

Report on the

Baldwin County Board of Education

Baldwin County, Alabama

October 1, 2010 through September 30, 2011

Filed: April 27, 2012



Department of Examiners of Public Accounts

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Ronald L. Jones, Chief Examiner



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

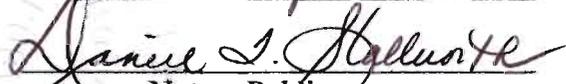
Dear Sir:

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, 2010 through September 30, 2011.

Sworn to and subscribed before me this
the 30 day of March, 2012.


NOTARY PUBLIC, STATE OF ALABAMA AT LARGE
MY COM. # NOTARY PUBLIC July 28, 2014
BONDED THRU NOTARY PUBLIC UNDERWRITERS

Sworn to and subscribed before me this
the 3rd day of April, 2012.


Notary Public

Respectfully submitted,



M. Lynn Benson
Examiner of Public Accounts



Miranda L. Bonner
Examiner of Public Accounts

rb

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Department of
Examiners of Public Accounts

SUMMARY

**Baldwin County Board of Education
October 1, 2010 through September 30, 2011**

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, 2011.

An instance of noncompliance with state and local laws and regulations and other matters was found during the audit as shown on the Schedule of State and Local Compliance and Other Findings and it is summarized below.

CURRENT FINDING

- ◆ 2011-01 relates to proper reconciliation of gate receipts not being performed by a principal at one local school.

The following officials/employees were invited to an exit conference to discuss the finding and recommendations appearing in this report: Dr. Alan Lee, Superintendent; Jean McCutchen, 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 and Jean McCutchen, Chief School Financial Officer. Also present were representatives from the Department of Examiners of Public Accounts which included: Christina Smith, Audit Manager; Lynn Benson, Examiner; and Miranda Bonner, Examiner.

*Schedule of State and Local
Compliance and Other Findings*

Schedule of State and Local Compliance and Other Findings
For the Year Ended September 30, 2011

Ref. No.	Finding/Noncompliance
2011-01	<p><u>Finding:</u> The Baldwin County Board of Education has established Local School Accounting Policies and Procedures. The procedures provide that pre-numbered tickets shall be used for athletic events which should then be reconciled using check-up sheets and balanced to the deposit. During the audit period, shortages were noted on several check-up sheets for Robertsdale High School and Central Baldwin Middle School football games. The deposits were less than the number of tickets reported to have been sold. The total amount of shortages noted was \$1,279.08. Since the football games for these two schools are held at the stadium and the campus of Robertsdale High School, the principal at Robertsdale High School signed the check-up sheets as being accurate and was ultimately deemed responsible for the shortage. These shortages were repaid when brought to the attention of the principal, who retired in September 2011.</p> <p><u>Recommendation:</u> Check-up sheets should be reconciled to the amount of tickets sold and balanced to the deposit. Any discrepancies should be noted and investigated.</p>

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, 2011, 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.

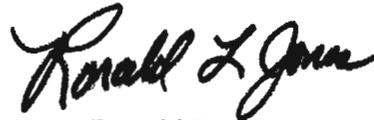
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Baldwin County Board of Education, as of September 30, 2011, and 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.

The Baldwin County Board of Education implemented GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, during the fiscal year ended September 30, 2011. This resulted in a change in format and the method of reporting fund balance in the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2012 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.

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) are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Baldwin County Board of Education's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 10) as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

March 29, 2012

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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, 2011**

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, 2011. 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 \$24,825,644 in FY 2011. The activities revenues overall were \$281,869,058 in FY 2011 and \$261,990,632 in FY 2010, resulting in an increase of \$19,878,426 or 7.6% over the prior year. Local ad valorem decreased by 9%; however, the Board again benefitted from the additional Penny Sales Tax that was levied effective 6-1-2010. The Penny Tax revenue recognized for FY 2011 was \$28,660,680. The FY 2011 expenditures increased over 2010 by 2.4% mainly due to instructional and transportation expenditures. Overall, there was an increase in Net Assets for the 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 \$17,369,956. However, the General Fund on the full accrual basis reflects a fund balance of \$8,136,389. This is due to the beginning deficit balance for FY 2011 because of the large accrued salaries entry at FY 2010 year-end. The entry for FY 2011 for accrued salaries is just over \$12,000,000. The \$8,136,389 falls below the required one-month balance. However, on the budgetary basis of accounting which is reported and accepted by the State Department of Education, the reported General Fund balance is \$20,159,357 which is measured by the State as 1.23 month's operating balance. The State measures the Board's compliance with fund balance requirements based upon the "budgetary basis". Therefore, the Board was not required to submit a Financial Improvement Plan to the State Department of Education. The Board successfully adhered to its previous Plan and restored its fund balance reserves.

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

Required Components of Annual Financial Report
Figure 1

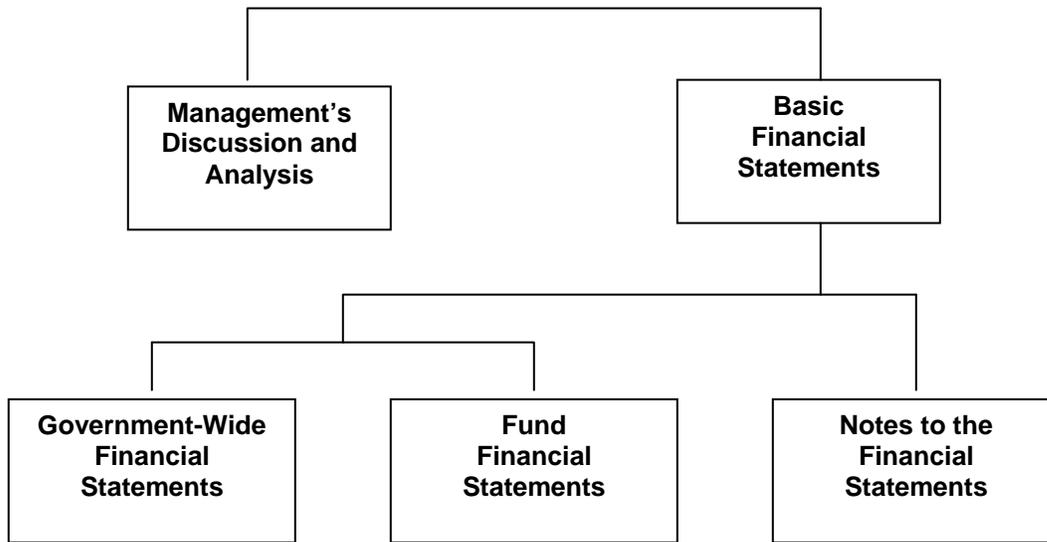


Figure 1 depicts the major features of the Board's financial statements. The focus of the financial statements is on the Board as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis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

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.

Table 1
Summary of Net Assets
As of September 30, 2011

	<u>FY 2011</u>	<u>FY 2010</u>	<u>Variance</u>
Current and Other Assets	\$ 102,529,980	\$ 89,216,321	\$ 13,313,659
Capital Assets, Net of			
Depreciation	393,006,865	398,234,211	-5,227,346
Total Assets	\$ 495,536,845	\$ 487,450,532	\$ 8,086,313
Current and Other			
Liabilities	\$ 72,073,816	\$ 85,947,952	\$ -13,874,136
Long-term Liabilities	214,900,961	217,766,156	-2,865,195
Total Liabilities	\$ 286,974,777	\$ 303,714,108	\$ -16,739,331
Net Assets			
Invested in Capital			
Assets,			
Net of Related Debt	\$ 186,193,128	\$ 178,484,672	\$ 7,708,456
Restricted for:			
Capital Projects	1,475,490	745,420	730,070
Debt Service	1,675,456	2,268,493	-593,037
Other Purposes	9,790,181	0	9,790,181
Unrestricted	9,427,813	2,237,839	7,189,974
Total Net Assets	\$ 208,562,068	\$ 183,736,424	\$ 24,825,644

The Board's total net assets were \$208,562,068 at the close of the fiscal year 2011. Net assets restricted for capital projects/debt service totaled \$3,150,946 which is 1.5% of total net assets. There were specifically identified funds considered Restricted for Other Purposes. 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 \$9,790,181 or 4.69% 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 \$9,427,813 or 4.5% of net assets. The total net assets increased \$24,825,644 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 2010.

