

Report on the

# **Baldwin County Board of Education**

**Baldwin County, Alabama**

**October 1, 2009 through September 30, 2010**

Filed: April 22, 2011



## **Department of Examiners of Public Accounts**

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*Ronald L. Jones, Chief Examiner*





Ronald L. Jones  
Chief Examiner

State of Alabama  
Department of  
**Examiners of Public Accounts**

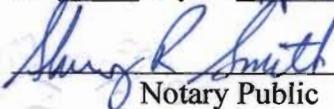
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Honorable Ronald L. Jones  
Chief Examiner of Public Accounts  
Montgomery, Alabama 36130

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 for the period October 1, 2009 through September 30, 2010.

Sworn to and subscribed before me this  
the 8<sup>th</sup> day of April, 2011.

  
\_\_\_\_\_  
Notary Public

Sworn to and subscribed before me this  
the 8<sup>th</sup> day of April, 2011.

  
\_\_\_\_\_  
NOTARY PUBLIC STATE OF ALABAMA AT LARGE  
MY COMMISSION EXPIRES: Nov 29, 2014  
BONDED THRU NOTARY PUBLIC UNDERWRITERS

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Respectfully submitted,



Whitney B. Atchison  
Examiner of Public Accounts



M. Lynn Benson  
Examiner of Public Accounts



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<p>Reports on whether the financial information constitutes a fair presentation of the financial position and results of financial operations in accordance with generally accepted accounting principles (GAAP).</p>	
<b>Management’s Discussion and Analysis</b>	F
<p>Provides information required by the Governmental Accounting Standards Board (GASB) that is prepared by management of the Board introducing the basic financial statements and providing an analytical overview of the Board’s financial activities for the year. This information has not been audited, and no opinion is provided about the information.</p>	
<b><u>Basic Financial Statements</u></b>	1
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Provides information required by the GASB to supplement the basic financial statements. This information has not been audited and no opinion is provided about the information.	
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Department of  
**Examiners of Public Accounts**

**SUMMARY**

**Baldwin County Board of Education  
October 1, 2009 through September 30, 2010**

The Baldwin County Board of Education (the “Board”) is 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, 2010.

Tests performed during the audit did not disclose any significant instances of noncompliance with applicable state and local laws and regulations.

The following officials/employees were invited to an exit conference to discuss the report: Dr. Faron Hollinger, former Superintendent; JaNay Dawson, Interim Superintendent; 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; Jean McCutchen, Chief School Financial Officer; Robert A. Wills, Board Member; and Patsy Chastang, Internal Auditor. The following individuals participated in the exit conference via teleconference: Dr. Faron Hollinger, former Superintendent and Board Members: Frank Trione, Norman Moore, Angie Swiger and Tracy Roberts. Also present were representatives from the Department of Examiners of Public Accounts which included: Christina Smith, Audit Manager, Whitney Atchison, Examiner, and Lynn Benson, Examiner.

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*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, 2010, 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, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2011 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

April 5, 2011

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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, 2010**

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, 2010. 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*. This is the ninth year the Board has prepared its comprehensive annual financial reporting using the new financial reporting model.

**Financial Highlights**

The Board's Net Assets increased by \$10,981,850 in FY 2010. The activities revenues overall were \$261,990,632 in FY 2010 and \$259,374,144 in FY 2009, resulting in an increase of \$2,616,488 or 1% over the prior year. Although the State revenues and local ad valorem decreased, the Board fortunately benefitted from an additional Penny Sales Tax that was levied effective 6-1-2010. The sales tax revenues increased by \$5,579,734 or 13% over FY 2009 revenues. The expenditures decreased at a higher rate (9%) resulting in 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 \$4,859,058. However, the General Fund on the full accrual basis reflects a negative fund balance of (\$9,233,567). This is due to the carryover of the large beginning deficit balance resulting from the recognition of just over \$15 Million for accrued salaries at the end of FY 2009 for financial statement purposes. This balance falls below the one-month operating reserve recommended by the State Superintendent of Education. However, the fund balance on a budgetary basis without considering the accrued salaries is \$3,230,362, which represents approximately 20.5 % of one month's operating cost. The State measures the Board's compliance with fund balance requirements based upon the "budgetary basis". The Board submitted a Financial Improvement Plan to the State Department of Education outlining the plans and initiatives to restore the fund balance to required levels.

**Overview of the Financial Statement and Use of This Report**

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

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

**BALDWIN COUNTY BOARD OF EDUCATION  
MANAGEMENT DISCUSSION AND ANALYSIS  
For The Year Ended September 30, 2010**

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

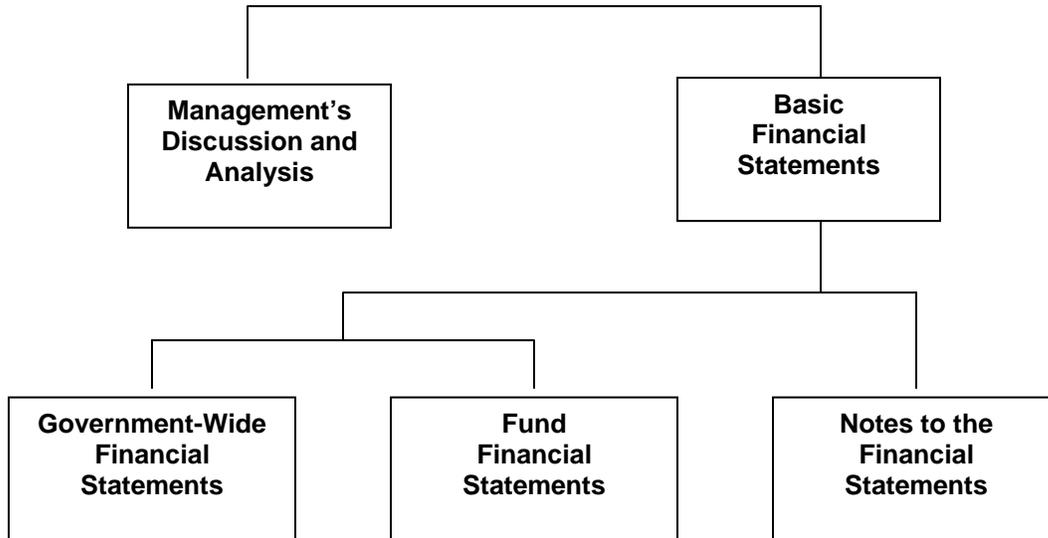


Figure 1 depicts the major features of the Board's financial statements. The focus of the financial statements is on the Board as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis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

**Government-Wide Financial Statements**

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

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

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

**BALDWIN COUNTY BOARD OF EDUCATION  
MANAGEMENT DISCUSSION AND ANALYSIS  
For The Year Ended September 30, 2010**

**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.

**BALDWIN COUNTY BOARD OF EDUCATION  
MANAGEMENT DISCUSSION AND ANALYSIS  
For The Year Ended September 30, 2010**

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, 2010**

	<u>FY 2010</u>	<u>FY 2009</u>	<u>Variance</u>
Current and Other Assets	\$ 89,216,321	\$ 83,040,357	\$ 6,175,964
Capital Assets, Net of			
Depreciation	398,234,211	397,699,042	535,169
<b>Total Assets</b>	<u>487,450,532</u>	<u>480,739,399</u>	<u>6,711,133</u>
Current and Other			
Liabilities	85,947,952	84,341,956	1,605,996
Long-term Liabilities	217,766,156	223,642,870	-5,876,714
<b>Total Liabilities</b>	<u>303,714,108</u>	<u>307,984,826</u>	<u>-4,270,718</u>
Net Assets			
Invested in Capital			
Assets,			
Net of Related Debt	178,484,672	171,245,560	7,239,112
Restricted for:			
Capital Projects	745,420	2,678,002	-1,932,582
Debt Service	2,268,493	2,002,151	266,342
Other Purposes			0
Unrestricted	2,237,839	-3,171,139	5,408,978
<b>Total Net Assets</b>	<u>\$ 183,736,424</u>	<u>\$ 172,754,574</u>	<u>\$ 10,981,850</u>

The Board's total net assets were \$183,736,424 at the close of the fiscal year 2010. Net assets restricted for capital projects/debt service totaled 2.39% 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 \$2,237,839 or 1.2% of net assets. The total net assets increased \$10,981,850 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 2009.

