,414,066	-111,687
Other	3,020,410	3,009,922	10,488
Capital Outlay	507,602	158,891	348,711
Debt Service			
Principal Retirement	197,994	293,723	-95,729
Interest and Fiscal Charges	4,123,442	4,147,998	-24,556
Debt Issuance Costs	1,995		1,995
	\$ 186,674,028	178,357,199	\$ 8,316,829

General Fund expenditures increased by \$8,316,829 or 4.66% from the previous fiscal year. A loss of the federal stimulus funds for FY 2012 resulted in the General Fund absorbing some of the salaries and fringe benefit costs. We also experienced strong growth of approximately 1,200 students over the 2011 enrollment totals, resulting in increase expenses related to the 4% year over year growth in student enrollment.

General Fund revenues and sources of funds exceeded expenditures and uses of funds by \$18,820,131.

Special Revenue Fund - The Special Revenue Fund accounts for all of the federal funds that flow through the State Department of Education which includes the Child Nutrition Fund. In addition, this fund includes the restricted Sales Tax Fund, the e-Rate Fund and the Local School Public Funds. The beginning fund balance was \$19,169,011.10. Recognizing an excess of \$2,743,510.77 for the fiscal year, the ending fund balance for FY 2012 reflected \$21,912,521.87. The excess for the year is primarily comprised of excesses in the Child Nutrition Fund and the Sales Tax Fund.

Overall, the Board's governmental funds reflected more revenues/sources of funds than expenditures/uses at the end of the fiscal year.

**BALDWIN COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For The Year Ended September 30, 2012**

General Fund Budgetary Highlights

The FY 2012 Budget, adopted on September 13, 2011, was based on known sources at the time of adoption. The budget reflected only guaranteed revenues and necessary expenditures as some of the state-funded programs had not been authorized at this point. The Board complied with State Department of Education requirements for budget amendments. The Board submitted Amendment #1 on January 15, 2012 to address changes in federal and state funds, proration and other revisions to the General Fund. Amendment #2 was submitted on June 15, 2012 to make final budgetary adjustments to all funds and programs.

The comparison of General Fund original budget to the final amended budget is reflected in the supplemental information in the report. The General Fund budget was amended to correct beginning fund balances and account for changes in state and local sources.

Capital Assets and Debt Administration

Capital Assets - At September 30, 2012, the Board had \$386,745,205 invested in capital assets including land, buildings, equipment costing \$5,000 or more, vehicles, buildings and equipment under capital lease, and construction in progress. This amount is net of accumulated depreciation to date. A decrease is reflected due to a decrease in capital projects for the year. Table 6 below reflects a summary comparison of Capital Assets for fiscal year 2012 to fiscal year 2011.

**Table 6
Capital Assets (net of depreciation)**

	<u>FY2012</u>	<u>FY2011</u>	<u>Variance</u>
Land and Inexhaustible Land			
Improvements	\$ 7,668,730	\$ 7,668,730	\$ 0
Exhaustible Land Improvements	812,047	801,441	10,606
Buildings	269,271,768	258,162,804	11,108,964
Building Improvements	32,051,747	32,252,855	-201,108
Equipment & Furniture	4,385,547	4,848,546	-462,999
Vehicles	4,375,373	5,195,528	-820,155
Assets Under Capital Lease	3,030,312	3,673,501	-643,189
Construction in Progress	65,149,681	80,403,460	-15,253,779
	<u>\$ 386,745,205</u>	<u>\$ 393,006,865</u>	<u>\$ -6,261,660</u>

Long-Term Debt – At year-end the Board had \$214,599,274 in warrants payable, notes payable, and other long-term debt outstanding as of 9-30-2012. The Board made debt service payments as well as added warrants payable as reflected in Table 7. (Additional information on the Board’s long-term debt is presented in the notes to the basic financial statements.)

**BALDWIN COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For The Year Ended September 30, 2012**

**Table 7
Outstanding Long-Term Debt
For the Year Ended September 30, 2012**

	Debt Outstanding 10/1/2011	Additions	Reductions	Debt Outstanding 9/30/2011	Amounts Due Within One Year
Governmental Activities:					
Warrants Payable	\$213,592,204	\$55,844,360	\$-65,038,065	\$204,398,499	\$5,877,842
Deferred Amounts:					
Unamortized premium	2,506,220	7,322,361	-2,705,037	7,123,544	513,319
Unamortized Discount/Def.Loss	-1,217,396		47,278	-1,170,118	-47,277
Deferred Loss on Refunding	-44,759	-2,252,641	-45,415	-2,342,815	-148,100
Total Warrants Payable	214,836,269	60,914,080	67,741,239	208,009,110	6,195,784
Other Liabilities:					
Certificates of Participation- QZAB	1,000,000			1,000,000	
Notes Payable	53,545	120,000	-11,863	161,682	32,082
Capital Lease Contracts	3,299,119		-683,608	2,615,511	753,509
Estimated Liability for					
Compensated Absences	2,804,720	8,251		2,812,971	281,297
Total Other Liabilities	7,157,384	128,251	-695,471	6,590,164	1,066,888
Governmental Activity Long- Term Liabilities	\$221,993,653	\$61,042,331	\$-68,436,710	\$214,599,274	\$7,262,672

Economic Factors and Next Year's Budget

The following are currently known Baldwin County economic factors considered going into the 2012-2013 fiscal year:

- Baldwin County Board of Education receives local funding from sales taxes and ad valorem taxes. There are several economic factors contributing to these local taxes. Baldwin County continues to experience a decline in the overall economy for fiscal years 2012. Ad Valorem taxes declined again in FY 2012 (approximately 6.4%), and Sales Tax revenues increased from FY 2011 levels by a marginal 1.8%. The increased stability in sales tax revenues contributed to the Board's ability to restore its general fund balance reserves and maintain financial stability. The Board was able to recognize slightly less than \$29 Million in local revenues as a result of the Penny Tax.
- The funding formula to appropriate state funds to each public school system requires the equivalent of 10 mills of ad valorem tax to be provided locally to participate in the Foundation Program. The match resulted in a total of \$43,830,470 for FY 2011 and dropped slightly to \$43,331,150 in 2012 due to drop in property taxes. The match is currently 32.9% of the total State Foundation funds earned by the system!

**BALDWIN COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For The Year Ended September 30, 2012**

- The Board is currently watching to determine what the effects of the Federal Sequestrations cuts could be if no agreement is reached in Washington. The Center on Budget & Policy estimates that under sequestrations federal education funding will be subject to cuts around 9.1% in FY 2013. These cuts could materially affect funding related to Title I and Special Education programs.

Financial Contact

The Board's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Board's finances and to demonstrate the Board's accountability. If you have questions about the report or need additional financial information, contact the Division of Business and Finance, Baldwin County Board of Education, 2600 North Hand Avenue, Bay Minette, Alabama 36507, 251-937-0312.

Basic Financial Statements

Statement of Net Assets
September 30, 2012

	Governmental Activities
<u>Assets</u>	
Cash and Cash Equivalents	\$ 62,245,292.94
Cash with Fiscal Agent	3,590,824.58
Investments	387,379.06
Ad Valorem Property Taxes Receivable	43,800,000.00
Receivables (Note 4)	6,875,412.14
Inventories	1,085,979.25
Deferred Charges - Issuance Costs	1,973,456.63
Prepaid Item	163,693.37
Capital Assets (Note 5):	
Nondepreciable	72,818,411.23
Depreciable, Net	313,926,793.93
Total Assets	<u>506,867,243.13</u>
<u>Liabilities</u>	
Accounts Payable	1,211,516.77
Deferred Revenue	45,620,288.59
Salaries and Benefits Payable	12,287,568.52
Long-Term Liabilities:	
Portion Payable Within One Year:	
Warrants Payable	5,877,841.93
Add: Unamortized Premium	513,319.18
Less: Unamortized Discount	(47,277.52)
Less: Deferred Loss on Refunding	(148,099.82)
Notes Payable	32,082.16
Capital Leases	753,509.37
Compensated Absences	281,297.17
Portion Payable After One Year:	
Warrants Payable	198,520,657.49
Add: Unamortized Premium	6,610,224.76
Less: Unamortized Discount	(1,122,841.05)
Less: Deferred Loss on Refunding	(2,194,715.42)
Qualified Zone Academy Bonds	1,000,000.00
Notes Payable	129,600.30
Capital Leases	1,862,001.00
Compensated Absences	2,531,674.53
Total Liabilities	<u>\$ 273,718,647.96</u>

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

	Governmental Activities
<u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	\$ 182,719,107.23
Restricted for:	
Debt Service	3,590,877.46
Capital Projects	3,675,142.72
Other Purposes	11,259,400.07
Unrestricted	<u>31,904,067.69</u>
Total Net Assets	<u><u>\$ 233,148,595.17</u></u>

Statement of Activities
For the Year Ended September 30, 2012

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<u>Governmental Activities</u>			
Instruction	\$ 141,375,972.21	\$ 3,567,726.09	\$ 89,185,508.23
Instructional Support Services	40,386,840.77	1,514,840.22	20,005,720.05
Operation and Maintenance Services	25,238,488.25	1,068,968.71	1,279,623.09
Auxiliary Services:			
Student Transportation Services	11,794,039.76	585,899.03	8,568,714.29
Food Services	12,807,922.78	9,990,331.98	688,243.09
General Administration and Central Support	7,133,152.34	11,369.93	714,218.30
Interest and Fiscal Charges	7,051,853.94		
Other Expenses	8,129,093.87	2,280,083.24	4,648,190.62
Total Governmental Activities	<u>\$ 253,917,363.92</u>	<u>\$ 19,019,219.20</u>	<u>\$ 125,090,217.67</u>