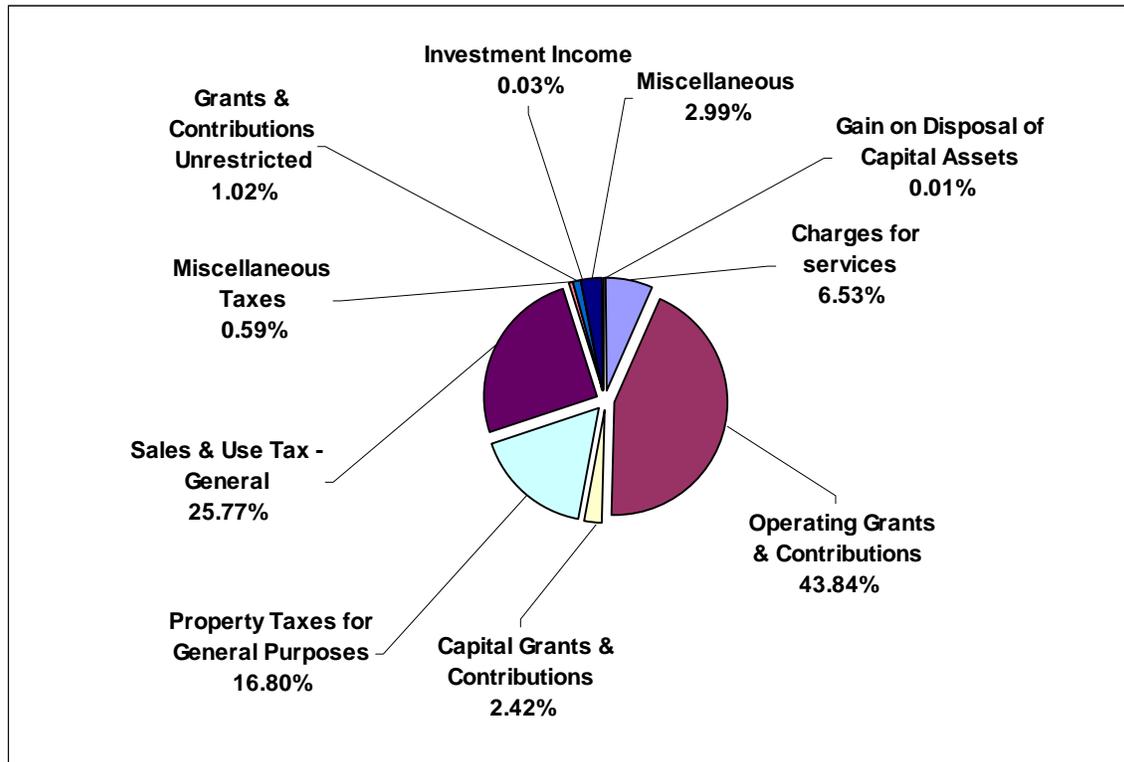
Table 2
Baldwin County Board of Education
Changes in Net Assets

	<u>FY 2011</u>	<u>FY 2010</u>	<u>Variance</u>
<u>REVENUES</u>			
Program revenues:			
Charges for services	\$ 18,412,611	\$ 17,498,851	\$ 913,759
Operating grants and contributions	123,567,496	120,132,385	3,435,111
Capital grants and contributions	6,813,725	13,045,680	-6,231,955
General revenues:			
Property taxes for general purposes	47,364,801	52,044,285	-4,679,484
Sales & Use Tax - General/Specific	72,628,783	48,454,817	24,173,966
Miscellaneous Taxes	1,676,624	1,492,153	184,471
Grants and Contributions not Restricted for Specific Programs	2,887,278	2,228,574	658,704
Investment Income	76,273	39,311	36,961
Net Inc.(Dec.) in Fair Value of Investment Miscellaneous	8,417,860	7,054,576	1,363,284
Gain on Disposition of Capital Assets	23,608	0	23,608
Gain on Extinguishment of Debt			
Total Revenues	<u>\$ 281,869,058</u>	<u>\$ 261,990,632</u>	<u>\$ 19,878,426</u>
<u>EXPENSES</u>			
Governmental Activities:			
Instruction	142,845,206	136,586,106	6,259,100
Instructional Support services	40,330,533	41,368,843	-1,038,310
Operation and Maintenance	24,890,539	24,866,495	24,044
Auxiliary Services			
Student Transportation Services	11,939,435	10,903,679	1,035,756
Food Services	12,248,835	11,782,029	466,805
General Administration and Central Support	7,168,367	8,123,172	-954,805
Other	10,205,942	10,617,737	-411,795
Interest on Long-Term Debt	7,414,558	6,760,721	653,837
Total Expenses	<u>\$ 257,043,414</u>	<u>\$ 251,008,782</u>	<u>\$ 6,034,632</u>
Change in Net Assets	24,825,644	10,981,850	13,843,794
Net Assets - Beginning of year, as restated	<u>\$ 183,736,424</u>	<u>\$ 172,754,574</u>	<u>\$ 10,981,850</u>
Net Assets - end of year	<u>\$ 208,562,068</u>	<u>\$ 183,736,424</u>	<u>\$ 24,825,644</u>

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 43.84 % 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 43.2% of all revenues and are used to provide \$121,670,208 for expenses not covered by program revenues. (See Table 3)

Graph 1

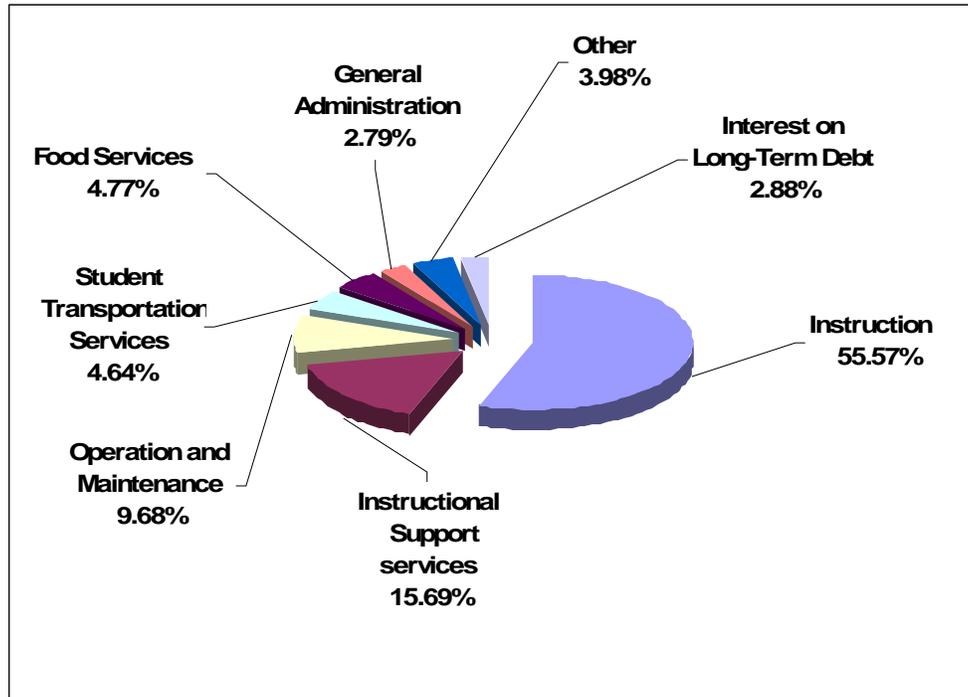


Instructional services expenses, primarily salaries and benefits for classroom teachers, are the largest expense function of the Board (55.6%). The expenses are reflected in Table 2 as well as in Graph 2 below showing the percentage breakdown of expense categories.

- 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.
- 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.

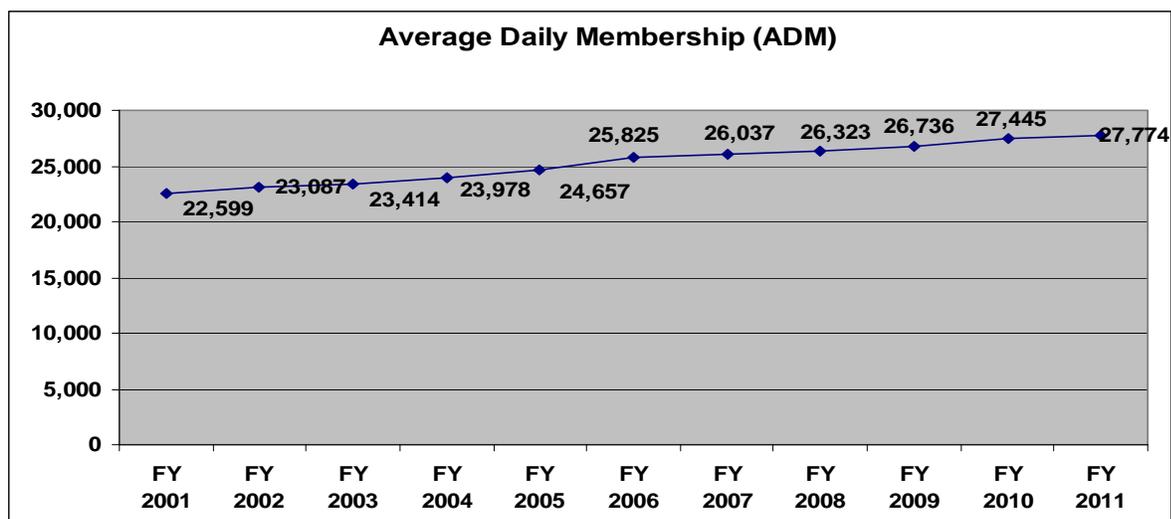
Graph 2



As stated previously, the Board experienced an increase in net assets for the year in the amount of \$24,825,644. The level of the increase in net assets can be attributed to the following factors:

- Local revenues increased by 19.3% with the added help of the Penny Tax.
- The Board was able to keep the overall expenditures relatively stable with only an increase of 2.4% in comparison to the prior year.
- 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 5,175 or 22.8% since FY 2001 reflected in Graph 3.

Graph 3



Net Cost of Services

Total cost of services was \$257,043,414. The net cost of governmental activities was a negative -\$108,249,583 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.

**Table 3
Net Cost of Services**

	<u>FY 2011</u>		<u>FY 2010</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	\$ 142,845,206	\$ -48,512,995	\$ 136,586,106	\$ -36,800,822
Instructional Support	40,330,533	-16,257,686	41,368,843	-17,804,918
Operation and Maintenance	24,890,539	-23,618,336	24,866,495	-23,478,437
Student Transportation	11,939,435	-979,606	10,903,679	-2,440,166
Food Service	12,248,835	-1,001,620	11,782,029	-407,101
General Admin & Central Supp.	7,168,367	-6,361,665	8,123,172	-7,462,284
Other	7,414,558	-1,311,732	6,760,721	-1,320,401
Interest on Long-Term Debt	10,205,942	-10,205,942	10,617,737	-10,617,737
	<u>\$ 257,043,414</u>	<u>\$ -108,249,583</u>	<u>\$ 251,008,782</u>	<u>\$ -100,331,866</u>

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 \$38,406,241. Approximately \$8,136,389 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. The budgetary basis General Fund Balance is reflected at \$20,159,357.