**BALDWIN COUNTY BOARD OF EDUCATION  
MANAGEMENT DISCUSSION AND ANALYSIS  
For The Year Ended September 30, 2010**

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

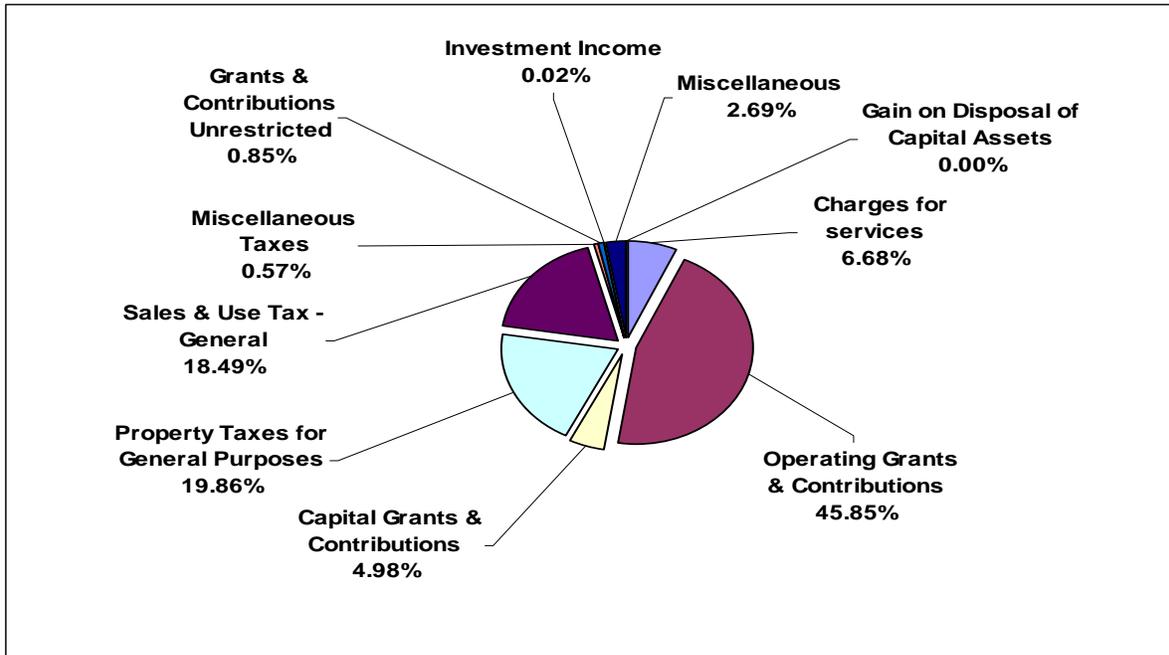
	<u>FY 2010</u>	<u>FY 2009</u>	<u>Variance</u>
<b><u>REVENUES</u></b>			
Program revenues:			
Charges for services	\$ 17,498,851	\$ 17,399,179	\$ 99,672
Operating grants and contributions	120,132,385	120,344,450	-212,065
Capital grants and contributions	13,045,680	15,713,071	-2,667,391
General revenues:			
Property taxes for general purposes	52,044,285	53,031,703	-987,418
Sales & Use Tax - General/Specific	48,454,817	42,875,083	5,579,734
Miscellaneous Taxes	1,492,153	1,605,866	-113,713
Grants and Contributions not Restricted for Specific Programs	2,228,574	429,469	1,799,105
Investment Income	39,311	440,305	-400,994
Net Inc.(Dec.) in Fair Value of Investment Miscellaneous	7,054,576	7,114,816	-60,240
Gain on Disposition of Capital Assets	0	420,202	-420,202
Gain on Extinguishment of Debt			
Total Revenues	<b>261,990,632</b>	<b>259,374,144</b>	<b>2,616,488</b>
<b><u>EXPENSES</u></b>			
Governmental Activities:			
Instruction	136,586,106	149,911,874	13,325,768
Instructional Support services	41,368,843	47,151,390	5,782,547
Operation and Maintenance	24,866,495	28,096,233	3,229,738
Auxiliary Services			
Student Transportation Services	10,903,679	11,938,177	1,034,498
Food Services	11,782,029	13,184,943	1,402,914
General Administration and Central Support	8,123,172	7,616,244	-506,928
Other	6,760,721	6,671,470	89,251
Interest on Long-Term Debt	10,617,737	10,999,385	-381,648
Total Expenses	<b>251,008,782</b>	<b>275,569,716</b>	<b>-24,560,934</b>
Change in Net Assets	<b>10,981,850</b>	<b>-16,195,572</b>	<b>27,177,422</b>
Net Assets - Beginning of year, as restated	<b>\$ 172,754,574</b>	<b>\$ 188,950,146</b>	<b>\$ -16,195,572</b>
<b>Net Assets - end of year</b>	<b>\$ 183,736,424</b>	<b>\$ 172,754,574</b>	<b>\$ 10,981,850</b>

**BALDWIN COUNTY BOARD OF EDUCATION  
MANAGEMENT DISCUSSION AND ANALYSIS  
For The Year Ended September 30, 2010**

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 45.85% 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 38.9% of all revenues and are used to provide \$100,331,866 for expenses not covered by program revenues. (See Table 3)

**Graph 1**



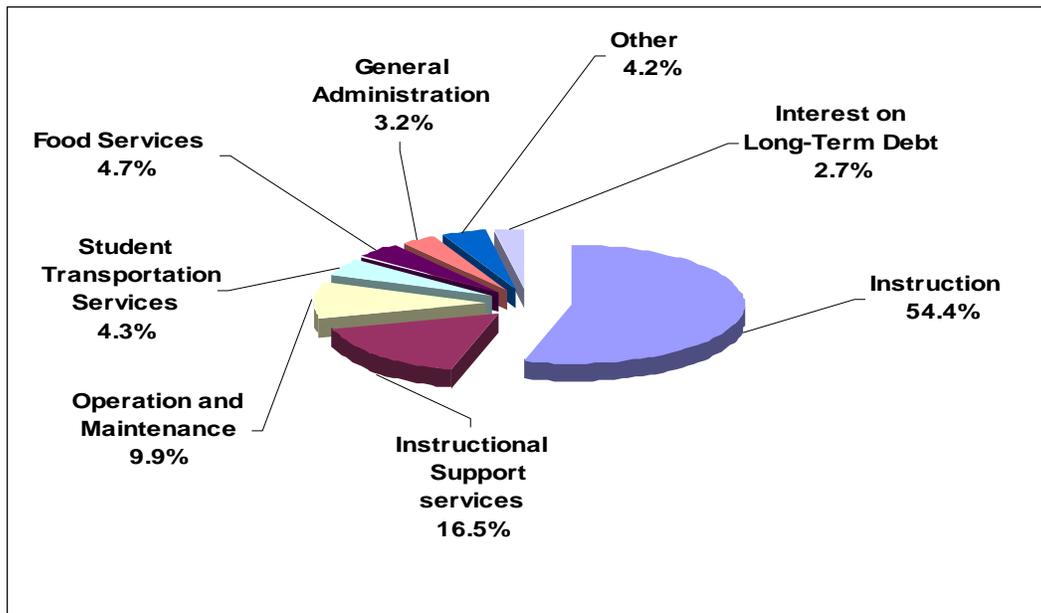
Instructional services expenses, primarily salaries and benefits for classroom teachers, are the largest expense function of the Board (54.4%). The expenses are reflected in Table 2 as well as in Graph 2 below showing the percentage breakdown of expense categories.