General Revenues:

Taxes:

Property Taxes for General Purposes
Sales Tax for General Purposes
Sales Tax for Specific Purposes
Alcohol Beverage Tax
Other Taxes

Grants and Contributions Not Restricted
for Specific Programs

Investment Earnings
Gain on Disposal of Assets
Miscellaneous

Total General Revenues

Changes in Net Assets

Net Assets - Beginning of Year

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</u> <u>Total Governmental Activities</u>
\$ 4,160,485.94	\$ (44,462,251.95)
	(18,866,280.50)
65,945.48	(22,823,950.97)
	(1,270,212.44)
1,369,214.00	(2,129,347.71)
	(6,407,564.11)
	(7,051,853.94)
	(1,200,820.01)
<u>\$ 5,595,645.42</u>	<u>(104,212,281.63)</u>

44,312,181.02
60,077,698.08
13,852,825.02
312,158.63
1,327,569.54
397,421.40
315,488.20
18,942.24
8,184,525.05
<u>128,798,809.18</u>
24,586,527.55
<u>208,562,067.62</u>
<u>\$ 233,148,595.17</u>

Balance Sheet
Governmental Funds
September 30, 2012

	General Fund	Special Revenue Fund
<u>Assets</u>		
Cash and Cash Equivalents	\$ 35,319,807.46	\$ 20,264,656.79
Cash with Fiscal Agent		
Investments		387,379.06
Ad Valorem Property Taxes Receivable	43,800,000.00	
Receivables (Note 4)	3,529,473.02	3,345,939.12
Interfund Receivables	1,739,191.39	10,856.73
Inventories	280,562.44	805,416.81
Prepaid Item	163,693.37	
Total Assets	<u>84,832,727.68</u>	<u>24,814,248.51</u>
<u>Liabilities and Fund Balances</u>		
<u>Liabilities</u>		
Accounts Payable	824,790.26	306,095.88
Interfund Payables		1,739,191.39
Deferred Revenues	45,211,319.88	408,968.71
Salaries and Benefits Payable	11,840,097.86	447,470.66
Total Liabilities	<u>57,876,208.00</u>	<u>2,901,726.64</u>
<u>Fund Balances</u>		
Nonspendable:		
Inventories	280,562.44	805,416.81
Prepaid Items	163,693.37	
Restricted for:		
Debt Service		
Capital Projects		
Child Nutrition Program		3,950,028.30
Fleet Renewal		
Capital Outlay and Maintenance		6,161,010.13
Other Purposes		1,009,529.79
Assigned To:		
Local Schools		9,974,785.60
Other Purposes	430,605.27	11,751.24
Unassigned	26,081,658.60	
Total Fund Balances	<u>26,956,519.68</u>	<u>21,912,521.87</u>
Total Liabilities and Fund Balances	<u>\$ 84,832,727.68</u>	<u>\$ 24,814,248.51</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 6,660,828.69	\$ 62,245,292.94
3,590,824.58	3,590,824.58
	387,379.06
	43,800,000.00
	6,875,412.14
	1,750,048.12
	1,085,979.25
	163,693.37
10,251,653.27	119,898,629.46

80,630.63	1,211,516.77
10,856.73	1,750,048.12
	45,620,288.59
	12,287,568.52
91,487.36	60,869,422.00

	1,085,979.25
	163,693.37
3,590,877.46	3,590,877.46
5,304,970.23	5,304,970.23
	3,950,028.30
1,263,546.40	1,263,546.40
771.82	6,161,781.95
	1,009,529.79
	9,974,785.60
	442,356.51
	26,081,658.60
10,160,165.91	59,029,207.46
\$ 10,251,653.27	\$ 119,898,629.46

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***Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Assets
September 30, 2012***

Total Fund Balances - Governmental Funds (Exhibit 3) \$ 59,029,207.46

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

Capital assets used in governmental activities are not financial resources and therefore
are not reported as assets in governmental funds. (See Note 5)

The Cost of Capital Assets is	\$ 472,540,312.65	
Accumulated Depreciation is	(85,795,107.49)	
	<u>386,745,205.16</u>	386,745,205.16

Other long-term assets are not available to pay for current-period expenditures and
therefore are deferred on the Statement of Net Assets. 1,973,456.63

Long-term liabilities, including warrants payable, are not due and payable in the current
period and therefore are not reported as liabilities in the funds. (See Note 10)

Portion of Long-Term Debt		
Due or Payable Within One Year	\$ 7,262,672.47	
Portion of Long-Term Debt		
Due or Payable After One Year	<u>207,336,601.61</u>	<u>(214,599,274.08)</u>

Total Net Assets - Governmental Activities (Exhibit 1) \$ 233,148,595.17

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, 2012

	General Fund	Special Revenue Fund
<u>Revenues</u>		
State	\$ 104,908,320.04	\$
Federal		26,370,356.63
Local	109,092,907.31	30,348,235.60
Other	1,265,406.15	617,031.85
Total Revenues	215,266,633.50	57,335,624.08
<u>Expenditures</u>		
Current:		
Instruction	117,293,717.46	17,613,695.61
Instructional Support Services	35,134,499.45	4,818,552.28
Operation and Maintenance Services	10,490,861.47	14,107,078.23
Auxiliary Services:		
Student Transportation Services	9,601,127.47	776,963.75
Food Services		12,790,412.17
General Administration and Central Support	6,302,379.41	797,815.92
Other	3,020,410.11	5,104,784.38
Capital Outlay	507,601.65	803,872.86
Debt Service:		
Principal Retirement	197,994.24	24,309.08
Interest and Fiscal Charges	4,123,442.06	4,849.74
Debt Issuance Costs	1,995.00	
Total Expenditures	186,674,028.32	56,842,334.02
Excess (Deficiency) of Revenues Over Expenditures	28,592,605.18	493,290.06
<u>Other Financing Sources (Uses)</u>		
Indirect Cost	1,180,662.26	
Debt Issued		120,000.00
Premiums on Long-Term Debt Issued		
Transfers In	791,604.67	2,905,549.41
Other Financing Sources	134,067.32	8,106.50
Sale of Capital Assets	15,249.55	8,169.47
Transfers Out	(11,894,058.28)	(791,604.67)
Payments to Refunding Escrow Agent		
Total Other Financing Sources (Uses)	(9,772,474.48)	2,250,220.71
Net Changes in Fund Balances	18,820,130.70	2,743,510.77
Fund Balances - Beginning of Year	8,136,388.98	19,169,011.10
Fund Balances - End of Year	\$ 26,956,519.68	\$ 21,912,521.87

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

Other Governmental Funds	Total Governmental Funds
\$ 5,575,292.42	\$ 110,483,612.46
165,225.41	26,370,356.63
	139,606,368.32
	1,882,438.00
<u>5,740,517.83</u>	<u>278,342,775.41</u>
352,603.67	135,260,016.74
350,026.95	39,953,051.73
	24,947,966.65
	10,378,091.22
	12,790,412.17
2,627.00	7,102,822.33
	8,125,194.49
1,772,363.93	3,083,838.44
6,414,630.87	6,636,934.19
5,871,815.21	10,000,107.01
551,490.58	553,485.58
<u>15,315,558.21</u>	<u>258,831,920.55</u>
<u>(9,575,040.38)</u>	<u>19,510,854.86</u>
	1,180,662.26
55,844,360.04	55,964,360.04
7,322,360.43	7,322,360.43
8,988,508.87	12,685,662.95
	142,173.82
	23,419.02
	(12,685,662.95)
<u>(63,520,863.61)</u>	<u>(63,520,863.61)</u>
<u>8,634,365.73</u>	<u>1,112,111.96</u>
(940,674.65)	20,622,966.82
11,100,840.56	38,406,240.64
<u>\$ 10,160,165.91</u>	<u>\$ 59,029,207.46</u>

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, 2012

Net Changes in Fund Balances - Total Governmental Funds (Exhibit 5) \$ 20,622,966.82

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense differed from capital outlays in the period.

Capital Outlays	\$	3,083,838.44	
Depreciation Expense		<u>(9,341,021.40)</u>	(6,257,182.96)

Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities. 6,636,934.19

Issuance costs on long-term debt issuance are recorded as expenditures in the governmental funds, but are deferred and amortized in the Statement of Activities. 551,490.58

Payments to refunding escrow agent are recorded as expenditures or other financing uses in the governmental funds, but reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities. 63,520,863.61

Proceeds from the issuance of debt are reported as financing sources in governmental funds and thus contribute to the change in fund balance. Issuing long-term debt increases liabilities in the Statement of Net Assets but does not affect the Statement of Activities. (55,964,360.04)

Premiums on debt issuance are reported as other financing sources in the governmental funds, but are amortized in the Statement of Activities. (7,322,360.43)

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

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. The change in net assets differs from the change in fund balances by the net value (cost less accumulated depreciation) of the assets sold.

Proceeds from Sale of Capital Assets	\$ (23,419.02)	
Gain on Disposition of Capital Assets	<u>18,942.24</u>	(4,476.78)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Accrued Interest Payable, Current Year Decrease	\$ 2,666,205.72	
Compensated Absences, Current Year Decrease in Noncurrent Portion	(8,251.05)	
Amortization of Deferred Amounts	<u>144,697.89</u>	<u>2,802,652.56</u>

Change in Net Assets of Governmental Activities (Exhibit 2)		<u>\$ 24,586,527.55</u>
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Statement of Fiduciary Net Assets
September 30, 2012

	Agency Funds
<u>Assets</u>	
Cash and Cash Equivalents	\$ 11,001.89
Total Assets	<u>11,001.89</u>
<u>Liabilities</u>	
Accounts Payable	11,001.89
Total Liabilities	<u>\$ 11,001.89</u>

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

Notes to the Financial Statements

For the Year Ended September 30, 2012

Note 1 – Summary of Significant Accounting Policies

The financial statements of the Baldwin 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 seven members elected by the qualified electors of the County. The Board is responsible for the general administration and supervision of the public schools for the educational interests of the County.