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 2011</u>		<u>FY 2010</u>		<u>Variance</u>
State	\$ 96,444,624	\$	\$ 94,236,381	\$	2,208,243
Federal	0		0		
Local	113,206,466		92,295,305		20,911,161
Other	1,105,427		1,834,601		-729,174
Total	<u>\$ 210,756,517</u>	\$	<u>\$ 188,366,287</u>	\$	<u>\$ 22,390,230</u>

Total General Fund revenue increased by \$22,390,230 from the previous year due to 2.3% increase in State revenues in addition to an increase of 22.7% in local tax revenues for the year. 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. When the state declares proration, there is not a corresponding reduction in the Board's ten-mill equivalent match requirement. The ten mill equivalent match for Baldwin County was \$43,830,470 in Fiscal year 2011, the highest in the State. Table 5 reflects a comparison of General Fund expenditures for FY 2011 and FY 2010.

**Table 5
General Fund Expenditures**

	<u>FY 2011</u>		<u>FY 2010</u>		<u>Variance</u>
Instruction	\$ 116,923,768	\$	\$ 112,609,524	\$	4,314,244
Instructional Support	28,411,968		30,115,318		-1,703,350
Operation and Maintenance	10,528,713		8,910,558		1,618,155
Auxiliary Services	8,468,150		8,522,209		-54,059
General Admin & Central Supp.	6,414,066		6,039,025		375,041
Other	3,009,922		2,962,229		47,693
Capital Outlay	158,891		919,475		-760,584
Debt Service					
Principal Retirement	293,723		285,740		7,983
Interest and Fiscal Charges	4,147,998		3,964,216		183,782
	<u>\$ 178,357,199</u>	\$	<u>\$ 174,328,294</u>	\$	<u>\$ 4,028,905</u>

General Fund expenditures increased by \$4,028,905 or 2.31% from the previous fiscal year. A loss of some of the federal stimulus funds for FY 2011 resulted in the General Fund absorbing some of the salaries and fringe benefit costs.

General Fund revenues and sources of funds exceeded expenditures and uses of funds by \$17,369,956. The budgetary basis General Fund balance was \$20,159,357 which surpassed the one-month balance requirement.

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 \$14,358,207.90. Recognizing an excess of \$4,810,803.20 for the fiscal year, the ending fund balance for FY 2011 reflected \$19,169,011.10. 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.

General Fund Budgetary Highlights

The FY 2011 Budget, adopted on September 9, 2010, 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 February 24, 2011 to address changes in federal and state funds, proration and other revisions to the General Fund. Amendment #2 was submitted on June 15, 2011 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, 2011, the Board had \$393,006,865 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 2011 to fiscal year 2010.

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

	<u>FY 2011</u>	<u>FY 2010</u>	<u>Variance</u>
Land and Inexhaustible Land Improvements	\$ 7,668,730	\$ 7,668,730	\$ 0
Exhaustible Land Improvements	801,441	903,249	-101,808
Buildings	258,162,804	207,581,134	50,581,670
Building Improvements	32,252,855	32,405,342	-152,487
Equipment & Furniture	4,848,546	5,180,449	-331,903
Vehicles	5,195,528	5,911,786	-716,258
Assets Under Capital Lease	3,673,501	4,316,689	-643,188
Construction in Progress	80,403,460	134,266,832	-53,863,372
	<u>\$ 393,006,865</u>	<u>\$ 398,234,211</u>	<u>\$ -5,227,346</u>

Long-Term Debt – At year-end the Board had \$221,993,653 in warrants payable, notes payable, and other long-term debt outstanding as of 9-30-2011. 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.)

**Table 7
Outstanding Long-Term Debt
For the Year Ended September 30, 2011**

	Debt Outstanding 10/1/2010	Additions	Reductions	Debt Outstanding 9/30/2011	Amounts Due Within One Year
Governmental Activities:					
Warrants Payable	216,528,001	\$4,813,850.00	(7,749,647)	213,592,204	5,942,540
Deferred Amounts:					
Unamortized premium	2,708,051	95,319	(297,150)	2,506,220	184,876
Unamortized Discount/Def.Loss	-1,264,674		47,278	(1,217,396)	(47,277)
Deferred Loss on Refunding	-51,735	-1,695.00	8,671	(44,759)	(6,975)
Total Warrants Payable	217,919,643	4,907,474	(7,990,848)	214,836,269	6,073,164
Other Liabilities:					
Certificates of Participation-QZAB	1,000,000			1,000,000	
Notes Payable	139,163	25,445.00	(111,064)	53,544	11,509
Capital Lease Contracts	3,970,621	27,500.00	(699,002)	3,299,119	727,547
Estimated Liability for					
Compensated Absences	2,886,803	0.00	(82,082)	2,804,721	280,472
Total Other Liabilities	7,996,587	52,945.00	(892,148)	7,157,384	1,019,528
Governmental Activity Long-Term Liabilities	225,916,230	\$4,960,419.00	(8,882,996)	221,993,653	7,092,692

Economic Factors and Next Year's Budget

The following are currently known Baldwin County economic factors considered going into the 2010-2011 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 experienced a decline in overall economy for fiscal years 2009 and 2010. Ad Valorem taxes declined again in FY 2011 (almost 9%), but Sales Tax revenues increased from FY 2010 levels by almost 50%. The growth in sales tax revenues plus the added benefit of the Penny Tax contributed greatly to the Board's ability to restore its general fund balance reserves and maintain financial stability. The Board was able to recognize slightly more than \$28 Million in local revenues as a result of the Penny Tax.
- The Board filed a preliminary lost revenue claim of \$4.4 Million as a result of the loss of tax revenues due to the explosion of the Deep Water Horizon rig and subsequent oil spill in the Gulf of Mexico. However, as a result of numerous meetings with BP officials and County officials, the Board transferred, assigned and conveyed all of its claims and causes of actions pertaining to the oil spill for an advance of \$2,400,000 from Baldwin County Commission. If the Commission obtains recovery of the claim, the Board is subject to receiving the claim proceeds, less the \$2,400,000 advance and after deducting the Commission's legal fees and expenses.
- The Board experienced material proration in FY 2009, FY 2010 and again in FY 2011. The State declared 11% proration in FY 2009, another 9.5% in FY 2010, and 3% in FY 2011. These mid year cuts plus other state funding cuts were devastating to the Board as well as to all systems in Alabama. The 3% proration in FY 2011 cut our State funding by an approximate \$2.9 Million in State funds.

- The Board continued to adhere to the Financial Improvement Plan submitted to the State in FY 2010 and FY 2011 to address an improvement in the overall financial condition of the system and a plan to rebuild the fund balance to comply with the State standard. The fiscal year 2011 results with a fund balance of \$20,159,357 are indicative of the Board's successful deployment of the Plan.
- The Board continues its cost containment efforts. The system reduced by a total of 539 positions from the October 2007 LEAPS report to the October 2011 LEAPS reported to the State Department of Education. The Board continues to closely monitor all local expenditures in order to bring expenditures in line with available revenues.
- 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. This 10-mill match grew each year for the Board due to growth in Baldwin County and property appraisal adjustments in a high level of \$45.4 Million for FY 2010. The match dropped to \$43,830,470 for FY 2011 due to drop in property tax values. The match is 32.13% of the total State Foundation funds earned by the system!
- The Board's Policy is to maintain a one month's operating balance in our General Fund to ensure the ongoing operations of the system and to secure the employees' jobs and benefits. An exception to this policy is due to proration or other severe losses of revenue. The Board was required to utilize fund balance in FY 2008-2010 in order to pay the continued fixed costs for salaries and fringes and debt service despite the severe loss of state and local revenues. The Board maintained in excess of the State required balance for several years until the recent financial crisis over the past three years. The Board successfully implemented the Financial Improvement Plan and restored the General Fund balance to 1.23 month's operating balance as of September 30, 2011 (\$20,159,357).

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.

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Basic Financial Statements

Statement of Net Assets
September 30, 2011

	Governmental Activities
<u>Assets</u>	
Cash and Cash Equivalents	\$ 37,708,090.68
Cash with Fiscal Agent	4,390,675.50
Investments	455,992.99
Ad Valorem Property Taxes Receivable	47,099,363.01
Receivables (Note 4)	9,533,368.49
Inventories	1,383,809.59
Deferred Charges - Issuance Costs	1,808,821.24
Prepaid Item	149,858.53
Capital Assets (Note 5):	
Nondepreciable	88,072,189.93
Depreciable, Net	304,934,674.97
Total Assets	<u>495,536,844.93</u>
<u>Liabilities</u>	
Accounts Payable	1,560,378.52
Deferred Revenue	48,323,757.13
Salaries and Benefits Payable	12,430,782.50
Accrued Interest Payable	2,666,205.72
Long-Term Liabilities:	
Portion Payable Within One Year:	
Warrants Payable	5,942,540.53
Add: Unamortized Premium	184,876.22
Less: Unamortized Discount	(47,277.52)
Less: Deferred Loss on Refunding	(6,975.44)
Notes Payable	11,509.35
Capital Leases	727,546.95
Compensated Absences	280,472.07
Portion Payable After One Year:	
Warrants Payable	207,649,663.59
Add: Unamortized Premium	2,321,343.83
Less: Unamortized Discount	(1,170,118.57)
Less: Deferred Loss on Refunding	(37,783.67)
Qualified Zone Academy Bonds	1,000,000.00
Notes Payable	42,035.65
Capital Leases	2,571,571.87
Compensated Absences	2,524,248.58
Total Liabilities	<u>\$ 286,974,777.31</u>

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

	Governmental Activities
<hr/>	
<u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	\$ 186,193,127.51
Restricted for:	
Debt Service	1,675,456.16
Capital Projects	1,475,489.78
Other Purposes	9,790,181.31
Unrestricted	9,427,812.86
 Total Net Assets	 \$ 208,562,067.62

Statement of Activities
For the Year Ended September 30, 2011

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Governmental Activities			
Instruction	\$ 142,845,206.35	\$ 3,725,166.35	\$ 86,152,592.14
Instructional Support Services	40,330,533.20	1,359,570.72	22,457,540.77
Operation and Maintenance Services	24,890,538.56	817,349.61	327,838.49
Auxiliary Services:			
Student Transportation Services	11,939,434.87	546,307.00	9,223,889.39
Food Services	12,248,834.69	9,855,231.12	624,936.39
General Administration and Central Support	7,168,366.69	10,509.91	776,349.36
Interest and Fiscal Charges	10,205,942.36		
Other Expenses	7,414,557.57	2,098,475.89	4,004,349.31
Total Governmental Activities	<u>\$ 257,043,414.29</u>	<u>\$ 18,412,610.60</u>	<u>\$ 123,567,495.85</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.