- 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.

**BALDWIN COUNTY BOARD OF EDUCATION  
MANAGEMENT DISCUSSION AND ANALYSIS  
For The Year Ended September 30, 2010**

- Auxiliary Services includes transportation and food service expenses. In addition to bus driver salaries and benefits, student transportation services includes mechanics, bus aides, vehicle maintenance and repair expenses, vehicle fuel, depreciation of buses and bus shops, and fleet insurance. Food services includes salaries and benefits for cooks, servers, lunchroom managers, and cashiers, as well as donated and purchased food, food preparation and service supplies, kitchen and lunchroom equipment, and depreciation of equipment and facilities.
- General administrative services include salaries and benefits for the superintendent, assistants, clerical and financial staff, and other personnel that provide system-wide support for the schools. Also included are legal expenses, liability insurance, training for board members and general administrative staff, printing costs, and depreciation of central office equipment and facilities.
- Debt service includes interest, but not principal payments, on long-term debt issues and other expenses related to the issuance and continuance of debt issues.
- Other expenses include the salaries and benefits for adult and continuing education teachers, preschool teachers and aides, extended day personnel, and community education instructors. Also included are the materials, supplies, equipment, related depreciation, and other expenses for operating programs outside of those for educating students in the K through 12 instructional programs.

**Graph 2**

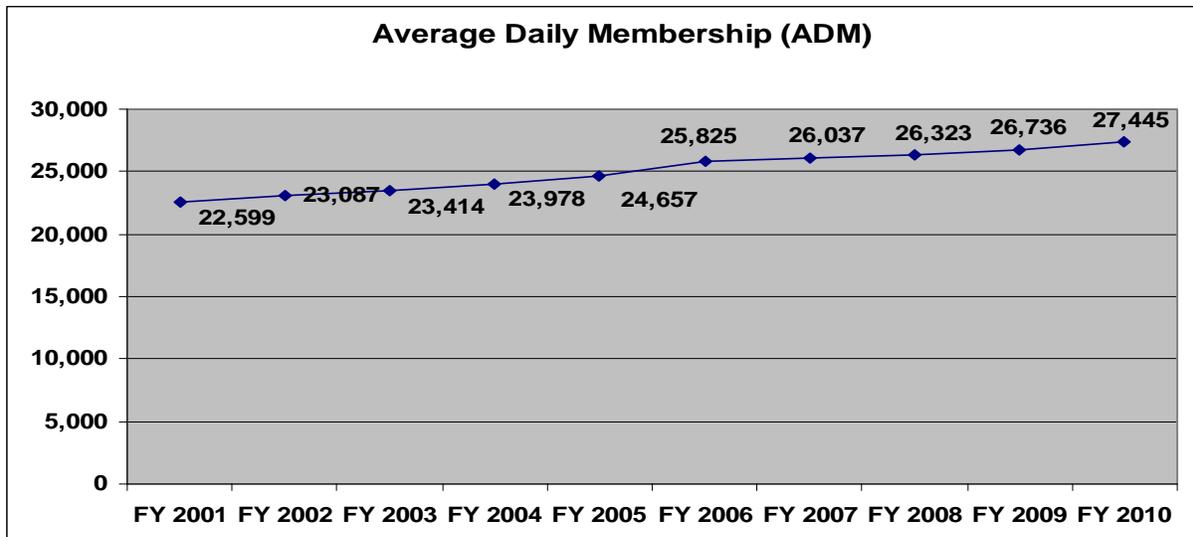


**BALDWIN COUNTY BOARD OF EDUCATION  
MANAGEMENT DISCUSSION AND ANALYSIS  
For The Year Ended September 30, 2010**

As stated previously, the Board experienced an increase in net assets for the year in the amount of \$10,981,850. The level of the increase in net assets can be attributed to the following factors:

- Local revenues increased by 4.6% as a result of the additional Penny Sales Tax levied effective on 6-1-2010.
- The Board was able to **reduce** overall expenditures by 8.9% 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 contributes to the ability to materially reduce expenditures to accommodate for the large losses of revenue. The average daily membership (ADM) has grown by 4,486 or 21.4% since FY 2001 reflected in Graph 3.

**Graph 3**



**Net Cost of Services**

Total cost of services was \$251,008,782. The net cost of governmental activities was a negative -\$100,331,866 as shown in Table 3. This means that the local funds portion of revenue was used to fund the amount not covered from various program revenues.

**BALDWIN COUNTY BOARD OF EDUCATION  
MANAGEMENT DISCUSSION AND ANALYSIS  
For The Year Ended September 30, 2010**

**Table 3  
Net Cost of Services**

	<u>FY 2010</u>		<u>FY 2009</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	\$ 136,586,106	\$ -36,800,822	\$ 149,911,874	\$ -45,286,793
Instructional Support	41,368,843	-17,804,918	47,151,390	-27,734,072
Operation and Maintenance	24,866,495	-23,478,437	28,096,233	-27,300,867
Student Transportation	10,903,679	-2,440,166	11,938,177	-1,806,288
Food Service	11,782,029	-407,101	13,184,943	-1,293,253
General Admin & Central Supp.	8,123,172	-7,462,284	7,616,244	-7,084,327
Other	6,760,721	-1,320,401	6,671,470	-608,032
Interest on Long-Term Debt	10,617,737	-10,617,737	10,999,385	-10,999,385
	<u>\$ 251,008,782</u>	<u>\$ -100,331,866</u>	<u>\$ 275,569,716</u>	<u>\$ -122,113,017</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 \$12,230,169.89. Approximately (\$9,527,455.66) of this amount constitutes unreserved fund balance of the General Fund that is not available as of the end of the fiscal year for spending on future operations. Again, this negative fund balance is due to the full accrual of salaries required for financial statement presentation.

**General Fund** - The General Fund is the primary operating fund of the Board in providing educational services to students from kindergarten through 12<sup>th</sup> 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 2010</u>	<u>FY 2009</u>	<u>Variance</u>
State	\$ 94,236,381	\$ 106,168,216	\$ -11,931,835
Federal	0	0	0
Local	92,295,305	85,949,086	6,346,219
Other	1,834,601	1,926,334	-91,733
Total	<u>\$ 188,366,287</u>	<u>\$ 194,043,636</u>	<u>\$ -5,677,349</u>

**BALDWIN COUNTY BOARD OF EDUCATION  
MANAGEMENT DISCUSSION AND ANALYSIS  
For The Year Ended September 30, 2010**

Total General Fund revenue decreased by \$5,677,349 from the previous year due to 9.5% proration plus other state funding cuts. However, an increase of 7.4% in local tax revenues for the year helped to reduce the impact to General Fund. 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 \$45,431,470 in Fiscal year 2010, the highest in the State. Table 5 reflects a comparison of General Fund expenditures for FY 2010 and FY 2009.