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, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

Notes to the Financial Statements

For the Year Ended September 30, 2012

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

Fund Financial Statements

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

The Board reports the following major governmental funds:

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

- ◆ **Special Revenue Fund** – This fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Various federal, state and local funding sources are included in this fund. Some of the significant federal funding sources include the federal funds that are received for Special Education, Title I, Education Jobs, and the Child Nutrition Program in addition to various smaller grants, which are required to be spent for the purposes of the applicable federal grants. Also included in this fund are the public and non-public funds received by the local schools which are generally not considered restricted or committed. The proceeds from the county sales tax that are to be used exclusively for capital improvement, capital construction and maintenance purposes are also accounted for and reported in this fund.

Notes to the Financial Statements
For the Year Ended September 30, 2012

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

Governmental Fund Types

- ◆ **Capital Projects Fund** – This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlay, including the acquisition or construction of capital facilities and other capital assets.

- ◆ **Debt Service Fund** – This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest and the accumulation of resources for principal and interest payments maturing in future years.

The Board reports the following fiduciary fund type:

Fiduciary Fund Type

- ◆ **Agency Fund** – This fund is used to report assets held by the Board in a purely custodial capacity. The Board collects these assets and transfers them to the proper individual, private organizations, or other government.

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

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

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

Notes to the Financial Statements
For the Year Ended September 30, 2012

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 are reported at fair value.

2. Receivables

Sales tax receivables are based on the amounts collected within 60 days after year-end.

Notes to the Financial Statements
For the Year Ended September 30, 2012

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

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

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. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Restricted Assets

Included in cash on the balance sheet are certain assets which are restricted. 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 restricted because they are maintained separately and their use is limited. The Public School Capital Projects, Fleet Renewal, Bond Issue Payments, Bonds and Warrants, and Qualified Zone Academy Bonds funds are used to report proceeds that are restricted for use in various construction projects and the purchase of school buses. The Debt Service Fund is used to report resources set aside to pay the principal and interest on debt as it become due.

Notes to the Financial Statements

For the Year Ended September 30, 2012

6. Capital Assets

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

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

	Capitalization Threshold	Estimated Useful Life	Salvage Value Percentage
Land	\$ 1	N/A	N/A
Land Improvements (Inexhaustible)	\$ 1	N/A	N/A
Land Improvements (Exhaustible)	\$50,000	20 years	0%
Buildings	\$50,000	25 – 50 years	20%
Building Improvements	\$50,000	5 – 30 years	20%
Equipment and Furniture	\$ 5,000	5 – 20 years	1%
Vehicles	\$ 5,000	8 – 15 years	5%
Equipment Under Capital Lease	\$ 5,000	5 – 20 years	1%

7. Long-Term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Warrant premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt. Warrants payable are reported gross with separate line items for the applicable warrant premium or discount. Warrant issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

Notes to the Financial Statements
For the Year Ended September 30, 2012

8. Compensated Absences

The Board has a standard leave policy for its full-time employees as to sick leave and vacation (annual) leave.

Personnel who hold twelve-month appointments earn annual leave as follows:

Employees with less than 100 months of employment in the public schools of Alabama shall accrue annual leave at the rate of one day per month. Employees with more than 100 months of employment in the public schools of Alabama shall accrue annual leave at the rate of one and one-half days per month. Annual leave may be accumulated up to but not to exceed forty-five (45) days. Personnel who terminate their employment with the school system shall be paid at their regular rate for the unused portion of accumulated annual leave.

There are no provisions for payment of unused sick leave due to termination or retirement.

9. Net Assets/Fund Equity

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

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

Fund balance is reported in governmental funds in the fund financial statements under the following five categories:

- A. Nonspendable fund balances include amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained in-tact. Examples of nonspendable fund balance reserves for which fund balance shall not be available for financing general operating expenditures include: inventories, prepaid items, and long-term receivables.

Notes to the Financial Statements
For the Year Ended September 30, 2012

- B. Restricted fund balances consist of amounts that are subject to externally enforceable legal restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation.
- C. Committed fund balances consist of amounts that are subject to a purpose constraint imposed by formal action or resolution of the Board, which is the highest level of decision-making authority, before the end of the fiscal year and that require the same level of formal action to remove or modify the constraint.
- D. Assigned fund balances consist of amounts that are intended to be used by the school system for specific purposes. The Board authorized the Superintendent or Chief School Finance Officer to make a determination of the assigned amounts of fund balance. Such assignments may not exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. Assigned fund balances require the same level of authority to remove the constraint.
- E. Unassigned fund balances include all spendable amounts not contained in the other classifications. This portion of the total fund balance in the general fund is available to finance operating expenditures.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be the policy of the Board to consider restricted amounts to have been reduced first. When an expenditure is incurred for the purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the Board that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

Note 2 – Stewardship, Compliance, and Accountability

Budgets

Budgets are adopted on a basis of accounting consistent with accounting principles generally accepted in the United States of America (GAAP) for the General Fund and Special Revenue 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. All other governmental funds adopt budgets on the modified accrual basis of accounting. The capital projects fund adopts 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.

Notes to the Financial Statements
For the Year Ended September 30, 2012

Note 3 – Deposits and Investments

A. Deposits

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 Deposit 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.

B. Cash with Fiscal Agent

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 pledge of the three-mill school tax and other obligations as outlined in the *Code of Alabama 1975*, Section 19-3-120 and Section 19-3-120.1.

As of September 30, 2012, the Board had the following amounts invested in cash with fiscal agent:

Investment Type	Fair Value	Maturity	Rating
Federated U. S. Treasury Cash Reserves – Inst. Svc. Shares	\$2,850,174.67	90 days or less	AAAm
U. S. Treasury Bill	740,649.91	11/29/2012	NR
Total Cash with Fiscal Agent	<u>\$3,590,824.58</u>		
NR = Not Rated			

Notes to the Financial Statements

For the Year Ended September 30, 2012

Interest Rate Risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways the Board manages its exposure to interest rate risk is by investing in a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the investments is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for capital projects. The Board has a formal investment policy that requires diversity of its investment portfolio and maturities of 12 months or less as a means of managing its exposure to fair value losses arising from increasing rates.

Credit Risk – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The credit rating, if applicable and available, is presented in the table of investments. The Board has an investment policy that limits investments to obligations, Treasury bills or Notes of the United States or its agencies with maturities of 12 months or less; insured or collateralized certificates of deposit with maturities of twelve months or less; overnight repurchase agreements with approved master repurchase agreement if applicable; and fully collateralized interest bearing sweep accounts if applicable.

Custodial Credit Risk – Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Board’s investment policy does not specifically address securities held by a counterparty. However, the policy identifies the permissible investments/depository instruments, requires diversification, prudence in investment decisions, and collateralization. These criteria are designed to limit all forms of credit risk.

Concentrations of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The Board has an investment policy that requires diversity of its investments with respect to maturity, security types, and/or financial institutions to avoid incurring unreasonable or unavoidable risk to principal or liquidity of the investments.

Notes to the Financial Statements
For the Year Ended September 30, 2012

Note 4 – Receivables

On September 30, 2012, receivables for the Board’s individual major funds and other governmental funds in the aggregate are as follows:

	General Fund	Special Revenue Fund	Total
<u>Receivables:</u>			
Accounts	\$ 92,899.83	\$ 54,993.71	\$ 147,893.54
Sales Tax	2,116,164.11	547,020.86	2,663,184.97
Intergovernmental	1,315,477.82	2,695,309.73	4,010,787.55
Other	4,931.26	48,614.82	53,546.08
Total Receivables	<u>\$3,529,473.02</u>	<u>\$3,345,939.12</u>	<u>\$6,875,412.14</u>

Governmental funds report deferred revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At September 30, 2012, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Ad Valorem Property Taxes Receivable	\$43,800,000.00	\$
Ad Valorem Motor Vehicle Taxes		1,411,319.88
Grant Draws Downs Prior to Meeting All Eligibility Requirements		77,031.55
Prepaid Meals		331,937.16
Total Deferred/Unearned Revenue for Governmental Funds	<u>\$43,800,000.00</u>	<u>\$1,820,288.59</u>

Notes to the Financial Statements
For the Year Ended September 30, 2012

Note 5 – Capital Assets

Capital asset activity for the year ended September 30, 2012, was as follows:

	Balance October 1, 2011	Additions/ Reclassifications	Retirements/ Reclassifications	Balance September 30, 2012
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land and Land Improvements	\$ 7,377,629.38	\$	\$	\$ 7,377,629.38
Land Improvements (Inexhaustible)	291,100.80			291,100.80
Construction in Progress	80,403,459.75	804,820.98	(16,058,599.68)	65,149,681.05
Total Capital Assets, Not Being Depreciated	<u>88,072,189.93</u>	<u>804,820.98</u>	<u>(16,058,599.68)</u>	<u>72,818,411.23</u>
Capital Assets Being Depreciated:				
Land Improvements (Exhaustible)	2,015,623.84	112,731.47		2,128,355.31
Buildings	304,203,937.80	16,058,599.68		320,262,537.48
Building Improvements	41,611,562.25	1,414,621.30		43,026,183.55
Equipment and Furniture	11,554,373.14	532,716.89	(243,785.47)	11,843,304.56
Vehicles	16,163,825.30	218,947.80	(40,780.00)	16,341,993.10
Assets under Capital Lease	6,119,527.42			6,119,527.42
Total Capital Assets Being Depreciated	<u>381,668,849.75</u>	<u>18,337,617.14</u>	<u>(284,565.47)</u>	<u>399,721,901.42</u>
Less Accumulated Depreciation for:				
Land Improvements – Exhaustible	(1,214,182.47)	(102,125.87)		(1,316,308.34)
Buildings	(46,041,133.95)	(4,949,635.28)		(50,990,769.23)
Building Improvements	(9,358,707.38)	(1,615,729.51)		(10,974,436.89)
Equipment and Furniture	(6,705,826.79)	(993,278.22)	241,347.69	(7,457,757.32)
Vehicles	(10,968,297.72)	(1,037,063.96)	38,741.00	(11,966,620.68)
Assets under Capital Lease	(2,446,026.47)	(643,188.56)		(3,089,215.03)
Total Accumulated Depreciation	<u>(76,734,174.78)</u>	<u>(9,341,021.40)</u>	<u>280,088.69</u>	<u>(85,795,107.49)</u>
Total Capital Assets Being Depreciated, Net	<u>304,934,674.97</u>	<u>8,996,595.74</u>	<u>(4,476.78)</u>	<u>313,926,793.93</u>
Total Governmental Activities Capital Assets, Net	<u>\$393,006,864.90</u>	<u>\$ 9,801,416.72</u>	<u>\$(16,063,076.46)</u>	<u>\$386,745,205.16</u>

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

	Current Year Depreciation Expense
Governmental Activities:	
Instruction	\$6,115,955.47
Instructional Support Services	433,789.04
Operation and Maintenance Services	290,521.60
Auxiliary Services:	
Food Services	961,844.49
Student Transportation Services	1,415,948.54
General Administration and Central Support	119,062.88
Other	3,899.38
Total Depreciation Expense – Governmental Activities	<u>\$9,341,021.40</u>

Notes to the Financial Statements

For the Year Ended September 30, 2012

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. Retirees may also elect to receive a reduced retirement allowance (*Special Privileges at Retirement*) in order to provide an allowance to a designated beneficiary after the member's death. 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, 201 South Union Street, Montgomery, Alabama 36130-2150.

Notes to the Financial Statements
For the Year Ended September 30, 2012

B. Funding Policy

Employees are required to contribute 7.25 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,	2012	2011	2010
Total Percentage of Covered Payroll	17.25%	17.51%	17.51%
Contributions:			
Percentage Contributed by the Board	10.00%	12.51%	12.51%
Percentage Contributed by the Employees	7.25%	5.00%	5.00%
Contributed by the Board	\$13,032,743.03	\$16,362,486.59	\$16,294,035.88
Contributed by Employees	9,448,738.68	6,539,786.66	6,512,425.91
Total Contributions	<u>\$22,481,481.71</u>	<u>\$22,902,273.25</u>	<u>\$22,806,461.79</u>

Note 7 – Other Postemployment Benefits (OPEB)

A. Plan Description

The Board contributes to the Alabama Retired Education Employees' Health Care Trust (the "Trust"), a cost-sharing multiple-employer defined benefit postemployment healthcare plan. The Trust provides health care benefits to state and local school system retirees and was established in 2007 under the provisions of Act Number 2007-16, Acts of Alabama, as an irrevocable trust fund. Responsibility for general administration and operations of the Trust is vested with the Public Education Employees' Health Insurance Board (PEEHIB) members. The *Code of Alabama 1975*, Section 16-25A-4 provides the PEEHIB with the authority to amend the benefit provisions in order to provide reasonable assurance of stability in future years. The Trust issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at the Public Education Employees' Health Insurance Plan website, <http://www.rsa-al.gov/PEEHIP/peehip.html> under the Trust Fund Financials tab.

Notes to the Financial Statements
For the Year Ended September 30, 2012

B. Funding Policy

The Public Education Employees' Health Insurance Fund (PEEHIF) was established in 1983 under the provisions of Act Number 83-455, Acts of Alabama, to provide a uniform plan of health insurance for current and retired employees of state educational institutions. The plan is administered by the PEEHIB. Any Trust fund assets used in paying administrative costs and retiree benefits are transferred to and paid from the PEEHIF. The PEEHIB periodically reviews the funds available in the PEEHIF and if excess funds are determined to be available, the PEEHIB authorizes a transfer of funds from the PEEHIF to the Trust. Retirees are required to contribute monthly as follows:

	Fiscal Year 2012
Individual Coverage – Non-Medicare Eligible	\$151.00
Individual Coverage – Medicare Eligible	\$ 10.00
Family Coverage – Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	\$391.00
Family Coverage – Non-Medicare Eligible Retired Member and Dependent Medicare Eligible	\$250.00
Family Coverage – Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	\$250.00
Family Coverage – Medicare Eligible Retired Member and Dependent Medicare Eligible	\$109.00
Surviving Spouse – Non-Medicare Eligible	\$658.00
Surviving Spouse – Non-Medicare Eligible and Dependent Non-Medicare Eligible	\$847.00
Surviving Spouse – Non-Medicare Eligible and Dependent Medicare Eligible	\$816.00
Surviving Spouse – Medicare Eligible	\$328.00
Surviving Spouse – Medicare Eligible and Dependent Non-Medicare Eligible	\$517.00
Surviving Spouse – Medicare Eligible and Dependent Medicare Eligible	\$486.00

For employees that retire other than for disability on or after October 1, 2005 and before January 1, 2012, for each year under 25 years of service, the retiree pays two percent of the employer premium and for each year over 25 years of service, the retiree premium is reduced by two percent of the employer premium. Employees who retire on or after January 1, 2012, with less than 25 years of service, are required to pay 4% for each year under 25 years of service. In addition, non-Medicare eligible employees are required to pay 1% more for each year less than 65 (age premium) and to pay the net difference between the active employee subsidy and the non-Medicare eligible retiree subsidy (subsidy premium). When the retiree becomes Medicare eligible, the age and subsidy premium no longer applies, but the years of service premium (if applicable to the retiree) will continue to be applied throughout retirement. These changes are being phased in over a 5 year period. The tobacco premium is \$28.00 per month for retired members that smoke.

Notes to the Financial Statements
For the Year Ended September 30, 2012

The Board is required to contribute at a rate specified by the State for each active employee. The Board's share of premiums for retired Board employees health insurance is included as part of the premium for active employees. The following shows the required contributions in dollars and the percentage of that amount contributed for Board retirees:

Fiscal Year Ended September 30,	Active Health Insurance Premiums Paid by Board	Amount of Premium Attributable to Retirees	Percentage of Active Employee Premiums Attributable to Retirees	Total Amount Paid Attributable to Retirees	Percentage of Required Amount Contributed
2012	\$714.00	\$228.85	32.05%	\$8,565,805.85	100%
2011	\$752.00	\$198.94	26.45%	\$7,442,004.27	100%
2010	\$752.00	\$241.27	32.08%	\$8,776,210.70	100%

Each year the PEEHIB certifies to the Governor and to the Legislature the contribution rates based on the amount needed to fund coverage for benefits for the following fiscal year and the Legislature sets the premium rate in the annual appropriation bill. This results in a pay-as-you-go funding method.

Note 8 – Lease Obligations

Capital Leases

The Board is obligated under certain leases accounted for as capital leases. Assets under capital leases totaled \$6,119,527.42 at September 30, 2012. If the Board completes the lease payments according to the schedule below, which is the stated intent of the Board, ownership of the leased equipment will pass to the Board. Until that time, the leased equipment will be identified separately on the balance sheet. The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of September 30, 2012.

Fiscal Year Ending	Governmental Activities
September 30, 2013	\$ 853,029.66
2014	629,668.32
2015	629,668.27
2016	629,668.30
2017	104,944.67
Total Minimum Lease Payments	2,846,979.22
Less: Amount Representing Interest	231,468.85
Present Value of Net Minimum Lease Payments	<u>\$2,615,510.37</u>

Notes to the Financial Statements
For the Year Ended September 30, 2012

Operating Leases

The Board is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected as part of the Board's capital assets. During the fiscal year ended September 30, 2012, the Board paid a total of \$2,395,140.27 for operating leases.

The following is a schedule by fiscal years of future minimum rental payments required under operating leases for facilities and equipment that have initial or remaining noncancelable lease terms in excess of one year as of September 30, 2012:

	Equipment
2012-2013	\$2,359,916
2013-2014	2,334,227
2014-2015	2,316,737
Total Minimum Payments Required	<u>\$7,010,880</u>

Note 9 – Long-Term Debt

The Board issued Capital Improvement Pool Bonds, Series 2001A and Series 2002A, to provide funds for the acquisition, construction and renovation of school facilities. The Board also issued Tax Anticipation Warrants entitled 1996-C to provide funds to refund previously issued warrants.

On March 1, 2005, the Board issued \$50,000,000 in Capital Outlay School Warrants, with rates from 3.0% to 5.0%, for the purpose of constructing capital improvements to the Board's education system.

On July 1, 2005, the Board issued \$1,000,000 in certificates of participation in Qualified Zone Academy Bonds (QZAB) for the purposes of (i) financing certain school improvements and (ii) purchasing and installing equipment.

On October 25, 2006, the Board entered into a lease agreement in the amount of \$5,117,592.32 at an interest rate of 4.27% for seventy-seven buses.

On July 1, 2007, the Board issued \$150,000,000 in Capital Outlay School Warrants, with rates from 4.25% to 5.00%, for the purpose of financing the costs of constructing capital improvements to the Board's educational system.