		Net (Expenses) Revenues and Changes in Net Assets	
Capital Grants and Contributions		Total Governmental Activities	
\$	4,454,453.21	\$	(48,512,994.65)
	255,735.89		(16,257,685.82)
	127,013.98		(23,618,336.48)
	1,189,632.00		(979,606.48)
	767,047.48		(1,001,619.70)
	19,842.00		(6,361,665.42)
			(10,205,942.36)
			(1,311,732.37)
<u>\$</u>	<u>6,813,724.56</u>		<u>(108,249,583.28)</u>

47,364,801.01
30,515,551.24
42,113,231.78
344,116.59
1,332,507.86
2,887,278.20
76,272.68
23,608.00
8,417,859.76
<u>133,075,227.12</u>
24,825,643.84
<u>183,736,423.78</u>
<u>\$ 208,562,067.62</u>

Balance Sheet
Governmental Funds
September 30, 2011

	General Fund	Special Revenue Fund
<u>Assets</u>		
Cash and Cash Equivalents	\$ 12,451,958.01	\$ 18,227,886.87
Cash with Fiscal Agent		
Investments		455,992.99
Ad Valorem Property Taxes Receivable	47,099,363.01	
Receivables (Note 4)	5,081,054.93	4,451,170.75
Interfund Receivables	3,911,224.97	26,629.91
Inventories	277,031.05	1,106,778.54
Prepaid Item	149,858.53	
Total Assets	<u>68,970,490.50</u>	<u>24,268,459.06</u>
<u>Liabilities and Fund Balances</u>		
<u>Liabilities</u>		
Accounts Payable	759,153.54	531,065.93
Interfund Payables	26,629.91	3,862,160.47
Deferred Revenues	48,025,349.96	298,407.17
Salaries and Benefits Payable	12,022,968.11	407,814.39
Total Liabilities	<u>60,834,101.52</u>	<u>5,099,447.96</u>
<u>Fund Balances</u>		
Nonspendable:		
Inventories	277,031.05	1,106,778.54
Prepaid Items	149,858.53	
Restricted for:		
Debt Service		
Capital Projects		
Child Nutrition Program		4,205,268.39
Fleet Renewal		
Capital Outlay and Maintenance		3,580,283.92
Other Purposes		897,078.64
Assigned To:		
Local Schools		9,367,850.37
Other Purposes	63,004.69	11,751.24
Unassigned	7,646,494.71	
Total Fund Balances	<u>8,136,388.98</u>	<u>19,169,011.10</u>
Total Liabilities and Fund Balances	<u>\$ 68,970,490.50</u>	<u>\$ 24,268,459.06</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 7,028,245.80	\$ 37,708,090.68
4,390,675.50	4,390,675.50
	455,992.99
	47,099,363.01
1,142.81	9,533,368.49
	3,937,854.88
	1,383,809.59
	149,858.53
<u>11,420,064.11</u>	<u>104,659,013.67</u>
270,159.05	1,560,378.52
49,064.50	3,937,854.88
	48,323,757.13
	12,430,782.50
<u>319,223.55</u>	<u>66,252,773.03</u>
	1,383,809.59
	149,858.53
4,341,661.88	4,341,661.88
6,286,878.50	6,286,878.50
	4,205,268.39
471,528.36	471,528.36
771.82	3,581,055.74
	897,078.64
	9,367,850.37
	74,755.93
	7,646,494.71
<u>11,100,840.56</u>	<u>38,406,240.64</u>
<u>\$ 11,420,064.11</u>	<u>\$ 104,659,013.67</u>

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***Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Assets
September 30, 2011***

Total Fund Balances - Governmental Funds (Exhibit 3)	\$ 38,406,240.64
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	\$ 469,741,039.68
Accumulated Depreciation is	<u>(76,734,174.78)</u>
	393,006,864.90
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred on the Statement of Net Assets.	1,808,821.24
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	\$ 7,092,692.16
Portion of Long-Term Debt	
Due or Payable After One Year	<u>214,900,961.28</u>
	(221,993,653.44)
Interest on long-term debt is not accrued in the funds but rather is recognized as an expenditure when due.	
Accrued Interest Payable	<u>(2,666,205.72)</u>
Total Net Assets - Governmental Activities (Exhibit 1)	<u><u>\$ 208,562,067.62</u></u>

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, 2011

	General Fund	Special Revenue Fund
<u>Revenues</u>		
State	\$ 96,444,623.54	\$
Federal		33,537,659.77
Local	113,206,465.65	29,196,341.07
Other	1,105,427.29	799,674.87
Total Revenues	<u>210,756,516.48</u>	<u>63,533,675.71</u>
<u>Expenditures</u>		
Current:		
Instruction	116,923,768.11	18,430,672.27
Instructional Support Services	28,411,968.05	11,522,544.10
Operation and Maintenance Services	10,528,712.89	13,997,346.77
Auxiliary Services:		
Student Transportation Services	8,468,149.74	1,969,044.81
Food Services		12,437,206.19
General Administration and Central Support	6,414,066.04	798,941.65
Other	3,009,922.10	4,400,736.09
Capital Outlay	158,891.18	1,184,000.02
Debt Service:		
Principal Retirement	293,723.26	20,801.75
Interest and Fiscal Charges	4,147,997.65	3,669.62
Debt Issuance Costs		445.00
Total Expenditures	<u>178,357,199.02</u>	<u>64,765,408.27</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>32,399,317.46</u>	<u>(1,231,732.56)</u>
<u>Other Financing Sources (Uses)</u>		
Indirect Cost	1,237,995.06	
Debt Issued		52,945.00
Premiums on Long-Term Debt Issued		
Transfers In	806,963.46	6,791,776.85
Other Financing Sources	256,258.08	16,118.60
Sale of Capital Assets	85,948.30	
Transfers Out	(17,416,526.48)	(818,304.69)
Payments to Refunding Escrow Agent		
Total Other Financing Sources (Uses)	<u>(15,029,361.58)</u>	<u>6,042,535.76</u>
Net Changes in Fund Balances	17,369,955.88	4,810,803.20
Fund Balances - Beginning of Year	(9,233,566.90)	14,358,207.90
Fund Balances - End of Year	<u>\$ 8,136,388.98</u>	<u>\$ 19,169,011.10</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 6,813,724.56	\$ 103,258,348.10
	33,537,659.77
469,156.70	142,871,963.42
	1,905,102.16
<u>7,282,881.26</u>	<u>281,573,073.45</u>
1,909,573.70	137,264,014.08
	39,934,512.15
86,229.30	24,612,288.96
	10,437,194.55
	12,437,206.19
	7,213,007.69
	7,410,658.19
2,239,389.17	3,582,280.37
7,455,620.05	7,770,145.06
6,314,825.11	10,466,492.38
22,711.07	23,156.07
<u>18,028,348.40</u>	<u>261,150,955.69</u>
<u>(10,745,467.14)</u>	<u>20,422,117.76</u>
	1,237,995.06
4,813,850.00	4,866,795.00
95,319.49	95,319.49
10,964,390.86	18,563,131.17
	272,376.68
	85,948.30
(328,300.00)	(18,563,131.17)
(804,481.54)	(804,481.54)
<u>14,740,778.81</u>	<u>5,753,952.99</u>
3,995,311.67	26,176,070.75
7,105,528.89	12,230,169.89
<u>\$ 11,100,840.56</u>	<u>\$ 38,406,240.64</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, 2011

Net Changes in Fund Balances - Total Governmental Funds (Exhibit 5) \$ 26,176,070.75

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	\$ 3,582,280.37	
Depreciation Expense	<u>(8,747,286.19)</u>	(5,165,005.82)

Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the Statement of Activities, but rather constitute long-term liabilities in the Statement of Net Assets. (27,500.00)

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. 7,770,145.06

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. 19,033.07

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. 804,481.54

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. (4,839,295.00)

Premiums on debt issuance are reported as other financing sources in the governmental funds, but are amortized in the Statement of Activities. (95,319.49)

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	\$ (85,948.30)	
Gain on Disposition of Capital Assets	<u>23,608.00</u>	(62,340.30)

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	\$ 40,425.67	
Compensated Absences, Current Year Decrease in Noncurrent Portion	82,081.85	
Amortization of Discount/Premiums/Issuance Costs	<u>122,866.51</u>	<u>245,374.03</u>

Change in Net Assets of Governmental Activities (Exhibit 2)	<u><u>\$ 24,825,643.84</u></u>
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Statement of Fiduciary Net Assets
September 30, 2011

	Agency Funds
<u>Assets</u>	
Cash and Cash Equivalents	\$ 6,623.89
Total Assets	<u>6,623.89</u>
<u>Liabilities</u>	
Accounts Payable	6,623.89
Total Liabilities	<u>\$ 6,623.89</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, 2011

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.