**Table 5  
General Fund Expenditures**

	<u>FY 2010</u>	<u>FY 2009</u>	<u>Variance</u>
<b>Instruction</b>	\$ 112,609,524	\$ 131,032,453	\$ 18,422,929
<b>Instructional Support</b>	30,115,318	41,615,687	11,500,369
<b>Operation &amp; Maintenance</b>	8,910,558	11,585,780	2,675,222
<b>Auxiliary Services</b>	8,522,209	9,826,784	1,304,575
<b>Gen.Admin. &amp; Cen. Support</b>	6,039,025	6,969,495	930,470
<b>Other</b>	2,962,229	2,530,262	-431,967
<b>Capital Outlay</b>	919,475	194,468	-725,007
<b>Principal Retirement</b>	285,740	292,013	6,273
<b>Interest and Fiscal Charges</b>	3,964,216	3,445,398	-518,818
	<u><u>\$ 174,328,294</u></u>	<u><u>\$ 207,492,340</u></u>	<u><u>\$ 33,164,046</u></u>

General Fund expenditures decreased by \$33,164,046 or (15.98%) from the previous fiscal year. Much of this decrease, attributed to decreased staff and a spending freeze, is also discussed under the section Financial Analysis of the Board as a Whole.

General Fund revenues and sources of funds exceeded expenditures and uses of funds by \$4,859,058. The negative balance of (\$9,233,567) is due to the previous full accrual of salaries in the amount of \$15,224,501.80 at the end of FY 2009. This 2009 entry resulted in a large beginning fund balance in the deficit. The budgetary basis reflects a **positive** balance of \$3,230,362.

**Sales Tax Fund** – The Sales Tax Fund accounts for various maintenance and operations of the Board. The General Fund often absorbs some of these costs due to the drop in this specific revenue over the past two years. The Sales Tax Fund reflected an overall decrease in fund balance of (\$2,729,999) resulting in a fund balance of (\$211,424). An entry and transfer was made after the end of the fiscal year in order to address the negative fund balance.

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

**BALDWIN COUNTY BOARD OF EDUCATION  
MANAGEMENT DISCUSSION AND ANALYSIS  
For The Year Ended September 30, 2010**

**General Fund Budgetary Highlights**

The FY 2010 Budget, adopted on September 10, 2009, 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 March 18, 2010 to address changes in certain federal and state funds as well as revisions to the General Fund and Sales Tax Fund. Amendment #2 was submitted on June 15, 2010 primarily for the purpose of adjusting the local budgets due to the passage of the Penny Tax effective June 1, 2010.

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, 2010, the Board had \$398,234,311 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. The overall increase is due to the major additions to completed buildings. Significant progress was made on various projects. Table 6 below reflects a summary comparison of Capital Assets for fiscal year 2010 to fiscal year 2009.

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

	<u>FY 2010</u>	<u>FY 2009</u>	<u>Variance</u>
Land and Inexhaustible Land Improvements	\$ 7,668,730	\$ 7,660,998	\$ 7,732
Exhaustible Land Improvements	903,249	1,007,556	-104,307
Buildings	207,581,134	188,195,708	19,385,426
Building Improvements	32,405,342	32,803,646	-398,304
Equipment & Furniture	5,180,449	5,822,187	-641,738
Vehicles	5,911,786	6,986,916	-1,075,130
Assets Under Capital Lease	4,316,689	4,038,880	277,809
Construction in Progress	134,266,832	151,183,151	-16,916,319
	<u>\$ 398,234,211</u>	<u>\$ 397,699,042</u>	<u>\$ 535,169</u>

**Long-Term Debt** – At year-end the Board had \$225,916,230 in warrants payable, notes payable, and other long-term debt outstanding. The Board made debt service payments in principal totaling \$9,511,426 as reflected in Table 7 below. (Additional information on the Board's long-term debt is presented in the notes to the basic financial statements.)

**BALDWIN COUNTY BOARD OF EDUCATION  
MANAGEMENT DISCUSSION AND ANALYSIS  
For The Year Ended September 30, 2010**

**Table 7  
Outstanding Long-Term Debt  
For the Year Ended September 30, 2010**

	Debt Outstanding 10/1/2009	Additions	Reductions	Debt Outstanding 9/30/2010	Amounts Due Within One Year
<b>Governmental Activities:</b>					
Warrants Payable	222,766,815	2,364,769	-8,603,583	216,528,001	6,959,211
Deferred Amounts:					
Unamortized Premium	2,797,366	105,680	-194,995	2,708,051	186,417
Unamortized Discount	-1,311,951		47,278	-1,264,674	-47,278
Deferred Loss on Refunding		-55,804	4,069	-51,735	-6,975
Total Warrants Payable	224,252,230	2,414,645	-8,747,231	217,919,643	7,091,375
Other Liabilities:					
Certificates of Participation-QZAB	1,000,000			1,000,000	
Notes Payable	208,127	35,100	-104,064	139,163	111,064
Capital Lease Contracts	4,630,751		-660,130	3,970,621	689,010
Estimated Liability for					
Compensated Absences	2,565,936	320,866		2,886,803	258,625
Total Other Liabilities	8,404,814	355,966	-764,194	7,996,587	1,058,699
Governmental Activity Long-Term Liabilities	<b>232,657,044</b>	<b>2,770,611</b>	<b>-9,511,425</b>	<b>225,916,230</b>	<b>8,150,074</b>

**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 continued decline in overall economy during FY 2010. Ad Valorem taxes declined and Sales Tax revenues continued in decline until the addition of the Penny Tax. The Board was able to recognize slightly more than \$9 Million in additional local revenues and end the year on a budgetary basis out of the deficit.
- The economy in the County appeared to be on the rise until a major event in April 2010. A catastrophe occurred as a result of the BP oil spill resulting in a significant decrease in local sales tax revenue for the county and the system. The Board filed a lost revenue claim of \$4.4 Million; however, no funds have been received as of this writing. The Board continues to work toward a solution with BP.
- The Board faced two years of back-to-back proration. The State declared 11% proration in FY 2009 and another 9.5% in FY 2010. These mid year cuts plus other state funding cuts were devastating to the Board as well as to all systems in Alabama. The 9.5% proration equated to an approximate loss of \$9.7 Million in State funds.
- The Board continues to adhere to the Financial Improvement Plan submitted to the State in FY 2010 to address an improvement in the overall financial condition of the system and a plan to rebuild the fund balance in order to comply with the State standard.

**BALDWIN COUNTY BOARD OF EDUCATION  
MANAGEMENT DISCUSSION AND ANALYSIS  
For The Year Ended September 30, 2010**

- The Board experienced a reduction in expenditures for FY 2010 in order to accommodate for the severe losses in state and local revenues. The system reduced by a total of 499 positions from the October 2007 LEAPS report to the October 2010 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 local 10 mill match accounted for 35.7% of the State's Foundation Revenues for Baldwin County in FY 2010 after proration was declared.
- 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 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 will continue to implement and monitor its financial improvement plan in order to rebuild reserves to State requirements.