Notes to the Financial Statements
For the Year Ended September 30, 2012

On March 15, 2009, the Board entered into a lease agreement in the amount of \$963,974.72 at an interest rate of 2.11% for network cabling including all infrastructure needed to completely rewire existing school buildings in order to facilitate network communications throughout the school buildings. There is also a note payable associated with this lease in the amount of \$312,190.85 for a service agreement.

On October 21, 2009, the Alabama Public School and College Authority, on behalf of the various Boards of Education in the pool, issued \$174,960,000.00 in Capital Improvement Pool Refunding Bonds, Series 2009-B (“Series 2009-B”) with interest rates ranging from 3.00% to 5.00% to refund and retire on a current basis \$151,170,000.00 of outstanding Capital Improvement Pool Bond Series 1999-D (“Series 1999-D”) with interest rates ranging from 5.75% to 6.00% and to advance refund \$27,815,000.00 of outstanding Capital Improvement Pool Bonds, Series 2001-A (“Series 2001-A”) which were scheduled to mature in fiscal years 2014 through 2018 with interest rates ranging from 5.50% to 5.625%. The Board had a 2.651% participation in the Series 2001-A. This resulted in the Board being obligated for \$691,769.38 of the total principal of \$174,960,000.00.

On December 16, 2009, the Alabama Public School and College Authority issued Capital Improvement Pool Qualified School Construction Bonds Series 2009-D (Tax Credit Bonds) with a tax credit rate of 5.76% and interest rate of 1.865% on behalf of various Boards of Education in the State. The Board had a 1.147% participation in the bonds resulting in the Board’s share of principal, issuance costs and net proceeds of \$1,673,000.00, \$14,726.73 and \$1,658,273.27, respectively. The Board is required to make sinking fund deposits of \$87,064.91 on December 15 in each year for fifteen years so that such deposits and any interest earned thereon shall be used to pay the principal of the bonds upon maturity and are pledged to pay the debt service requirements of the bonds. The sinking fund deposits and interest payments are payable from and secured by a pledge of the Board’s allocable share of Public School Capital Outlay Funds.

On May 2, 2011, the Alabama Public School and College Authority, on behalf of the various Boards of Education in the pool, issued \$26,900,000.00 in Capital Improvement Pool Refunding Bonds, Series 2011-B (“Series 2011-B”) with interest rates ranging from 2.00% to 5.00% to refund and retire on a current basis \$29,795,000.00 of outstanding Capital Improvement Pool Bonds, Series 2001-A (“Series 2001-A”) with interest rates of 5.00%. This was the remaining amount of the Series 2001-A not refunded by Series 2009-B discussed previously. The Board had a 2.65% participation in the Series 2001-A. This resulted in the Board being obligated for \$712,850.00 of the total principal of \$26,900,000.00.

Notes to the Financial Statements
For the Year Ended September 30, 2012

On June 2, 2011, the Board entered into a special pool loan agreement for \$4,101,000.00 with the Alabama Public School and College Authority (the “PSCA”). The PSCA issued bonds known as “qualified zone academy bonds” under Section 54E of the Internal Revenue Code of 1986 in order to finance loans to various local Boards of Education throughout the State of Alabama. The proceeds of these bonds are limited to rehabilitating, repairing or equipping public school facilities. The interest rates on these bonds are 4.60%; however, the PSCA expects to receive subsidy payments from the United States Treasury in amounts equal to the interest due on the bonds making the effective interest payment due from the Board equal zero. Annual sinking fund deposits of \$205,442.11 are required beginning in fiscal year 2012, but there is only a single principal payment due at maturity on May 1, 2026.

On March 14, 2012, the Alabama Public School and College Authority, on behalf of the various Boards of Education in the pool, issued \$79,340,000.00 in Pool Refunding Bonds, Series 2012-A (“Series 2012-A”) with interest rates ranging from 3.00% to 5.00% to refund and retire on a current basis \$57,497,698.00 of outstanding Capital Improvement Pool Bond, Series 2002-A (“Series 2002-A”) and \$21,842,302.00 of outstanding Capital Improvement and Economic Development and Training Bonds, Series 2003 (“Series 2003”) which were scheduled to mature in fiscal years 2013 through 2022 with interest rates ranging from 4.00% to 5.00%. The Board had a 27.80% participation in the Series 2002-A. This resulted in the Board being obligated for \$15,984,360.04 of the total principal of \$79,340,000.00.

On September 1, 2012, the Board issued \$39,860,000.00 in Refunding School Warrants, Series 2012 with interest rates of 2.00% to 5.00% for the advance refunding of \$40,850,000.00 of outstanding Capital Outlay School Warrants, Series 2005 with interest rates of 3.00% to 5.00%.

Notes to the Financial Statements
For the Year Ended September 30, 2012

The following is a summary of long-term debt transactions for the Board for the year ended September 30, 2012:

	Debt Outstanding 10/01/2011	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 09/30/2012	Amounts Due Within One Year
Governmental Activities:					
Warrants Payable	\$213,592,204.12	\$55,844,360.04	\$(65,038,064.74)	\$204,398,499.42	\$5,877,841.93
Deferred Amounts:					
Add: Unamortized Premium	2,506,220.05	7,322,360.43	(2,705,036.54)	7,123,543.94	513,319.18
Less: Unamortized Discount	(1,217,396.09)		47,277.52	(1,170,118.57)	(47,277.52)
Less: Deferred Loss/(Gain) on Refunding	(44,759.11)	(2,252,640.70)	(45,415.43)	(2,342,815.24)	(148,099.82)
Total Warrants Payable	<u>214,836,268.97</u>	<u>60,914,079.77</u>	<u>(67,741,239.19)</u>	<u>208,009,109.55</u>	<u>6,195,783.77</u>
Other Liabilities:					
Certificates of Participation (QZAB)	1,000,000.00			1,000,000.00	
Notes Payable	53,545.00	120,000.00	(11,862.54)	161,682.46	32,082.16
Capital Lease Contracts Payable	3,299,118.82		(683,608.45)	2,615,510.37	753,509.37
Estimated Liabilities for					
Compensated Absences	2,804,720.65	8,251.05		2,812,971.70	281,297.17
Total Other Liabilities	<u>7,157,384.47</u>	<u>128,251.05</u>	<u>(695,470.99)</u>	<u>6,590,164.53</u>	<u>1,066,888.70</u>
Governmental Activities Long-Term Liabilities	<u>\$221,993,653.44</u>	<u>\$61,042,330.82</u>	<u>\$(68,436,710.18)</u>	<u>\$214,599,274.08</u>	<u>\$7,262,672.47</u>

Payments on the Series 2012 and 2007 warrants payable are made with property taxes and sales taxes. Payments on the Capital Improvement Pool Bonds Series 2009-B, 2009-D and 2011-B 2011-QZAB bonds, and 2012-A Pool Refunding Warrants are made with Public School Funds which are part of the Board's allocation from the Alabama Department of Education. Payments on the capital leases are made from the Fleet Renewal Funds and available local sources. The long-term note payable will be paid from the General Fund using available local sources. The compensated absences liability will primarily be liquidated by the General Fund.

Simultaneously, upon the issuance of the certificates of participation in the 2005 Qualified Zone Academy Bonds (QZAB), the Board set aside \$606,532.95 in an investment account to provide for the future debt service requirements of the QZAB. This investment account does not, however, guarantee the full payment of the debt service requirements for the QZAB; therefore, the QZAB is not considered to be defeased and the liability remains on the Board's books.

Notes to the Financial Statements
For the Year Ended September 30, 2012

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

Fiscal Year Ending	Warrants Payable		Certificate of Participation	
	Principal	Interest	Principal	Interest
September 30, 2013	\$ 5,877,841.93	\$ 8,945,228.54	\$	\$
2014	6,337,599.58	9,140,234.70		
2015	6,623,745.18	8,876,485.14		
2016	6,901,825.63	8,610,566.97		
2017	7,197,832.02	8,308,285.17		
2018-2022	41,047,644.75	36,014,849.77	1,000,000.00	
2023-2027	47,012,010.33	26,022,604.49		
2028-2032	40,340,000.00	15,087,333.26		
2033-2037	43,060,000.00	5,992,875.00		
Total	\$204,398,499.42	\$126,998,463.04	\$1,000,000.00	\$

Issuance Costs, Premiums, Discounts and Deferred Loss/Gain on Refunding

The Board has deferred amounts associated with several of its debt issues. All are being amortized using the straight-line method.

- ◆ Capital Improvement Pool Bonds, Series 2002-A had issuance costs and a premium that were deferred and are now being amortized over 20 years.
- ◆ Capital Outlay School Warrants, Series 2005 had issuance costs and a premium that were deferred and are now being amortized over 25 years.
- ◆ Qualified Zone Academy Bonds, Series 2005 had issuance costs that were deferred and are now being amortized over 17 years.