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.

Notes to the Financial Statements

For the Year Ended September 30, 2011

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, State Fiscal Stabilization, 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.

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.

Notes to the Financial Statements

For the Year Ended September 30, 2011

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.

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.

Notes to the Financial Statements
For the Year Ended September 30, 2011

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.

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.

Notes to the Financial Statements
For the Year Ended September 30, 2011

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.

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%

Notes to the Financial Statements

For the Year Ended September 30, 2011

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.

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.

Notes to the Financial Statements

For the Year Ended September 30, 2011

- ◆ **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.
- 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.

Notes to the Financial Statements

For the Year Ended September 30, 2011

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.

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 Depository Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

All of the Board's investments were in certificates of deposit. These certificates of deposit are classified as "Deposits" in order to determine insurance and collateralization. However, they are classified as "Investments" on the financial statements.

Notes to the Financial Statements
For the Year Ended September 30, 2011

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, 2011, 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	\$3,650,025.59	90 days or less	AAAm
U. S. Treasury Bill	740,649.91	12/01/2011	NR
Total Cash with Fiscal Agent	<u>\$4,390,675.50</u>		
NR = Not Rated			

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.

Notes to the Financial Statements

For the Year Ended September 30, 2011

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.

Note 4 – Receivables

On September 30, 2011, receivables for the Board’s individual major funds and other governmental funds in the aggregate are as follows:

	General Fund	Special Revenue Fund	Other Governmental Funds	Total
<u>Receivables:</u>				
Accounts	\$ 123,480.74	\$ 429,468.75	\$	\$ 552,949.49
Sales Tax	3,993,098.77	919,713.85		4,912,812.62
Intergovernmental	959,402.16	3,060,385.72	1,142.81	4,020,930.69
Other	5,073.26	41,602.43		46,675.69
Total Receivables	<u>\$5,081,054.93</u>	<u>\$4,451,170.75</u>	<u>\$1,142.81</u>	<u>\$9,533,368.49</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, 2011, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Ad Valorem Property Taxes Receivable	\$46,700,000.00	\$
Ad Valorem Motor Vehicle Taxes		1,325,349.96
Prepaid Meals		298,407.17
Total Deferred/Unearned Revenue for Governmental Funds	<u>\$46,700,000.00</u>	<u>\$1,623,757.13</u>

Notes to the Financial Statements

For the Year Ended September 30, 2011

Note 5 – Capital Assets

Capital asset activity for the year ended September 30, 2011, was as follows:

	Balance 10/01/2010	Additions (*)	Retirements (*)	Balance 09/30/2011
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	134,266,832.10	1,126,264.04	(54,989,636.39)	80,403,459.75
Total Capital Assets, not Being Depreciated	141,935,562.28	1,126,264.04	(54,989,636.39)	88,072,189.93
Capital Assets Being Depreciated:				
Land Improvements (Exhaustible)	2,015,623.84			2,015,623.84
Buildings	249,274,301.41	54,989,636.39	(60,000.00)	304,203,937.80
Buildings Improvements	40,287,218.68	1,324,343.57		41,611,562.25
Equipment and Furniture	11,376,408.03	697,757.64	(519,792.53)	11,554,373.14
Vehicles	16,350,334.98	433,915.12	(620,424.80)	16,163,825.30
Assets Under Capital Leases	6,119,527.42			6,119,527.42
Total Capital Assets Being Depreciated	325,423,414.36	57,445,652.72	(1,200,217.33)	381,668,849.75
Less Accumulated Depreciation for:				
Land Improvements (Exhaustible)	(1,112,374.89)	(101,807.58)		(1,214,182.47)
Buildings	(41,693,167.50)	(4,385,406.45)	37,440.00	(46,041,133.95)
Buildings Improvements	(7,881,877.13)	(1,476,830.25)		(9,358,707.38)
Equipment and Furniture	(6,195,958.86)	(1,020,901.38)	511,033.45	(6,705,826.79)
Vehicles	(10,438,549.33)	(1,119,151.97)	589,403.58	(10,968,297.72)
Assets Under Capital Lease	(1,802,837.91)	(643,188.56)		(2,446,026.47)
Total Accumulated Depreciation	(69,124,765.62)	(8,747,286.19)	1,137,877.03	(76,734,174.78)
Total Capital Assets, Being Depreciated, Net	256,298,648.74	48,698,366.53	(62,340.30)	304,934,674.97
Governmental Activities Capital Assets, Net	\$398,234,211.02	\$49,824,630.57	\$(55,051,976.69)	\$393,006,864.90
(*) Reclassifications included in "Additions" and "Retirements" columns totaled \$54,989,636.39.				

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

	Current Year Depreciation Expense
Governmental Activities:	
Instruction	\$5,581,192.27
Instructional Support Services	396,021.05
Operation and Maintenance Services	278,249.60
Auxiliary Services:	
Food Services	850,403.69
Student Transportation Services	1,502,240.32
General Administration and Central Support	135,279.88
Other	3,899.38
Total Depreciation Expense - Governmental Activities	\$8,747,286.19

Notes to the Financial Statements
For the Year Ended September 30, 2011

Note 6 – Defined Benefit Pension Plan

A. Plan Description

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

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

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

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

Notes to the Financial Statements
For the Year Ended September 30, 2011

B. Funding Policy

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

Fiscal Year Ended September 30,	2011	2010	2009
Total Percentage of Covered Payroll	17.51%	17.51%	17.07%
Contributions:			
Percentage Contributed by the Board	12.51%	12.51%	12.07%
Percentage Contributed by the Employees	5.00%	5.00%	5.00%
Contributed by the Board	\$16,362,486.59	\$16,294,035.88	\$17,514,835.96
Contributed by Employees	6,539,786.66	6,512,425.91	7,255,553.70
Total Contributions	\$22,902,273.25	\$22,806,461.79	\$24,770,389.66

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, 2011

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 2011
Individual Coverage – Non-Medicare Eligible	\$ 146.00
Individual Coverage – Medicare Eligible	\$ 10.00
Family Coverage – Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	\$ 381.00
Family Coverage – Non-Medicare Eligible Retired Member and Dependent Medicare Eligible	\$ 245.00
Family Coverage – Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	\$ 245.00
Family Coverage – Medicare Eligible Retired Member and Dependent Medicare Eligible	\$ 109.00
Surviving Spouse – Non-Medicare Eligible	\$ 701.00
Surviving Spouse – Non-Medicare Eligible and Dependent Non-Medicare Eligible	\$ 890.00
Surviving Spouse – Non-Medicare Eligible and Dependent Medicare Eligible	\$ 859.00
Surviving Spouse – Medicare Eligible	\$ 369.00
Surviving Spouse – Medicare Eligible and Dependent Non-Medicare Eligible	\$ 558.00
Surviving Spouse – Medicare Eligible and Dependent Medicare Eligible	\$ 527.00

For employees that retire other than for disability, 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. A tobacco surcharge is \$27.00 per month for retired members that smoke.

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
2011	\$752.00	\$198.94	26.45%	\$7,442,004.27	100%
2010	\$752.00	\$241.27	32.08%	\$8,776,210.70	100%
2009	\$752.00	\$205.45	27.32%	\$8,827,035.75	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.

Notes to the Financial Statements
For the Year Ended September 30, 2011

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, 2011. 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, 2011.

Fiscal Year Ending	Governmental Activities
September 30, 2012	\$ 857,344.99
2013	853,029.61
2014	629,668.31
2015	629,668.28
2016	629,668.29
2017	52,472.38
Total Minimum Lease Payments	3,651,851.86
Less: Amount Representing Interest	352,733.04
Present Value of Net Minimum Lease Payments	<u>\$3,299,118.82</u>

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, 2011, the Board paid a total of \$88,837.58 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, 2011:

	Equipment
2011-2012	\$ 65,948.29
2012-2013	24,170.24
2013-2014	12,065.92
2014-2015	440.00
Total Minimum Payments Required	<u>\$102,624.45</u>

Notes to the Financial Statements

For the Year Ended September 30, 2011

Note 9 – Short-Term Debt

During the year, Robertsdale High School paid off a short-term note payable from the previous fiscal year for the purpose of acquiring additional band uniforms at the school.

On October 1, 2010, the Board issued a \$35,000,000 Current Revenue Anticipation Note. This note was issued in anticipation of not having sufficient funds on hand, from time to time, to pay the salaries of teachers and to meet other current expenses of the Board when due. This note was in the form of a line of credit from which drawdowns and principal payments were made at various times throughout the year. The maximum outstanding amount that was drawn down from the line of credit at any one point during the audit period was \$16,300,000.

Short-term debt activity for the year ended September 30, 2011, was as follows:

	Beginning Balance	Proceeds	Repaid	Ending Balance
Robertsdale High School Note	\$ 11,763.52	\$	\$ (11,763.52)	\$
Current Revenue Anticipation Note	11,800,000.00	16,700,000.00	(28,500,000.00)	
Total Notes Payable	\$11,811,763.52	\$16,700,000.00	\$(28,511,763.52)	\$

Note 10 – 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, 2011

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, 2011

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.