**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, 2010***

	<b>Governmental Activities</b>
<b><u>Assets</u></b>	
Cash and Cash Equivalents	\$ 20,710,457.51
Cash with Fiscal Agent	5,020,461.45
Investments	343,048.93
Ad Valorem Property Taxes Receivable	49,155,197.82
Receivables (Note 4)	10,541,611.68
Inventories	1,374,255.75
Deferred Charges - Issuance Costs	1,894,904.60
Prepaid Item	176,383.03
Capital Assets (Note 5):	
Nondepreciable	141,935,562.28
Depreciable, Net	256,298,648.74
Total Assets	<u>487,450,531.79</u>
<b><u>Liabilities</u></b>	
Accounts Payable	320,223.73
Deferred Revenue	50,074,083.54
Salaries and Benefits Payable	12,885,175.49
Accrued Interest Payable	2,706,631.39
Short-Term Notes Payable	11,811,763.52
Long-Term Liabilities:	
Portion Payable Within One Year:	
Warrants Payable	6,959,210.64
Add: Unamortized Premium	186,417.51
Less: Unamortized Discount	(47,277.52)
Less: Deferred Loss on Refunding	(6,975.44)
Notes Payable	111,063.63
Capital Leases	689,010.07
Compensated Absences	258,625.41
Portion Payable After One Year:	
Warrants Payable	209,568,790.40
Add: Unamortized Premium	2,521,632.99
Less: Unamortized Discount	(1,217,396.09)
Less: Deferred Loss on Refunding	(44,759.11)
Qualified Zone Academy Bonds	1,000,000.00
Notes Payable	28,100.00
Capital Leases	3,281,610.76
Compensated Absences	2,628,177.09
Total Liabilities	<u>\$ 303,714,108.01</u>

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

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	<b>Governmental Activities</b>
<hr/>	
<b><u>Net Assets</u></b>	
Invested in Capital Assets, Net of Related Debt	\$ 178,484,671.70
Restricted for:	
Debt Service	2,268,493.44
Capital Projects	745,420.14
Unrestricted	2,237,838.50
 Total Net Assets	 \$ 183,736,423.78

**Statement of Activities**  
**For the Year Ended September 30, 2010**

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>Governmental Activities</b>			
Instruction	\$ 136,586,106.05	\$ 2,936,186.43	\$ 85,281,405.17
Instructional Support Services	41,368,843.37	1,386,961.77	21,812,371.59
Operation and Maintenance Services	24,866,495.02	815,000.29	573,057.25
Auxiliary Services:			
Student Transportation Services	10,903,678.68	493,306.85	7,970,205.61
Food Services	11,782,029.43	9,689,468.50	591,682.53
General Administration and Central Support	8,123,172.11	7,321.03	633,949.42
Interest and Fiscal Charges	10,617,736.89		
Other Expenses	6,760,720.75	2,170,606.43	3,269,713.68
Total Governmental Activities	<u>\$ 251,008,782.30</u>	<u>\$ 17,498,851.30</u>	<u>\$ 120,132,385.25</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  
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.

		<b>Net (Expenses) Revenues and Changes in Net Assets</b>	
<b>Capital Grants and Contributions</b>		<b>Total Governmental Activities</b>	
\$	11,567,692.70	\$	(36,800,821.75)
	364,592.31		(17,804,917.70)
			(23,478,437.48)
			(2,440,166.22)
	1,093,776.92		(407,101.48)
	19,618.00		(7,462,283.66)
			(10,617,736.89)
			(1,320,400.64)
<u>\$</u>	<u>13,045,679.93</u>		<u>(100,331,865.82)</u>

52,044,284.62
28,124,518.50
20,330,298.15
344,236.05
1,147,917.15
2,228,574.04
39,311.50
7,054,575.78
<u>111,313,715.79</u>
10,981,849.97
<u>172,754,573.81</u>
<u>\$ 183,736,423.78</u>

***Balance Sheet***  
***Governmental Funds***  
***September 30, 2010***

	<b>General Fund</b>	<b>Sales Tax Fund</b>
<b><u>Assets</u></b>		
Cash and Cash Equivalents	\$ 3,613,348.73	\$ 99,842.93
Cash with Fiscal Agent		
Investments		
Ad Valorem Property Taxes Receivable	49,155,197.82	
Receivables (Note 4)	5,418,716.05	1,047,635.08
Due From Other Funds	6,455,641.89	
Inventories	291,744.01	509,222.51
Prepaid Item	176,383.03	
Total Assets	<u>65,111,031.53</u>	<u>1,656,700.52</u>
<b><u>Liabilities and Fund Balances</u></b>		
<b><u>Liabilities</u></b>		
Accounts Payable	6,586.11	3,158.00
Due To Other Funds		1,864,966.58
Deferred Revenues	50,074,083.54	
Salaries and Benefits Payable	12,463,928.78	
Notes Payable	11,800,000.00	
Total Liabilities	<u>74,344,598.43</u>	<u>1,868,124.58</u>
<b><u>Fund Balances</u></b>		
Reserved for:		
Encumbrances	2,134.75	72,955.87
Inventories	291,744.01	509,222.51
Capital Projects		
Debt Service		
Unreserved:		
Reported in General Fund	(9,527,445.66)	
Reported in Special Revenue Funds		(793,602.44)
Total Fund Balances	<u>(9,233,566.90)</u>	<u>(211,424.06)</u>
Total Liabilities and Fund Balances	<u>\$ 65,111,031.53</u>	<u>\$ 1,656,700.52</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 16,997,265.85	\$ 20,710,457.51
5,020,461.45	5,020,461.45
343,048.93	343,048.93
	49,155,197.82
4,075,260.55	10,541,611.68
783,672.05	7,239,313.94
573,289.23	1,374,255.75
	176,383.03
<u>27,792,998.06</u>	<u>94,560,730.11</u>
310,479.62	320,223.73
5,374,347.36	7,239,313.94
	50,074,083.54
421,246.71	12,885,175.49
11,763.52	11,811,763.52
<u>6,117,837.21</u>	<u>82,330,560.22</u>
4,649,540.44	4,724,631.06
573,289.23	1,374,255.75
1,644,857.52	1,644,857.52
4,975,124.83	4,975,124.83
	(9,527,445.66)
9,832,348.83	9,038,746.39
<u>21,675,160.85</u>	<u>12,230,169.89</u>
<u>\$ 27,792,998.06</u>	<u>\$ 94,560,730.11</u>

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***Reconciliation of the Balance Sheet of Governmental Funds to the  
Statement of Net Assets  
September 30, 2010***

Total Fund Balances - Governmental Funds (Exhibit 3)	\$ 12,230,169.89
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	\$ 467,358,976.64
Accumulated Depreciation is	<u>(69,124,765.62)</u>
	398,234,211.02
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred on the Statement of Net Assets.	1,894,904.60
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 11.)	
Portion of Long-Term Debt Due or Payable Within One Year	\$ 8,150,074.30
Portion of Long-Term Debt Due or Payable After One Year	<u>217,766,156.04</u>
	(225,916,230.34)
Interest on long-term debt is not accrued in the funds but rather is recognized as an expenditure when due.	
Accrued Interest Payable	<u>(2,706,631.39)</u>
Total Net Assets - Governmental Activities (Exhibit 1)	<u><u>\$ 183,736,423.78</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, 2010***

	<b>General Fund</b>	<b>Sales Tax Fund</b>
<b><u>Revenues</u></b>		
State	\$ 94,236,381.29	\$
Federal		
Local	92,295,304.37	11,296,867.09
Other	1,834,600.93	
Total Revenues	<u>188,366,286.59</u>	<u>11,296,867.09</u>
<b><u>Expenditures</u></b>		
Current:		
Instruction	112,609,524.27	
Instructional Support Services	30,115,317.77	
Operation and Maintenance Services	8,910,558.07	14,065,873.30
Auxiliary Services:		
Student Transportation Services	8,522,208.88	
Food Services		
General Administration and Central Support	6,039,024.78	
Capital Outlay	919,475.52	
Debt Service:		
Principal Retirement	285,739.63	
Interest and Fiscal Charges	3,964,216.28	
Debt Issuance Costs		
Other	2,962,229.11	
Total Expenditures	<u>174,328,294.31</u>	<u>14,065,873.30</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>14,037,992.28</u>	<u>(2,769,006.21)</u>
<b><u>Other Financing Sources (Uses)</u></b>		
Indirect Cost	1,157,072.80	
Debt Issued		
Premiums on Long-Term Debt Issued		
Transfers In	725,551.34	36,598.67
Other Financing Sources	99,570.74	2,408.20
Sale of Capital Assets	50,670.00	
Transfers Out	(11,211,798.74)	
Payments to Refunding Escrow Agent		
Total Other Financing Sources (Uses)	<u>(9,178,933.86)</u>	<u>39,006.87</u>
Net Changes in Fund Balances	4,859,058.42	(2,729,999.34)
Fund Balances - Beginning of Year	<u>(14,092,625.32)</u>	<u>2,518,575.28</u>
Fund Balances - End of Year	<u>\$ (9,233,566.90)</u>	<u>\$ (211,424.06)</u>