Notes to the Financial Statements
For the Year Ended September 30, 2012

Capital Lease Payable		Notes Payable		Total Principal and Interest Requirements to Maturity
Principal	Interest	Principal	Interest	
\$ 753,509.37	\$ 99,520.29	\$ 32,082.16	\$ 7,589.45	\$ 15,715,771.74
561,098.35	68,569.97	32,371.48	1,920.82	16,141,794.90
585,516.92	44,151.35	68,778.31	1,145.57	16,199,822.47
610,998.22	18,670.08	17,650.51	345.07	16,160,056.48
104,387.51	557.16	10,800.00		15,621,861.86
				78,062,494.52
				73,034,614.82
				55,427,333.26
				49,052,875.00
\$2,615,510.37	\$231,468.85	\$161,682.46	\$11,000.91	\$335,416,625.05

- ◆ Capital Outlay School Warrants, Series 2007 had issuance costs and a discount that were deferred and are now being amortized over 30 years.
- ◆ Capital Improvement Pool Refunding Bonds, Series 2009-B had issuance costs and a premium that were deferred and are now being amortized over 10 years. This debt also had a deferred loss on refunding being amortized over 9 years.
- ◆ Capital Outlay Pool Warrants, Series 2009-D had issuance costs that were deferred and are now being amortized over 16 years.
- ◆ The Capital Improvement Pool Refunding Bonds, Series 2011-B had issuance costs, premium, and deferred loss on refunding. The 2011-QZAB warrants also had issuance costs. Due to the insignificance of these amounts, they were not deferred and amortized. Instead, the amounts were fully recognized in fiscal year 2011.
- ◆ The Capital Improvement Pool Refunding Bonds, Series 2012-A had issuance costs, premium, and deferred gain on refunding and are now being amortized over 12 years.
- ◆ The School Refunding Warrants, Series 2012 had issuance costs, premium, and deferred loss on refunding and are now being amortized over 17 years.

Notes to the Financial Statements
For the Year Ended September 30, 2012

	Issuance Costs	Premium	Discount	Deferred Loss/(Gain) on Refunding
Total Deferred Amounts				
Capital Improvement Pool Bonds, Series 2002A	\$ 231,889.06	\$ 1,668,440.30	\$	\$
Capital Outlay School Warrants, Series 2005	179,972.97	2,168,040.10		
Qualified Zone Academy Bonds, Series 2005	50,000.00			
Capital Outlay School Warrants, Series 2007	1,764,339.99		1,418,325.55	
Capital Improvement Pool Refunding, Series 2009-B	4,045.06	105,679.76		55,803.56
Capital Outlay Pool Warrants, Series 2009-D	14,726.73			
Pool Refunding Warrants, Series 2012A	56,632.13	2,890,675.38		(146,473.79)
School Refunding Warrant, Series 2012	494,858.45	4,431,685.05		2,399,114.49
Total Deferred Amounts	2,796,464.39	11,264,520.59	1,418,325.55	2,308,444.26
Amount Amortized Prior Years				
Capital Improvement Pool Bonds, Series 2002A	115,944.50	834,220.20		
Capital Outlay School Warrants, Series 2005	48,406.80	583,128.10		
Qualified Zone Academy Bonds, Series 2005	19,530.75			
Capital Outlay School Warrants, Series 2007	249,948.15		200,929.46	
Capital Improvement Pool Refunding, Series 2009-B	711.63	18,591.81		11,044.45
Capital Outlay Pool Warrants, Series 2009-D	1,610.74			
Pool Refunding Warrants, Series 2012A				
School Refunding Warrants, Series 2012				
Total Amount Amortized Prior Years	436,152.57	1,435,940.11	200,929.46	11,044.45
Balance Deferred Amounts				
Capital Improvement Pool Bonds, Series 2002A	115,944.56	834,220.10		
Capital Outlay School Warrants, Series 2005	131,566.17	1,584,912.00		
Qualified Zone Academy Bonds, Series 2005	30,469.25			
Capital Outlay School Warrants, Series 2007	1,514,391.84		1,217,396.00	
Capital Improvement Pool Refunding, Series 2009-B	3,333.43	87,087.95		44,759.11
Capital Outlay Pool Warrants, Series 2009-D	13,115.99			
Pool Refunding Warrants, Series 2012A	56,632.13	2,890,675.38		(146,473.79)
School Refunding Warrants, Series 2012	494,858.45	4,431,685.05		2,399,114.49
Total Balance Deferred Amounts	2,360,311.82	9,828,580.48	1,217,396.09	2,297,399.81
Current Amount Amortized				
Capital Improvement Pool Bonds, Series 2002A	115,944.56	834,220.10		
Capital Outlay School Warrants, Series 2005	131,566.17	1,584,912.00		
Qualified Zone Academy Bonds, Series 2005	3,124.92			
Capital Outlay School Warrants, Series 2007	58,811.33		47,277.52	
Capital Improvement Pool Refunding, Series 2009-B	449.45	11,742.20		6,975.44
Capital Outlay Pool Warrants, Series 2009-D	920.42			
Pool Refunding Warrants, Series 2012A	56,632.13	100,370.67		(146,473.79)
School Refunding Warrants, Series 2012	19,406.21	173,791.57		94,082.92
Total Current Amount Amortized	386,855.19	2,705,036.54	47,277.52	(45,415.43)
Balance Deferred Amounts				
Capital Improvement Pool Bonds, Series 2002A				
Capital Outlay School Warrants, Series 2005				
Qualified Zone Academy Bonds, Series 2005	27,344.33			
Capital Outlay School Warrants, Series 2007	1,455,580.51		1,217,396.09	
Capital Improvement Pool Refunding, Series 2009-B	2,883.98	87,087.95		37,783.67
Capital Outlay Pool Warrants, Series 2009-D	12,195.57			
Pool Refunding Warrants, Series 2012A		2,790,304.71		
School Refunding Warrants, Series 2012	475,452.24	4,257,893.48		2,305,031.57
Total Balance	\$1,973,456.63	\$ 7,123,543.94	\$1,170,118.57	\$2,342,815.24

Notes to the Financial Statements

For the Year Ended September 30, 2012

Pledged Revenues

On September 1, 2012, the Board issued \$39,860,000.00 in Refunding School Warrants, Series 2012 for the advance refunding of outstanding Capital Outlay School Warrants, Series 2005. The Board pledged to repay the warrants from the proceeds of the sales and use tax collected pursuant to *Code of Alabama 1975*, Section 40-12-4. Future revenues of \$56,654,407.97 are pledged to repay the principal and interest on the Series 2012 warrants at September 30, 2012. Pledged revenues in the amount of \$60,077,698.08 were received during the fiscal year ended September 30, 2012 which were used to pay \$3,622,750.00 principal and interest payments the warrants (which includes the principal and interest payment for the Series 2005 which were pledged by these revenues, but refunded by Series 2012 after this year's principal and interest payment were made). The Series 2012 warrants will mature in fiscal year 2029.

The Board issued Capital Outlay School Warrants, Series 2007 for the purpose of financing the costs of constructing capital improvements to the Board's educational system. The Board pledged to repay the warrants from the proceeds of the sales and use tax collected pursuant to Act Number 83-532, Acts of Alabama, as amended by Act Number 84-523, Acts of Alabama. Future revenues of \$243,944,164 are pledged to repay the principal and interest on the Series 2007 warrants at September 30, 2012. Pledged revenues in the amount of \$13,852,825.02 were received during the fiscal year ended September 30, 2012 which were used to pay \$9,776,620 in principal and interest payments on the Series 2007. The Series 2007 warrants will mature in fiscal year 2037.

The Board issued Series 2009-B Capital Improvement Pool Refunding Bonds, Series 2009-D Capital Improvement Pool Qualified School Construction Bonds, Series 2011-B Capital Improvement Pool Refunding Bonds, 2011-QZAB warrants and 2012-A Pooled Refunding Bonds which are pledged to be repaid from their allocation of public school funds received from the State of Alabama. Future revenues in the amount of \$833,228.60 are pledged to repay the principal and interest on the Series 2009-B bonds at September 30, 2012. Future revenues in the amount of \$2,086,419.24 are pledged to repay the principal and interest on the Series 2009-D bonds at September 30, 2012. Future revenues in the amount of \$796,444.18 are pledged to repay the principal and interest on the Series 2011-B bonds at September 30, 2012. Future revenues in the amount of \$6,742,044 are pledged to repay the principal and interest on the Series 2011 QZAB warrant at September 30, 2012. Future revenues in the amount of \$20,340,254.47 are pledged to repay the principal and interest on the Series 2012-A bonds at September 30, 2012. Pledged funds in the amount of \$2,589,182.27 were used to pay principal and interest on the bonds during the fiscal year ended September 30, 2012 (which includes the principal and interest payment for the Series 2002A which were pledged by these revenues, but refunded by 2012-A after this year's principal and interest payment were made). This amount represents 66 percent of the pledged funds received by or allocated to the Board. The Series 2009B and 2009-D, 2011-B, 2011-QZAB and 2012-A debt will mature in fiscal years 2018, 2026, 2021, 2026, and 2024 respectively.

Notes to the Financial Statements
For the Year Ended September 30, 2012

Defeased Debt

2012-A Pool Refunding Bonds

On March 14, 2012, the Alabama Public School and College Authority, on behalf of the various Boards of Education in the pool, issued \$79,340,000.00 in Pool Refunding Bonds, Series 2012-A (“Series 2012-A”) with interest rates ranging from 3.00% to 5.00% to refund and retire on a current basis \$57,497,698.00 of outstanding Capital Improvement Pool Bond, Series 2002-A (“Series 2002-A”) and \$21,842,302.00 of outstanding Capital Improvement and Economic Development and Training Bonds, Series 2003 (“Series 2003”) which were scheduled to mature in fiscal years 2013 through 2022 with interest rates ranging from 4.00% to 5.00%. The net proceeds of \$93,407,062.52 (\$67,692,098.21 for Series 2002-A and \$25,714,964.31 for Series 2003) after a premium of \$14,348,161.85 and payment of \$281,099.33 in underwriting fees and other issuance costs were used to purchase U. S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series 2002-A and Series 2003 bonds. As a result, the bonds that were refunded are considered to be defeased and the liability for this debt has been removed.