The following is a summary of long-term debt transactions for the Board for the year ended September 30, 2011:

	Debt Outstanding 10/01/2010	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 09/30/2011	Amounts Due Within One Year
Governmental Activities:					
Warrants Payable	\$216,528,001.04	\$4,813,850.00	\$(7,749,646.92)	\$213,592,204.12	\$5,942,540.53
Deferred Amounts:					
Add: Unamortized Premium	2,708,050.50	95,319.49	(297,149.94)	2,506,220.05	184,876.22
Less: Unamortized Discount	(1,264,673.61)		47,277.52	(1,217,396.09)	(47,277.52)
Less: Deferred Loss on Refunding	(51,734.55)	(1,695.40)	8,670.84	(44,759.11)	(6,975.44)
Total Warrants Payable	<u>217,919,643.38</u>	<u>4,907,474.09</u>	<u>(7,990,848.50)</u>	<u>214,836,268.97</u>	<u>6,073,163.79</u>
Other Liabilities:					
Certificates of Participation (QZAB)	1,000,000.00			1,000,000.00	
Notes Payable	139,163.63	25,445.00	(111,063.63)	53,545.00	11,509.35
Capital Lease Contracts Payable	3,970,620.83	27,500.00	(699,002.01)	3,299,118.82	727,546.95
Estimated Liabilities for					
Compensated Absences	2,886,802.50		(82,081.85)	2,804,720.65	280,472.07
Total Other Liabilities	<u>7,996,586.96</u>	<u>52,945.00</u>	<u>(892,147.49)</u>	<u>7,157,384.47</u>	<u>1,019,528.37</u>
Governmental Activities Long-Term Liabilities	<u>\$225,916,230.34</u>	<u>\$4,960,419.09</u>	<u>\$(8,882,995.99)</u>	<u>\$221,993,653.44</u>	<u>\$7,092,692.16</u>

Payments on the Series 2005 and 2007 warrants payable are made with property taxes and sales taxes. Payments on the Capital Improvement Pool Bonds Series 2002A, 2009-B, 2009-D and 2011-B and the 2011-QZAB bonds 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, 2011

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, 2012	\$ 5,942,540.53	\$ 10,156,780.08	\$	\$
2013	6,205,800.97	9,902,308.90		
2014	6,492,857.64	9,615,523.52		
2015	6,821,479.33	9,312,859.57		
2016	7,159,191.64	8,986,485.29		
2017-2021	41,385,600.09	39,163,373.70	1,000,000.00	
2022-2026	46,904,733.92	28,890,876.46		
2027-2031	42,160,000.00	17,375,690.00		
2032-2036	41,090,000.00	7,860,575.00		
2037	9,430,000.00	424,350.00		
Total	<u>\$213,592,204.12</u>	<u>\$141,688,822.52</u>	<u>\$1,000,000.00</u>	<u>\$</u>

Issuance Costs, Premiums, Discounts and Deferred Loss 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 2001-A had issuance costs and a premium that were deferred and are now being amortized over 20 years.
- ◆ 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, 2011

Capital Lease Payable		Notes Payable		Total Principal and Interest Requirements to Maturity
Principal	Interest	Principal	Interest	
\$ 727,546.95	\$129,798.04	\$11,509.35	\$3,424.93	\$ 16,971,599.88
755,421.49	97,608.12	11,782.16	2,678.55	16,975,600.19
563,093.73	66,574.58	12,071.48	1,920.82	16,752,041.77
587,599.15	42,069.13	12,478.31	1,145.57	16,777,631.06
613,171.06	16,497.23	5,703.70	345.07	16,781,393.99
52,286.44	185.94			81,601,446.17
				75,795,610.38
				59,535,690.00
				48,950,575.00
				9,854,350.00
\$3,299,118.82	\$352,733.04	\$53,545.00	\$9,514.94	\$359,995,938.44

- ◆ 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.

Notes to the Financial Statements
For the Year Ended September 30, 2011

	Issuance Costs	Premium	Discount	Deferred Loss on Refunding
Total Deferred Amounts				
Capital Improvement Pool Bonds, Series 2001A	\$ 11,738.63	\$ 53,276.70	\$	\$
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			
Capital Improvement Pool Refunding, Series 2011-B	3,687.95	95,319.49		1,695.40
Qualified Zone Academy Bonds, Series 2011	15,345.12			
Total Deferred Amounts	2,275,745.51	4,090,756.35	1,418,325.55	57,498.96
Amount Amortized Prior Years				
Capital Improvement Pool Bonds, Series 2001A	8,003.04	36,322.47		
Capital Improvement Pool Bonds, Series 2002A	104,350.05	750,798.18		
Capital Outlay School Warrants, Series 2005	40,959.60	493,416.10		
Qualified Zone Academy Bonds, Series 2005	16,405.83			
Capital Outlay School Warrants, Series 2007	191,136.82		153,651.94	
Capital Improvement Pool Refunding, Series 2009-B	262.18	6,849.61		4,069.01
Capital Outlay Pool Warrants, Series 2009-D	690.32			
Total Amount Amortized Prior Years	361,807.84	1,287,386.36	153,651.94	4,069.01
Balance Deferred Amounts				
Capital Improvement Pool Bonds, Series 2001A	3,735.59	16,954.23		
Capital Improvement Pool Bonds, Series 2002A	127,539.01	917,642.12		
Capital Outlay School Warrants, Series 2005	139,013.37	1,674,624.00		
Qualified Zone Academy Bonds, Series 2005	33,594.17			
Capital Outlay School Warrants, Series 2007	1,573,203.17		1,264,673.61	
Capital Improvement Pool Refunding, Series 2009-B	3,782.88	98,830.15		51,734.55
Capital Outlay Pool Warrants, Series 2009-D	14,036.41			
Capital Improvement Pool Refunding, Series 2011-B	3,687.95	95,319.49		1,695.40
Qualified Zone Academy Bonds, Series 2011	15,345.12			
Total Balance Deferred Amounts	1,913,937.67	2,803,369.99	1,264,673.61	53,429.95
Current Amount Amortized				
Capital Improvement Pool Bonds, Series 2001A	3,735.59	16,954.23		
Capital Improvement Pool Bonds, Series 2002A	11,594.45	83,422.02		
Capital Outlay School Warrants, Series 2005	7,447.20	89,712.00		
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			
Capital Improvement Pool Refunding, Series 2011-B	3,687.95	95,319.49		1,695.40
Qualified Zone Academy Bonds, Series 2011	15,345.12			
Total Current Amount Amortized	105,116.43	297,149.94	47,277.52	8,670.84
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		1,217,396.09	
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			
Total Balance Deferred Amounts	\$1,808,821.24	\$2,506,220.05	\$1,217,396.09	\$44,759.11

Notes to the Financial Statements

For the Year Ended September 30, 2011

Pledged Revenues

The Board issued Capital Outlay School Warrants, Series 2005 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 *Code of Alabama 1975*, Section 40-12-4. Future revenues of \$65,218,500.00 are pledged to repay the principal and interest on the Series 2005 warrants at September 30, 2011. Pledged revenues in the amount of \$59,176,230.87 were received during the fiscal year ended September 30, 2011 which were used to pay \$3,624,500.00 principal and interest payments the warrants. The Series 2005 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 \$253,720,784.00 are pledged to repay the principal and interest on the Series 2007 warrants at September 30, 2011. Pledged revenues in the amount of \$13,452,552.15 were received during the fiscal year ended September 30, 2011 which were used to pay \$9,782,108.00 in principal and interest payments on the Series 2007. The Series 2007 warrants will mature in fiscal year 2037.

The Board issued Series 2002A Capital Improvement Pool Bonds, 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 and 2011-QZAB warrants 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 \$25,503,656.02 are pledged to repay the principal and interest on the Series 2002A bonds at September 30, 2011. Future revenues in the amount of \$867,817.06 are pledged to repay the principal and interest on the Series 2009-B bonds at September 30, 2011. Future revenues in the amount of \$2,117,620.68 are pledged to repay the principal and interest on the Series 2009-D bonds at September 30, 2011. Future revenues in the amount of \$938,203.40 are pledged to repay the principal and interest on the Series 2011-B bonds at September 30, 2011. Future revenues in the amount of \$6,914,445.48 are pledged to repay the principal and interest on the Series 2011-QZAB warrant at September 30, 2011. Pledged funds in the amount of \$2,522,327.84 were used to pay principal and interest on the bonds during the fiscal year ended September 30, 2011 (which includes the principal and interest payment for the Series 2001A which were pledged by these revenues, but refunded by 2011-B after this year's principal and interest payment were made). This amount represents 61 percent of the pledged funds received by or allocated to the Board. The Series 2002A, 2009B and 2009-D, 2011-B and 2011-QZAB debt will mature in fiscal years 2022, 2018, 2026, 2021, and 2026, respectively.

Notes to the Financial Statements

For the Year Ended September 30, 2011

Defeased Debt

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 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%. The net proceeds of \$30,357,794 after a premium of \$3,596,962 and payment of \$139,168 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 2001-A. As a result, the Series 2001-A are considered to be defeased and the liabilities for those bonds have been removed.

The Board had a 2.65% participation in the Series 2001-A. This resulted in the Board being obligated for \$712,850 of the total principal of \$26,900,000 for the Series 2011-B. The Board’s portion of the net proceeds deposited in an irrevocable trust with an escrow agent was \$804,481.54. The net liability removed was \$802,786.14.

The Board’s portion of the refunding resulted in a difference between the reacquisition price and the net carrying amount of the Series 2001-A of \$1,695.40. As a result of the refunding, the Board reduced its total debt service requirements by \$115,734.66, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$33,295.60.

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.

Notes to the Financial Statements

For the Year Ended September 30, 2011

Note 11 – 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.

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.

Notes to the Financial Statements
For the Year Ended September 30, 2011

Note 12 – Interfund Transactions

Interfund Receivables and Payables

The interfund receivables and payables at September 30, 2011, were as follows:

	Interfund Receivables		Totals
	General Fund	Special Revenue Fund	
<u>Interfund Payables</u>			
General Fund	\$	\$26,629.91	\$ 26,629.91
Special Revenue Fund	3,862,160.47		3,862,160.47
Other Governmental Funds	49,064.50		49,064.50
Totals	<u>\$3,911,224.97</u>	<u>\$26,629.91</u>	<u>\$3,937,854.88</u>

Interfund Transfers

The amounts of interfund transfers during the fiscal year ended September 30, 2011, were as follows:

	Transfers Out			Total
	General Fund	Special Revenue Fund	Other Governmental Funds	
<u>Transfers In</u>				
General Fund	\$	\$806,963.46	\$	\$ 806,963.46
Special Revenue Fund	6,791,776.85			6,791,776.85
Other Governmental Funds	10,624,749.63	11,341.23	328,300.00	10,964,390.86
Totals	<u>\$17,416,526.48</u>	<u>\$818,304.69</u>	<u>\$328,300.00</u>	<u>\$18,563,131.17</u>

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.