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

<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 13,045,679.93	\$ 107,282,061.22
31,588,809.63	31,588,809.63
17,238,368.89	120,830,540.35
321,079.60	2,155,680.53
<u>62,193,938.05</u>	<u>261,857,091.73</u>
18,679,804.34	131,289,328.61
10,899,032.78	41,014,350.55
1,617,699.53	24,594,130.90
810,666.80	9,332,875.68
12,004,057.16	12,004,057.16
494,045.43	6,533,070.21
9,287,892.91	10,207,368.43
8,344,436.43	8,630,176.06
6,872,183.57	10,836,399.85
26,986.29	26,986.29
3,790,442.36	6,752,671.47
<u>72,827,247.60</u>	<u>261,221,415.21</u>
<u>(10,633,309.55)</u>	<u>635,676.52</u>
	1,157,072.80
2,399,869.38	2,399,869.38
105,679.76	105,679.76
12,909,242.19	13,671,392.20
31,561.60	133,540.54
	50,670.00
(2,459,593.46)	(13,671,392.20)
(793,404.08)	(793,404.08)
<u>12,193,355.39</u>	<u>3,053,428.40</u>
1,560,045.84	3,689,104.92
<u>20,115,115.01</u>	<u>8,541,064.97</u>
<u>\$ 21,675,160.85</u>	<u>\$ 12,230,169.89</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, 2010***

Net Changes in Fund Balances - Total Governmental Funds (Exhibit 5) \$ 3,689,104.92

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	\$ 10,207,368.43	
Depreciation Expense	<u>(8,065,855.55)</u>	
		2,141,512.88

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. 8,630,176.06

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. 18,771.79

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. 793,404.08

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. (2,399,869.38)

Premiums on debt issuance are reported as other financing sources in the governmental funds, but are amortized in the Statement of Activities. (105,679.76)

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	\$ (50,670.00)	
Loss on Disposition of Capital Assets	<u>(1,555,673.83)</u>	(1,606,343.83)

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 (Increase)/Decrease	\$ 83,228.61	
Compensated Absences, Current Year (Increase)/Decrease in Noncurrent Portion	(320,866.25)	
Amortization of Discount/Premiums/Issuance Costs	<u>58,410.85</u>	<u>(179,226.79)</u>

Change in Net Assets of Governmental Activities (Exhibit 2)		<u><u>\$ 10,981,849.97</u></u>
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***Statement of Fiduciary Net Assets***  
***September 30, 2010***

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	<b>Agency Funds</b>
<b><u>Assets</u></b>	
Cash and Cash Equivalents	\$ 247,869.15
Total Assets	<u>247,869.15</u>
<b><u>Liabilities</u></b>	
Accounts Payable	2,429.65
Due to External Organizations	245,439.50
Total Liabilities	<u>\$ 247,869.15</u>

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

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2010*

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#### **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.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2010*

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#### *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.
- ◆ **Sales Tax Fund** – This fund is used to account for the revenues and expenditures of a one-cent sales tax levied specifically for capital improvements, capital construction, and maintenance purposes.

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

#### *Governmental Fund Types*

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

The Board reports the following fiduciary fund type:

#### *Fiduciary Fund Type*

- ◆ **Agency Funds** – These funds are 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.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2010*

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#### **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.

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.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2010***

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**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.

**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.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2010*

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#### 5. 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%

#### 6. 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, 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.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2010***

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**7. 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.

**8. Net Assets/Fund Equity**

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

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

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

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2010***

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

**A. 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 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. The Child Nutrition Program Fund budgets on a basis of accounting consistent with GAAP 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. Capital projects funds adopt project-length budgets. All appropriations lapse at fiscal year-end.

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

Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

**B. Deficit Fund Balances/Net Assets of Individual Funds**

At September 30, 2010, the following governmental funds had deficit fund balances:

General Fund	\$9,233,566.90
Sales Tax Fund	\$ 211,424.06
Direct Payment to LEA – Act 2007-415 – Incentive	\$ 1,332.96
Capital Projects – Bonds and Warrants Fund	\$ 328,284.42

The deficit in the General Fund is a result of the salary accrual adjustment. Salaries and benefits payable at September 30, 2010, are funded with an appropriation from the State of Alabama that is not legally available to the Board until October 1 and therefore, is not reflected as revenue in the Board's financial statements as of September 30, 2010.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2010*

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#### Note 3 – Deposits and Investments

##### A. Deposits and Investments

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

##### 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, 2010, 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	\$4,300,237.22	90 days or less	AAAm
U. S. Treasury Bill	<u>720,224.23</u>	01/13/2011	NR
Total Cash with Fiscal Agent	<u>\$5,020,461.45</u>		
NR = Not Rated			

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2010***

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**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.

**Concentration 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.

**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.

***Notes to the Financial Statements***  
***For the Year Ended September 30, 2010***

**Note 4 – Receivables**

On September 30, 2010, receivables for the Board’s individual major funds and other governmental funds in the aggregate are as follows:

	General Fund	Sales Tax Fund	Other Governmental Funds	Total
Accounts	\$ 144,235.21	\$	\$ 17,491.58	\$ 161,726.79
Sales Tax	4,515,459.57	1,047,635.08		5,563,094.65
Intergovernmental	754,619.76		2,815,660.87	3,570,280.63
Note			1,208,000.00	1,208,000.00
Other	4,401.51		34,108.10	38,509.61
Total Receivables	<u>\$5,418,716.05</u>	<u>\$1,047,635.08</u>	<u>\$4,075,260.55</u>	<u>\$10,541,611.68</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, 2010, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Ad Valorem Taxes	\$48,800,000.00	\$1,274,083.54
Total Deferred/Unearned Revenue for Governmental Funds	<u>\$48,800,000.00</u>	<u>\$1,274,083.54</u>

**Notes to the Financial Statements**  
**For the Year Ended September 30, 2010**

**Note 5 – Capital Assets**

Capital asset activity for the year ended September 30, 2010, was as follows:

	Balance October 1, 2009	Additions/ Reclassifications	Retirements/ Reclassifications	Balance September 30, 2010
<b>Governmental Activities:</b>				
<b>Capital Assets, Not Being Depreciated:</b>				
Land and Land Improvements	\$ 7,369,897.14	\$ 8,732.24	\$ (1,000.00)	\$ 7,377,629.38
Land Improvements (Inexhaustible)	291,100.80			291,100.80
Construction in Progress	151,183,151.03	7,480,971.47	(24,397,290.40)	134,266,832.10
Total Capital Assets, Not Being Depreciated	<u>158,844,148.97</u>	<u>7,489,703.71</u>	<u>(24,398,290.40)</u>	<u>141,935,562.28</u>
<b>Capital Assets Being Depreciated:</b>				
Land Improvements (Exhaustible)	2,015,623.84			2,015,623.84
Buildings	228,151,434.35	24,397,290.40	(3,274,423.34)	249,274,301.41
Building Improvements	39,908,025.99	1,358,255.43	(979,062.74)	40,287,218.68
Equipment and Furniture	11,180,084.89	391,169.34	(194,846.20)	11,376,408.03
Vehicles	16,314,760.27	115,463.71	(79,889.00)	16,350,334.98
Assets Under Capital Lease	5,266,751.18	852,776.24		6,119,527.42
Total Capital Assets Being Depreciated	<u>302,836,680.52</u>	<u>27,114,955.12</u>	<u>(4,528,221.28)</u>	<u>325,423,414.36</u>
<b>Less Accumulated Depreciation for:</b>				
Land Improvements (Exhaustible)	1,008,067.31	104,307.58		1,112,374.89
Buildings	39,955,726.76	3,775,816.70	(2,038,375.96)	41,693,167.50
Building Improvements	7,104,379.49	1,399,554.43	(622,056.79)	7,881,877.13
Equipment and Furniture	5,357,897.87	1,024,611.14	(186,550.15)	6,195,958.86
Vehicles	9,327,844.65	1,186,599.23	(75,894.55)	10,438,549.33
Assets Under Capital Lease	1,227,871.44	574,966.47		1,802,837.91
Total Accumulated Depreciation	<u>63,981,787.52</u>	<u>8,065,855.55</u>	<u>(2,922,877.45)</u>	<u>69,124,765.62</u>
Total Capital Assets Being Depreciated, Net	<u>238,854,893.00</u>	<u>19,049,099.57</u>	<u>(1,605,343.83)</u>	<u>256,298,648.74</u>
Total Governmental Activities Capital Assets, Net	<u>\$397,699,041.97</u>	<u>\$26,538,803.28</u>	<u>\$(26,003,634.23)</u>	<u>\$398,234,211.02</u>

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

	Current Year Depreciation Expense
<b>Governmental Activities:</b>	
Instruction	\$4,975,911.19
Instructional Support Services	354,492.82
Operation and Maintenance Services	272,364.12
<b>Auxiliary Services:</b>	
Food Services	746,299.61
Student Transportation Services	1,570,803.00
General Administration and Central Support	137,935.53
Other	8,049.28
Total Depreciation Expense – Governmental Activities	<u>\$8,065,855.55</u>

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2010***

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**Note 6 – Defined Benefit Pension Plan**

**A. Plan Description**

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

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

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

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

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2010***

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**B. Funding Policy**

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

Fiscal Year Ended September 30,	2010	2009	2008
Total Percentage of Covered Payroll	17.51%	17.07%	16.75%
<b><u>Contributions:</u></b>			
Percentage Contributed by the Board	12.51%	12.07%	11.75%
Percentage Contributed by the Employees	5.00%	5.00%	5.00%
Contributed by the Board	\$16,294,035.88	\$17,514,835.96	\$17,468,270.94
Contributed by the Employees	6,512,425.91	7,255,553.70	7,433,321.77
Total Contributions	<u>\$22,806,461.79</u>	<u>\$24,770,389.66</u>	<u>\$24,901,592.71</u>

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

**A. Plan Description**

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

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2010***

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**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 2010
Individual Coverage – Non-Medicare Eligible	\$ 97.54
Individual Coverage – Medicare Eligible	\$ 1.14
Family Coverage – Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	\$284.94
Family Coverage – Non-Medicare Eligible Retired Member and Dependent Medicare Eligible	\$188.54
Family Coverage – Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	\$188.54
Family Coverage – Medicare Eligible Retired Member and Dependent Medicare Eligible	\$ 92.14
Surviving Spouse – Non-Medicare Eligible	\$598.00
Surviving Spouse – Non-Medicare Eligible and Dependent Non-Medicare Eligible	\$730.00
Surviving Spouse – Non-Medicare Eligible and Dependent Medicare Eligible	\$689.00
Surviving Spouse – Medicare Eligible	\$313.00
Surviving Spouse – Medicare Eligible and Dependent Non-Medicare Eligible	\$445.00
Surviving Spouse – Medicare Eligible and Dependent Medicare Eligible	\$404.00

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 \$25.00 per month for retired members that smoke.

***Notes to the Financial Statements***  
***For the Year Ended September 30, 2010***

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
2010	\$752.00	\$241.27	32.08%	\$8,776,210.70	100%
2009	\$752.00	\$205.45	27.32%	\$8,827,035.75	100%
2008	\$775.00	\$212.35	27.40%	\$9,415,270.45	100%

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

**Note 8 – Lease Obligations**

**Capital Leases**

The Board is obligated under certain leases accounted for as capital leases. Assets under capital leases totaled \$6,119,527.42 at September 30, 2010. 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, 2010.

Fiscal Year Ending	Governmental Activities
September 30, 2011	\$ 847,442.02
2012	847,441.99
2013	843,126.61
2014	629,668.31
2015	629,668.28
2016-2017	682,140.61
Total Minimum Lease Payments	4,479,487.82
Less: Amount Representing Interest	508,866.99
Present Value of Net Minimum Lease Payments	\$3,970,620.83

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2010*

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#### 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, 2010, the Board paid a total of \$98,605.22 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, 2010:

	Equipment
2010-2011	\$ 77,500.22
2011-2012	42,765.01
2012-2013	3,482.58
Total Minimum Payments Required	<u>\$123,747.81</u>

#### Note 9 – Short-Term Debt

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

On October 1, 2009, 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 \$27,350,000.

Short-term debt activity for the year ended September 30, 2010, was as follows:

	Beginning Balance	Proceeds	Repaid	Ending Balance
Robertsdale High School Note	\$ 21,613.52	\$	\$ 21,613.52	\$
Robertsdale High School Note		21,763.52	10,000.00	11,763.52
Current Revenue Anticipation Note	8,350,000.00	42,700,000.00	39,250,000.00	11,800,000.00
Total Notes Payable	<u>\$8,371,613.52</u>	<u>\$42,721,763.52</u>	<u>\$39,281,613.52</u>	<u>\$11,811,763.52</u>

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2010*

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#### *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.

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. The Board's portion of the net proceeds deposited in an irrevocable trust with an escrow agent was \$793,404.08. The liabilities removed for the Series 2001-A was \$737,600.52. Furthermore, the Series 2001-A debt contained deferred premium and issue costs, of which \$13,470.46 and \$2,968.00, respectively, were associated with the refunded debt.

## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2010*

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.

The following is a summary of general long-term debt transactions for the Board for the year ended September 30, 2010:

	Debt Outstanding 10/01/2009	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 09/30/2010	Amounts Due Within One Year
<b>Governmental Activities:</b>					
Warrants Payable	\$222,766,814.63	\$2,364,769.38	\$(8,603,582.97)	\$216,528,001.04	\$6,959,210.64
Deferred Amounts:					
Add: Unamortized Premium	2,797,366.12	105,679.76	(194,995.38)	2,708,050.50	186,417.51
Less: Unamortized Discount	(1,311,951.13)		47,277.52	(1,264,673.61)	(47,277.52)
Less: Deferred Loss on Refunding		(55,803.56)	4,069.01	(51,734.55)	(6,975.44)
Total Warrants Payable	<u>224,252,229.62</u>	<u>2,414,645.58</u>	<u>(8,747,231.82)</u>	<u>217,919,643.38</u>	<u>7,091,375.19</u>
<b>Other Liabilities:</b>					
Certificates of Participation (QZAB)	1,000,000.00			1,000,000.00	
Notes Payable	208,127.24	35,100.00	(104,063.61)	139,163.63	111,063.63
Capital Lease Contracts Payable	4,630,750.83		(660,130.00)	3,970,620.83	689,010.07
Estimated Liabilities for					
Compensated Absences	<u>2,565,936.25</u>	<u>320,866.25</u>		<u>2,886,802.50</u>	<u>258,625.41</u>
Total Other Liabilities	<u>8,404,814.32</u>	<u>355,966.25</u>	<u>(764,193.61)</u>	<u>7,996,586.96</u>	<u>1,058,699.11</u>
Governmental Activities Long-Term Liabilities	<u>\$232,657,043.94</u>	<u>\$2,770,611.83</u>	<u>\$(9,511,425.43)</u>	<u>\$225,916,230.34</u>	<u>\$8,150,074.30</u>