The Board had a 27.80% participation in the Series 2002-A. This resulted in the Board being obligated for \$15,984,360.04 of the total principal of \$79,340,000.00. The Board’s portion of the net proceeds deposited in an irrevocable trust with an escrow agent was \$18,818,403.29. The liabilities removed for the Series 2002-A was \$18,246,601.54. Furthermore, the Series 2002-A debt contained deferred premium and issue costs, of which \$834,220.10 and \$115,944.56, respective, were associated with the refunded debt.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$146,473.79. As a result of the refunding, the Board reduced its total debt service requirements by \$2,958,371.78, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$2,804,557.38.

2012 Refunding School Warrants

On September 1, 2012, the Board issued \$39,860,000.00 in Refunding School Warrants, Series 2012 with interest rates of 2.00% to 5.00% for the advance refunding of \$40,850,000.00 of outstanding Capital Outlay School Warrants, Series 2005 with an interest rate of 3.00% to 5.00%. The net proceeds were used to purchase U. S. government securities in the amount of \$44,702,460.32. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series 2005 warrants. As a result, the warrants that were refunded are considered to be defeased and the liability for this debt has been removed.

Notes to the Financial Statements

For the Year Ended September 30, 2012

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$2,399,114.49. As a result of the refunding, the Board decreased its total debt service requirements by \$4,145,453.89, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$3,062,315.19.

Prior Year Defeasance of Debt

In prior years, the Board defeased the certificates of participation relating to the Qualified Zone Academy Bonds (QZAB), Series 2001-B and 2002-A. The Board deposited funds into an irrevocable trust with an escrow agent to provide for the future debt service payments on the QZAB certificates when they mature on September 11, 2015 and October 8, 2016, respectively. Accordingly, the trust account assets and the liability for the defeased debt are not included on the Board's financial statements. At September 30, 2011, the outstanding amount for the QZAB certificates, which is \$2 million and \$1 million respectively, is considered to be defeased.

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 and fleet liability insurance is purchased from State Farm Insurance Company. Errors and omissions insurance is purchase from the Alabama Risk Management for Schools (ARMS), a public entity risk pool. The ARMS collects the premiums and purchases excess insurance for any amount of coverage requested by pool participants in excess of the coverage provided by the pool. Employee health insurance is provided through the Public Education Employees' Health Insurance Fund (PEEHIF), administered by the Public Education Employees' Health Insurance Board (PEEHIB). The Fund was established to provide a uniform plan of health insurance for current and retired employees of state educational institutions and is self-sustaining. Monthly premiums for employee and dependent coverage are determined annually by the plan's actuary and are based on anticipated claims in the upcoming year, considering any remaining fund balance on hand available for claims. The Board contributes a specified amount monthly to the PEEHIF for each employee of state educational institutions. The Board's contribution is applied against the employees' premiums for the coverage selected and the employee pays any remaining premium.

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

Notes to the Financial Statements
For the Year Ended September 30, 2012

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

Note 11 – Interfund Transfers

The amounts of interfund transfers during the fiscal year ended September 30, 2012, were as follows:

	Transfers Out		Total
	General Fund	Special Revenue Fund	
<u>Transfers In</u>			
General Fund	\$	\$791,604.67	\$ 791,604.67
Special Revenue Fund	2,905,549.41		2,905,549.41
Other Governmental Funds	8,988,508.87		8,988,508.87
Totals	\$11,894,058.28	\$791,604.67	\$12,685,662.95

The Board typically used transfers to fund ongoing operating subsidies, to recoup certain expenditures paid on-behalf of the local schools, and to transfer the portion from the general fund to the debt service fund to service current-year debt requirements.

Required Supplementary Information

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended September 30, 2012***

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>
	<u>Original</u>	<u>Final</u>	
<u>Revenues</u>			
State	\$ 103,445,586.00	\$ 104,251,780.00	\$ 104,908,320.04
Local	99,668,166.09	100,186,622.09	109,092,907.31
Other	649,285.29	1,007,588.29	1,265,406.15
Total Revenues	<u>203,763,037.38</u>	<u>205,445,990.38</u>	<u>215,266,633.50</u>
<u>Expenditures</u>			
Current:			
Instruction	118,016,297.79	121,051,296.74	117,471,414.20
Instructional Support	33,375,657.23	35,354,814.82	35,141,364.79
Operation and Maintenance	10,012,994.00	10,118,799.49	10,500,783.59
Auxiliary Services:			
Student Transportation	9,740,666.93	10,017,074.29	9,565,747.89
General Administration and Central Support	6,608,324.02	6,761,283.73	6,302,379.41
Other	2,990,113.00	3,050,211.00	3,044,175.74
Capital Outlay	497,319.00	1,811,971.34	507,601.65
Debt Service:			
Principal Retirement	197,994.24	2,446,050.21	197,994.24
Interest and Fiscal Charges	4,123,442.06	4,123,442.06	4,123,442.06
Debt Issuance Costs			1,995.00
Total Expenditures	<u>185,562,808.27</u>	<u>194,734,943.68</u>	<u>186,856,898.57</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>18,200,229.11</u>	<u>10,711,046.70</u>	<u>28,409,734.93</u>
<u>Other Financing Sources (Uses)</u>			
Indirect Cost	1,304,396.41	1,414,851.21	1,180,662.26
Transfers In			791,604.67
Other Financing Sources		66,000.00	134,067.32
Sale of Capital Assets		8,800.00	15,249.55
Transfers Out	(13,827,602.00)	(12,753,442.00)	(11,894,058.28)
Total Other Financing Sources (Uses)	<u>(12,523,205.59)</u>	<u>(11,263,790.79)</u>	<u>(9,772,474.48)</u>
Net Change in Fund Balances	5,677,023.52	(552,744.09)	18,637,260.45
Fund Balances - Beginning of Year	<u>7,011,557.21</u>	<u>19,907,947.02</u>	<u>20,159,357.09</u>
Fund Balances - End of Year	<u>\$ 12,688,580.73</u>	<u>\$ 19,355,202.93</u>	<u>\$ 38,796,617.54</u>

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	\$	\$ 104,908,320.04
		109,092,907.31
		1,265,406.15
		<u>215,266,633.50</u>
(1)	177,696.74	117,293,717.46
(1)	6,865.34	35,134,499.45
(1)	9,922.12	10,490,861.47
(1)	(35,379.58)	9,601,127.47
		6,302,379.41
(1)	23,765.63	3,020,410.11
		507,601.65
		197,994.24
		4,123,442.06
		1,995.00
	<u>182,870.25</u>	<u>186,674,028.32</u>
	<u>182,870.25</u>	<u>28,592,605.18</u>
		1,180,662.26
		791,604.67
		134,067.32
		15,249.55
		<u>(11,894,058.28)</u>
		<u>(9,772,474.48)</u>
	182,870.25	18,820,130.70
(2)	(12,022,968.11)	8,136,388.98
	<u>\$ (11,840,097.86)</u>	<u>\$ 26,956,519.68</u>

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended September 30, 2012***

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

- (1) The Board budgets for salaries only to the extent expected to be paid, rather than on the modified accrual basis.

Net Increase in Fund Balance - Budget to GAAP

- (2) 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. This amount differs from the fund balance reported in the Statement of Revenues, Expenditures and Changes in Fund Balances because of the cumulative effect of transactions such as those described above.

\$ 182,870.25

\$ 182,870.25

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Special Revenue Fund
For the Year Ended September 30, 2012***

	Budgeted Amounts		Actual Amounts Budgetary Basis
	Original	Final	
<u>Revenues</u>			
Federal	\$ 21,931,308.12	\$ 30,306,915.67	\$ 26,370,356.63
Local	22,420,112.00	22,717,994.00	30,348,235.60
Other	204,246.00	395,073.00	617,031.85
Total Revenues	<u>44,555,666.12</u>	<u>53,419,982.67</u>	<u>57,335,624.08</u>
<u>Expenditures</u>			
Current:			
Instruction	10,686,273.26	16,957,136.72	17,613,695.61
Instructional Support	3,539,415.42	4,670,400.36	4,818,552.28
Operation and Maintenance	13,102,279.00	14,723,212.59	14,107,078.23
Auxiliary Services:			
Student Transportation	1,464,977.68	492,347.81	776,963.75
Food Service	14,698,456.00	15,532,009.00	12,750,755.90
General Administration and Central Support	1,010,036.89	1,122,549.61	797,815.92
Other	4,353,443.87	4,497,445.76	5,104,784.38
Capital Outlay	776,950.00	1,166,625.00	803,872.86
Debt Service:			
Principal Retirement	3,703.00	3,703.00	24,309.08
Interest and Fiscal Charges	2,073.00	2,073.00	4,849.74
Debt Issuance Costs			
Total Expenditures	<u>49,637,608.12</u>	<u>59,167,502.85</u>	<u>56,802,677.75</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(5,081,942.00)</u>	<u>(5,747,520.18)</u>	<u>532,946.33</u>
<u>Other Financing Sources (Uses)</u>			
Debt Issued			120,000.00
Transfers In	4,536,210.00	3,462,050.00	2,905,549.41
Other Financing Sources			8,106.50
Sale of Capital Assets			8,169.47
Transfers Out			(791,604.67)
Total Other Financing Sources (Uses)	<u>4,536,210.00</u>	<u>3,462,050.00</u>	<u>2,250,220.71</u>
Net Change in Fund Balances	(545,732.00)	(2,285,470.18)	2,783,167.04
Fund Balances - Beginning of Year	<u>7,275,976.00</u>	<u>14,119,951.12</u>	<u>19,576,825.49</u>
Fund Balances - End of Year	<u>\$ 6,730,244.00</u>	<u>\$ 11,834,480.94</u>	<u>\$ 22,359,992.53</u>

Budget to GAAP Differences		Actual Amounts GAAP Basis
	\$	\$ 26,370,356.63
		30,348,235.60
		617,031.85
		<u>57,335,624.08</u>
		17,613,695.61
		4,818,552.28
		14,107,078.23
		776,963.75
(1)	(39,656.27)	12,790,412.17
		797,815.92
		5,104,784.38
		803,872.86
		24,309.08
		4,849.74
	<u>(39,656.27)</u>	<u>56,842,334.02</u>
	<u>(39,656.27)</u>	<u>493,290.06</u>
		120,000.00
		2,905,549.41
		8,106.50
		8,169.47
		<u>(791,604.67)</u>
		<u>2,250,220.71</u>
	(39,656.27)	2,743,510.77
(2)	<u>(407,814.39)</u>	<u>19,169,011.10</u>
	<u>\$ (447,470.66)</u>	<u>\$ 21,912,521.87</u>

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Special Revenue Fund
For the Year Ended September 30, 2012***

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

- (1) The Board budgets for salaries only to the extent expected to be paid, rather than on the modified accrual basis.