Notes to the Financial Statements
For the Year Ended September 30, 2011

Note 13 – Claim for Lost Revenues

The Baldwin County Board of Education was adversely affected by the loss of tax revenues, including but not limited to, sales and use tax revenues as a result of the explosion of the Deep Water Horizon rig and subsequent oil spill in the Gulf of Mexico on April 20, 2010. BP America, Inc. (“BP”) issued guidance to local governments for purposes of filing lost revenue claims. The Baldwin County Board of Education coordinated with the State Department of Education, the Governor’s Office and the Baldwin County Commission regarding a process for development and submission of a lost revenue claim to BP. The Governor assigned his office’s economist to work with the Board and other governments in Baldwin County in order to facilitate a claim.

The Governor’s economist conducted a detailed economic analysis in Baldwin County and provided analysis and documentation to the Board of Education and to the Baldwin County Commission for purposes of filing a claim. The Board filed a preliminary claim on September 11, 2010 for lost sales and use tax revenues for the period of June through September 2010 in the amount of \$4,408,886.16.

Board officials conducted a series of meetings with BP officials in an effort to resolve the outstanding claim; however an agreement was not reached. On September 28, 2011, the Board entered into an agreement with the Baldwin County Commission. In exchange for an advance of \$2,400,000.00, 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 shall have, at its discretion, full control over the assigned claim and may seek collection of the claim in such amounts and upon such terms as shall be acceptable to the Commission without the advice or consent of the Board. In the event the Commission should obtain recovery of the claim, whether by settlement or judgment, the Board will receive the claim proceeds, less the \$2,400,000.00 advanced to the Board and after deducting the Commission’s legal fees and expenses.

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Required Supplementary Information

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended September 30, 2011***

	Budgeted Amounts		Actual Amounts
	Original	Final	Budgetary Basis
<u>Revenues</u>			
State	\$ 97,970,352.00	\$ 96,018,755.00	\$ 96,444,623.54
Local	97,755,621.00	98,925,082.09	113,206,465.65
Other	2,017,500.00	1,679,530.00	1,105,427.29
Total Revenues	197,743,473.00	196,623,367.09	210,756,516.48
<u>Expenditures</u>			
Current:			
Instruction	116,030,743.99	117,023,442.28	117,347,829.47
Instructional Support	28,217,976.05	28,577,002.47	28,364,247.34
Operation and Maintenance	10,227,374.00	11,045,822.86	10,561,575.38
Auxiliary Services:			
Student Transportation	8,276,263.00	8,156,998.00	8,508,810.99
General Administration and Central Support	6,865,532.00	6,864,812.06	6,414,066.04
Other	2,738,037.00	2,749,024.00	3,001,018.38
Capital Outlay			158,891.18
Debt Service:			
Principal Retirement	4,124,199.00	4,417,922.32	293,723.26
Interest and Fiscal Charges		23,798.65	4,147,997.65
Total Expenditures	176,480,125.04	178,858,822.64	178,798,159.69
Excess (Deficiency) of Revenues Over Expenditures	21,263,347.96	17,764,544.45	31,958,356.79
<u>Other Financing Sources (Uses)</u>			
Indirect Cost	1,207,242.70	1,462,418.31	1,237,995.06
Transfers In			806,963.46
Other Financing Sources	50,000.00	134,500.00	256,258.08
Sale of Capital Assets		86,000.00	85,948.30
Transfers Out	(14,897,427.58)	(13,657,774.67)	(17,416,526.48)
Total Other Financing Sources (Uses)	(13,640,184.88)	(11,974,856.36)	(15,029,361.58)
Net Change in Fund Balances	7,623,163.08	5,789,688.09	16,928,995.21
Fund Balances - Beginning of Year	2,714,724.00	1,171,466.47	3,230,361.88
Fund Balances - End of Year	\$ 10,337,887.08	\$ 6,961,154.56	\$ 20,159,357.09

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	\$	\$ 96,444,623.54
		113,206,465.65
		1,105,427.29
		<u>210,756,516.48</u>
(1)	424,061.36	116,923,768.11
(1)	(47,720.71)	28,411,968.05
(1)	32,862.49	10,528,712.89
(1)	40,661.25	8,468,149.74
		6,414,066.04
(1)	(8,903.72)	3,009,922.10
		158,891.18
		293,723.26
		4,147,997.65
	<u>440,960.67</u>	<u>178,357,199.02</u>
	<u>440,960.67</u>	<u>32,399,317.46</u>
		1,237,995.06
		806,963.46
		256,258.08
		85,948.30
		<u>(17,416,526.48)</u>
		<u>(15,029,361.58)</u>
	440,960.67	17,369,955.88
(2)	<u>(12,463,928.78)</u>	<u>(9,233,566.90)</u>
	<u>\$ (12,022,968.11)</u>	<u>\$ 8,136,388.98</u>

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended September 30, 2011***

**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.

\$ 440,960.67

\$ 440,960.67

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Special Revenue Fund
For the Year Ended September 30, 2011***

	Budgeted Amounts		Actual Amounts
	Original	Final	Budgetary Basis
<u>Revenues</u>			
Federal	\$ 35,790,860.00	\$ 41,114,863.80	\$ 33,537,659.77
Local	21,361,665.00	21,370,606.00	29,196,341.07
Other	210,091.00	510,091.00	799,674.87
Total Revenues	<u>57,362,616.00</u>	<u>62,995,560.80</u>	<u>63,533,675.71</u>
<u>Expenditures</u>			
Current:			
Instruction	18,531,521.68	21,443,114.26	18,430,672.27
Instructional Support	9,647,282.60	10,555,617.97	11,522,544.10
Operation and Maintenance	12,644,047.00	13,231,178.43	13,997,346.77
Auxiliary Services:			
Student Transportation	1,606,400.25	2,057,344.58	1,969,044.81
Food Service	13,046,359.25	13,560,681.50	12,450,638.51
General Administration and Central Support	946,340.18	1,307,370.52	798,941.65
Other	3,433,426.05	3,587,008.39	4,400,736.09
Capital Outlay		112,000.00	1,184,000.02
Debt Service:			
Principal Retirement	2,693.00	3,693.00	20,801.75
Interest and Fiscal Charges	2,073.00	2,073.00	3,669.62
Debt Issuance Costs			445.00
Total Expenditures	<u>59,860,143.01</u>	<u>65,860,081.65</u>	<u>64,778,840.59</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(2,497,527.01)</u>	<u>(2,864,520.85)</u>	<u>(1,245,164.88)</u>
<u>Other Financing Sources (Uses)</u>			
Debt Issued	35,000.00	35,000.00	52,945.00
Transfers In	3,518,797.00	3,398,837.84	6,791,776.85
Other Financing Sources			16,118.60
Transfers Out			(818,304.69)
Total Other Financing Sources (Uses)	<u>3,553,797.00</u>	<u>3,433,837.84</u>	<u>6,042,535.76</u>
Net Change in Fund Balances	1,056,269.99	569,316.99	4,797,370.88
Fund Balances - Beginning of Year	<u>7,211,119.53</u>	<u>13,516,140.25</u>	<u>14,779,454.61</u>
Fund Balances - End of Year	<u>\$ 8,267,389.52</u>	<u>\$ 14,085,457.24</u>	<u>\$ 19,576,825.49</u>

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	\$	\$ 33,537,659.77
		29,196,341.07
		799,674.87
		<u>63,533,675.71</u>
		18,430,672.27
		11,522,544.10
		13,997,346.77
		1,969,044.81
(1)	13,432.32	12,437,206.19
		798,941.65
		4,400,736.09
		1,184,000.02
		20,801.75
		3,669.62
		445.00
	<u>13,432.32</u>	<u>64,765,408.27</u>
	<u>13,432.32</u>	<u>(1,231,732.56)</u>
		52,945.00
		6,791,776.85
		16,118.60
		<u>(818,304.69)</u>
		<u>6,042,535.76</u>
	13,432.32	4,810,803.20
(2)	<u>(421,246.71)</u>	<u>14,358,207.90</u>
	<u>\$ (407,814.39)</u>	<u>\$ 19,169,011.10</u>

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Special Revenue Fund
For the Year Ended September 30, 2011***

**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.

\$ 13,432.32

\$ 13,432.32

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Supplementary Information

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2011***

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
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U. S. Department of Agriculture

Passed Through Alabama Department of Education

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 (M)		
Fresh Fruit and Vegetable Program	10.582	N.A.
Total U. S. Department Agriculture		

U. S. Department of Education

Passed Through Alabama Department of Education

Title I, Part A Cluster:

Title I Grants to Local Educational Agencies	84.010	N.A.
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	N.A.
Sub-Total Title I, Part A Cluster		
Career and Technical Education- Basic Grants to States	84.048	N.A.
Safe and Drug-Free Schools and Communities - State Grants	84.186	N.A.
Twenty-First Century Community Learning Centers	84.287	N.A.
Tech-Prep Education	84.243	N.A.
ARRA - State Fiscal Stabilization Fund - Education State Grants, Recovery Act (M)	84.394	N.A.
Education Jobs Fund (M)	84.410	N.A.
Advanced Placement Program	84.330	N.A.
Education for Homeless Children and Youth	84.196	N.A.
Sub-Total U. S. Department of Education Forward		

Sub-Total Forward

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
10-01-2010 to 09-30-2011	\$ 5,368,171.39	\$ 5,368,171.39	\$ 5,368,171.39	\$ 5,368,171.39
10-01-2010 to 09-30-2011	626,858.44	626,858.44	626,858.44	626,858.44
	5,995,029.83	5,995,029.83	5,995,029.83	5,995,029.83
10-01-2010 to 09-30-2011	1,245,513.84	1,245,513.84	1,245,513.84	1,245,513.84
	7,240,543.67	7,240,543.67	7,240,543.67	7,240,543.67
07-01-2011 to 06-30-2012	7,262.91	7,262.91	7,262.91	7,262.91
	7,247,806.58	7,247,806.58	7,247,806.58	7,247,806.58
10-01-2010 to 09-30-2011	6,308,536.34	6,308,536.34	5,773,164.28	5,773,164.28
10-01-2010 to 09-30-2011	327,186.76	327,186.76	327,186.76	327,186.76
	6,635,723.10	6,635,723.10	6,100,351.04	6,100,351.04
10-01-2010 to 09-30-2011	581,957.00	581,957.00	577,334.60	577,334.60
10-01-2010 to 09-30-2011	15,550.58	15,550.58	15,497.58	15,497.58
10-01-2010 to 09-30-2011	900,000.00	900,000.00	806,755.99	806,755.99
10-01-2010 to 09-30-2011	30,487.00	30,487.00	30,419.58	30,419.58
10-01-2010 to 09-30-2011	6,549,106.00	6,549,106.00	6,549,106.00	6,549,106.00
10-01-2010 to 09-30-2011	5,457,986.00	5,457,986.00	2,197,963.39	2,197,963.39
10-01-2010 to 09-30-2011	9,709.00	9,709.00	9,709.00	9,709.00
10-01-2010 to 09-30-2011	25,000.00	25,000.00	25,000.00	25,000.00
	20,205,518.68	20,205,518.68	16,312,137.18	16,312,137.18
	\$ 27,453,325.26	\$ 27,453,325.26	\$ 23,559,943.76	\$ 23,559,943.76

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2011***

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
Sub-Total Brought Forward		
Sub-Total U. S. Department of Education Brought Forward		
Special Education Cluster:		
Special Education - Grants to States	84.027	N.A.
ARRA - Special Education - Grants to States, Recovery Act	84.391	N.A.
Sub-Total Special Education - Grants to States		
Special Education - Preschool Grants	84.173	N.A.
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	N.A.
Sub-Total Special Education - Preschool Grants		
Sub-Total Special Education Cluster (M)		
English Language Acquisition Grants	84.365	N.A.
Improving Teacher Quality State Grants	84.367	N.A.
Special Education - State Personnel Development	84.323	N.A.
Hurricane Education Recovery Award	84.938	N.A.
Education Technology State Grants Cluster:		
Education Technology State Grants	84.318	N.A.
ARRA - Education Technology State Grants, Recovery Act	84.386	N.A.
Sub-Total Education Technology State Grants Cluster (M)		
<u>Passed Through Alabama Department of Rehabilitation Services</u>		
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	
Total U. S. Department of Education		
Sub-Total Forward		

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
	\$ 27,453,325.26	\$ 27,453,325.26	\$ 23,559,943.76	\$ 23,559,943.76
	20,205,518.68	20,205,518.68	16,312,137.18	16,312,137.18
10-01-2010 to 09-30-2011	7,126,344.38	7,126,344.38	3,833,953.98	3,833,953.98
10-01-2010 to 09-30-2011	3,641,027.93	3,641,027.93	3,641,027.93	3,641,027.93
	10,767,372.31	10,767,372.31	7,474,981.91	7,474,981.91
10-01-2010 to 09-30-2011	134,621.52	134,621.52	89,672.72	89,672.72
10-01-2010 to 09-30-2011	166,367.98	166,367.98	166,367.98	166,367.98
	300,989.50	300,989.50	256,040.70	256,040.70
	11,068,361.81	11,068,361.81	7,731,022.61	7,731,022.61
10-01-2010 to 09-30-2011	168,804.26	168,804.26	168,804.26	168,804.26
10-01-2010 to 09-30-2011	1,641,161.90	1,641,161.90	1,266,521.64	1,266,521.64
10-01-2010 to 09-30-2011	3,677.00	3,677.00	3,382.58	3,382.58
02-01-2011 to 09-30-2011	245,698.00	245,698.00	245,698.00	245,698.00
10-01-2010 to 09-30-2011	24,299.86	24,299.86	14,212.57	14,212.57
10-01-2010 to 09-30-2011	161,026.50	161,026.50	161,026.50	161,026.50
	185,326.36	185,326.36	175,239.07	175,239.07
10-01-2010 to 09-30-2011	57,178.79	57,178.79	57,178.79	57,178.79
	33,575,726.80	33,575,726.80	25,959,984.13	25,959,984.13
	\$ 40,823,533.38	\$ 40,823,533.38	\$ 33,207,790.71	\$ 33,207,790.71

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2011***

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
---	------------------------------------	--

Sub-Total Brought Forward

**U. S. Department of Social Security Administration
Passed Through Alabama Department of Education**

Social Security - Disability Insurance	96.001	N.A.
Total U. S. Department of Social Security Administration		

Other Financial Assistance

U. S. Department of Defense

Direct Program

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		
	\$ 40,823,533.38	\$ 40,823,533.38	\$ 33,207,790.71	\$ 33,207,790.71
10-01-2010 to 09-30-2011	7,884.00	7,884.00	7,884.00	7,884.00
	<u>7,884.00</u>	<u>7,884.00</u>	<u>7,884.00</u>	<u>7,884.00</u>
10-01-2010 to 09-30-2011	192,686.08	192,686.08	192,686.08	192,686.08
10-01-2010 to 09-30-2011	137,182.98	137,182.98	137,182.98	137,182.98
	<u>329,869.06</u>	<u>329,869.06</u>	<u>329,869.06</u>	<u>329,869.06</u>
	<u>\$ 41,161,286.44</u>	<u>\$ 41,161,286.44</u>	<u>\$ 33,545,543.77</u>	<u>\$ 33,545,543.77</u>

***Notes to the Schedule of Expenditures
of Federal Awards
For the Year Ended September 30, 2011***

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, 2010 through September 30, 2011

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

Administrative Personnel

Dr. Alan T. Lee	Superintendent	2013
Jean McCutchen	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, 2011, which collectively comprise the Baldwin County Board of Education's basic financial statements and have issued our report thereon dated March 29, 2012. 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***. We noted a certain matter that we have reported to the management of the Baldwin County Board of Education in the Schedule of State and Local Compliance and Other Findings.

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

March 29, 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***

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, 2011. 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, 2011.

***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

March 29, 2012

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Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2011

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
10.553 and 10.555	Child Nutrition Cluster
84.027, 84.173, 84.391 and 84.392	Special Education Cluster (IDEA)
84.318 and 84.386	Education Technology State Grants Cluster
84.394	State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act
84.410	Education Jobs Fund

Dollar threshold used to distinguish between Type A and Type B programs: \$1,006,366.31

Auditee qualified as low-risk auditee? X Yes _____ No

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2011

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.	

Auditee Response



BALDWIN COUNTY PUBLIC SCHOOLS
Building Excellence
OFFICE OF THE SUPERINTENDENT

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E-Mail: alee@bcbe.org

April 11, 2012

Honorable Ronald L. Jones, Chief Examiner
State of Alabama Department of
Examiners of Public Accounts
P. O. Box 302251
Montgomery, AL 36130-2251

Corrective Action Plan
For the Year Ended September 30, 2011

As required by the Office of Management and Budget (OMB) Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section .315 (c), the Baldwin County Board of Education has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2012.

Finding

Ref. No.

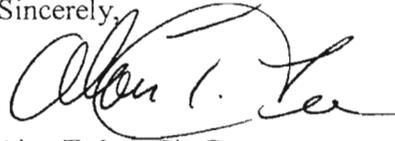
Corrective Action Plan Details

#2011-01 The Baldwin County Board of Education has established Local School Accounting Policies and Procedures. The procedures provide that pre-numbered tickets shall be used for athletic events which should then be reconciled using check-up sheets and balanced to the deposit. During the audit period, shortages were noted on several check-up sheets for Robertsdale High School and Central Baldwin Middle School football games. The deposits were less than the number of tickets reported to have been sold. The total amount of shortages noted was \$1,279.08. Since the football games for these two schools are held at the stadium and the campus of Robertsdale High School, the principal at Robertsdale High School signed the check-up sheets as being accurate and was ultimately deemed responsible for the shortage. These shortages were repaid when brought to the attention of the principal, who retired in September 2011.

Response: The Superintendent took immediate action to clarify the proper internal controls over cash and cash accountability at the local school level. In addition, the Superintendent and Chief School Financial Officer made presentations and provided instruction at principal and assistant principal meetings regarding the proper procedures and controls over cash and cash accountability for school

operations and events. In addition, the Board's Internal Audit staff periodically performs internal audits of various internal controls at the local school level in order to properly monitor such operations and address any weaknesses or lack of controls. The Board will continue providing training and oversight to the local school staff at the subject schools as well as all schools. A memo of guidelines and requirements will be issued regarding this specific finding, and follow-up reviews and monitoring for compliance will be conducted as needed. The Chief School Financial Officer and the Internal Auditor may be contacted regarding the above processes.

Sincerely,

A handwritten signature in black ink, appearing to read "Alan T. Lee". The signature is fluid and cursive, with a large initial "A" and "L".

Alan T. Lee, Ph. D.
Superintendent of Education