Net Decrease in Fund Balance - Budget to GAAP

- (2) 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. This amount differs from the fund balance reported in the Statement of Revenues, Expenditures and Changes in Fund Balances because of the cumulative effect of transactions such as those described above.

\$ (39,656.27)

\$ (39,656.27)

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Supplementary Information

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2012***

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
<u>U. S. Department of Agriculture</u>		
<u>Passed Through Alabama Department of Education</u>		
Child Nutrition Cluster:		
National School Lunch Program		
Cash Assistance	10.555	N.A.
Non-Cash Assistance (Commodities)	10.555	N.A.
Total National School Lunch Program		
School Breakfast Program	10.553	N.A.
Total Child Nutrition Cluster		
Fresh Fruit and Vegetable Program	10.582	N.A.
Total U. S. Department Agriculture		
<u>U. S. Department of Education</u>		
<u>Passed Through Alabama Department of Education</u>		
Title I Grants to Local Educational Agencies (M)	84.010	N.A.
Career and Technical Education- Basic Grants to States	84.048	N.A.
Twenty-First Century Community Learning Centers (M)	84.287	N.A.
Education Jobs Fund	84.410	N.A.
Advanced Placement Program	84.330	N.A.
Education for Homeless Children and Youth	84.196	N.A.
Special Education Cluster:		
Special Education - Grants to States	84.027	N.A.
Special Education - Preschool Grants	84.173	N.A.
Sub-Total Special Education Cluster		
English Language Acquisition Grants	84.365	N.A.
Improving Teacher Quality State Grants (M)	84.367	N.A.
State Personnel Development Grant	84.323	N.A.
School Improvement Grants	84.377	N.A.
Education Technology State Grants	84.318	N.A.
<u>Passed Through Alabama Department of Rehabilitation Services</u>		
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	N.A.
Total U. S. Department of Education		
Sub-Total Forward		

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
10/01/2011-09/30/2012	\$ 5,195,106.28	\$ 5,195,106.28	\$ 5,195,106.28	\$ 5,195,106.28
10/01/2011-09/30/2012	660,801.94	660,801.94	660,801.94	660,801.94
	5,855,908.22	5,855,908.22	5,855,908.22	5,855,908.22
10/01/2011-09/30/2012	1,264,473.66	1,264,473.66	1,264,473.66	1,264,473.66
	7,120,381.88	7,120,381.88	7,120,381.88	7,120,381.88
10/01/2011-09/30/2012	41,630.28	41,630.28	41,630.28	41,630.28
	7,162,012.16	7,162,012.16	7,162,012.16	7,162,012.16
10/01/2011-09/30/2012	6,543,380.06	6,543,380.06	5,884,929.25	5,884,929.25
10/01/2011-09/30/2012	433,560.00	433,560.00	424,243.48	424,243.48
10/01/2011-09/30/2012	1,600,000.00	1,600,000.00	1,412,030.97	1,412,030.97
10/01/2011-09/30/2012	3,340,653.61	3,340,653.61	3,340,653.61	3,340,653.61
10/01/2011-09/30/2012	3,144.00	3,144.00	3,144.00	3,144.00
10/01/2011-09/30/2012	23,000.00	23,000.00	23,000.00	23,000.00
10/01/2011-09/30/2012	8,974,411.40	8,974,411.40	6,535,946.74	6,535,946.74
10/01/2011-09/30/2012	180,053.93	180,053.93	180,053.93	180,053.93
	9,154,465.33	9,154,465.33	6,716,000.67	6,716,000.67
10/01/2011-09/30/2012	125,226.00	125,226.00	124,667.51	124,667.51
10/01/2011-09/30/2012	1,312,954.26	1,312,954.26	867,416.09	867,416.09
10/01/2011-09/30/2012	1,102.47	1,102.47	1,102.47	1,102.47
10/01/2011-09/30/2012	101,722.98	101,722.98	101,722.98	101,722.98
10/01/2011-09/30/2012	10,087.29	10,087.29	10,087.29	10,087.29
10/01/2011-09/30/2012	59,175.39	59,175.39	59,175.39	59,175.39
	22,708,471.39	22,708,471.39	18,968,173.71	18,968,173.71
	\$ 29,870,483.55	\$ 29,870,483.55	\$ 26,130,185.87	\$ 26,130,185.87

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2012***

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
Sub-Total Brought Forward		
<u>Social Security Administration Passed Through Alabama Department of Education</u>		
Social Security - Disability Insurance	96.001	N.A.
Total U. S. Department of Social Security Administration		
<u>Other Financial Assistance U. S. Department of Defense Direct Program</u>		
Air Force ROTC	N.A.	N.A.
Navy ROTC	N.A.	N.A.
Total U. S. Department of Defense		
Total Expenditures of Federal Awards		

(M) = Major Program

N.A. = Not Available or Not Applicable

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

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
	\$ 29,870,483.55	\$ 29,870,483.55	\$ 26,130,185.87	\$ 26,130,185.87
10/01/2011-09/30/2012	7,334.00	7,334.00	7,334.00	7,334.00
	7,334.00	7,334.00	7,334.00	7,334.00
10/01/2011-09/30/2012	138,441.27	138,441.27	138,441.27	138,441.27
10/01/2011-09/30/2012	101,729.49	101,729.49	101,729.49	101,729.49
	240,170.76	240,170.76	240,170.76	240,170.76
	\$ 30,117,988.31	\$ 30,117,988.31	\$ 26,377,690.63	\$ 26,377,690.63

***Notes to the Schedule of Expenditures
of Federal Awards
For the Year Ended September 30, 2012***

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Baldwin 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.

Additional Information

Board Members and Administrative Personnel
October 1, 2011 through September 30, 2012

Board Members		Term Expires
Hon. Angie Swiger	President	2014
Hon. Norman Moore	Vice-President	2016
Hon. Robert A. Wills	Member	2012
Hon. Elmer McDaniel	Member	2014
Hon. Tracy Roberts	Member	2016
Hon. Robert Callahan, Jr.	Member	2014
Hon. Frank Trione	Member	2012
 <u>Administrative Personnel</u>		
Dr. Alan T. Lee	Superintendent	2013
Jean McCutchen	Chief School Financial Officer	2012
Patsy R. Chastang	Interim Chief School Financial Officer	2012
John C. Wilson	Chief School Financial Officer	Indefinite

***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***

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Baldwin County Board of Education as of and for the year ended September 30, 2012, which collectively comprise the Baldwin County Board of Education's basic financial statements and have issued our report thereon dated February 26, 2013. 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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

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

***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***

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Baldwin 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***.

This report is intended solely for the information and use of management, the members of the Baldwin County Board of Education, the County Superintendent, the Chief School Financial Officer, others within the entity, 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

February 26, 2013

***Report on Compliance With Requirements That Could
Have a Direct and Material Effect on Each Major
Program and on Internal Control Over Compliance in
Accordance With OMB Circular A-133***

Independent Auditor's Report

Compliance

We have audited the Baldwin County Board of Education's compliance with the types of compliance requirements described in the ***OMB Circular A-133 Compliance Supplement*** that could have a direct and material effect on each of the Baldwin County Board of Education's major federal programs for the year ended September 30, 2012. The Baldwin 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 Baldwin County Board of Education's management. Our responsibility is to express an opinion on the Baldwin 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 Baldwin 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 Baldwin County Board of Education's compliance with those requirements.

In our opinion, the Baldwin County Board of Education complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

***Report on Compliance With Requirements That Could
Have a Direct and Material Effect on Each Major
Program and on Internal Control Over Compliance in
Accordance With OMB Circular A-133***

Internal Control Over Compliance

Management of the Baldwin 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 Baldwin County Board of Education's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Baldwin County Board of Education's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

***Report on Compliance With Requirements That Could
Have a Direct and Material Effect on Each Major
Program and on Internal Control Over Compliance in
Accordance With OMB Circular A-133***

This report is intended solely for the information and use of management, members of the Baldwin County Board of Education, the County Superintendent, the Chief School Financial Officer, others within the entity, 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

February 26, 2013

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2012

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
 Significant deficiency(ies) identified? _____ 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
 Significant deficiency(ies) identified? _____ Yes X None reported
 Type of auditor's report issued on compliance for major programs: Unqualified
 Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? _____ Yes X No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.010 84.287	Title I Grants to Local Education Agencies Twenty-First Century Community Learning Centers
84.367	Improving Teacher Quality State Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$791,330.72
 Auditee qualified as low-risk auditee? X Yes _____ No

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2012

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.	