Payments on the Series 1996-C, 2005 and 2007 warrants payable are made by the Debt Service Fund with property taxes and sales taxes. Payments on the Capital Improvement Pool Bonds Series 2001A, 2002A, 2009-B and 2009-D are made by the bonds and warrants fund with Public School Funds withheld from the Board's allocation from the Alabama Department of Education. Payments on the capital leases are made from the Fleet Renewal Fund, the General Fund and the Local School Fund. The long-term note payable will be paid from the General Fund. The compensated absences liability will primarily be liquidated by the General Fund.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2010***

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Simultaneously, upon the issuance of the certificates of participation in the 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.

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, 2011	\$ 6,959,210.64	\$ 10,290,047.15	\$	\$
2012	5,946,630.72	9,958,998.11		
2013	6,213,485.97	9,681,870.19		
2014	6,492,857.64	9,395,482.32		
2015	6,821,479.33	9,099,133.81		
2016-2020	39,526,450.75	40,166,796.53		
2021-2025	41,669,885.99	29,949,502.91	1,000,000.00	
2026-2030	45,273,000.00	19,552,360.52		
2031-2035	39,195,000.00	9,660,763.00		
2036-2037	18,430,000.00	1,253,700.00		
<b>Total</b>	<b>\$216,528,001.04</b>	<b>\$149,008,654.54</b>	<b>\$1,000,000.00</b>	<b>\$</b>

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2010***

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Capital Lease Contracts Payable		Notes Payable		Total Principal and Interest Requirements to Maturity
Principal	Interest	Principal	Interest	
\$ 689,010.07	\$158,431.95	\$111,063.63	\$2,348.78	\$ 18,210,112.22
719,155.11	128,286.88	7,000.00	1,885.51	16,761,956.33
746,305.33	96,821.28	7,000.00	1,411.94	16,746,894.71
563,093.73	66,574.58	7,000.00	943.53	16,525,951.80
587,599.15	42,069.13	7,100.00	475.11	16,557,856.53
665,457.44	16,683.17			80,375,387.89
				72,619,388.90
				64,825,360.52
				48,855,763.00
				19,683,700.00
<b>\$3,970,620.83</b>	<b>\$508,866.99</b>	<b>\$139,163.63</b>	<b>\$7,064.87</b>	<b>\$371,162,371.90</b>

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2010***

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**Issue 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.
- ◆ 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.

**Notes to the Financial Statements**  
**For the Year Ended September 30, 2010**

	Issuance Costs	Premium	Discount	Deferred Loss on Refunding
<b>Total Deferred Amounts</b>				
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			
Total Deferred Amounts	2,256,712.44	3,995,436.86	1,418,325.55	55,803.56
<b>Amount Amortized Prior Years</b>				
Capital Improvement Pool Bonds, Series 2001A	4,695.44	21,310.72		
Capital Improvement Pool Bonds, Series 2002A	92,755.60	667,376.16		
Capital Outlay School Warrants, Series 2005	33,512.40	403,704.10		
Qualified Zone Academy Bonds, Series 2005	13,280.91			
Capital Outlay School Warrants, Series 2007	132,325.49		106,374.42	
Capital Improvement Pool Refunding, Series 2009-B				
Capital Outlay Pool Warrants, Series 2009-D				
Total Amount Amortized Prior Years	276,569.84	1,092,390.98	106,374.42	
<b>Balance Deferred Amounts</b>				
Capital Improvement Pool Bonds, Series 2001A	7,043.19	31,965.98		
Capital Improvement Pool Bonds, Series 2002A	139,133.46	1,001,064.14		
Capital Outlay School Warrants, Series 2005	146,460.57	1,764,336.00		
Qualified Zone Academy Bonds, Series 2005	36,719.09			
Capital Outlay School Warrants, Series 2007	1,632,014.50		1,311,951.13	
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			
Total Balance Deferred Amounts	1,980,142.60	2,903,045.88	1,311,951.13	55,803.56
<b>Current Amount Amortized</b>				
Capital Improvement Pool Bonds, Series 2001A	3,307.60	15,011.75		
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	262.18	6,849.61		4,069.01
Capital Outlay Pool Warrants, Series 2009-D	690.32			
Total Current Amount Amortized	85,238.00	194,995.38	47,277.52	4,069.01
<b>Balance Deferred Amounts</b>				
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			
Total Balance Deferred Amounts	\$1,894,904.60	\$2,708,050.50	\$1,264,673.61	\$51,734.55

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2010*

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#### *Pledged Revenues*

The Board issued Refunding School Warrants, Series 1996-C for the purpose of refunding previously issued warrants. In addition, 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 both warrants from the proceeds of the sales and use tax collected pursuant to *Code of Alabama 1975*, Section 40-12-4. Future revenues of \$1,336,000.00 are pledged to repay principal and interest on the Series 1996-C warrants at September 30, 2010. Future revenues of \$68,843,000.00 are pledged to repay the principal and interest on the Series 2005 warrants at September 30, 2010. Pledged revenues in the amount of \$37,158,098.38 were received during the fiscal year ended September 30, 2010 which were used to pay \$4,951,190.00 principal and interest payments on both warrants. The Series 1996-C warrants and the Series 2005 warrants will mature in fiscal years 2011 and 2029, respectively.

The Board issued Series 2001A and Series 2002A Capital Improvement Pool Bonds, Series 2009-B Improvement Pool Refunding Bonds and Series 2009-D Capital Improvement Pool Qualified School Construction Bonds which are pledged to be repaid from their allocation of public school funds received from the State of Alabama. The proceeds are to be used for the acquisition, construction and renovation of school facilities. Future revenues in the amount of \$1,190,476.06 are pledged to repay the principal and interest on the 2001A bonds at September 30, 2010. Future revenues in the amount of \$27,823,656.02 are pledged to repay the principal and interest on the Series 2002A bonds at September 30, 2010. Future revenues in the amount of \$902,405.52 are pledged to repay the principal and interest on the Series 2009-B bonds at September 30, 2010. Future revenues in the amount of \$2,148,822.12 are pledged to repay the principal and interest on the Series 2009-D bonds at September 30, 2010. Pledged funds in the amount of \$2,517,272.77 were used to pay principal and interest on the bonds during the fiscal year ended September 30, 2010. This amount represents 57 percent of the pledged funds received by the Board. The Series 2001A, 2002A, 2009B and 2009-D bonds will mature in fiscal years 2021, 2022, 2018 and 2026, respectively.

The Board issued a Current Revenue Anticipation Note for the purpose of paying the salaries of teachers and to meet other expenses of the current fiscal year when due. The current revenue for fiscal year 2011 is pledged to repay the amount owed pursuant to *Code of Alabama 1975*, Section 16-13-145. Future revenues of \$11,800,000.00 are pledged to repay this note at September 30, 2010.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2010***

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**Defeased Debt**

On October 28, 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 net proceeds of \$186,130,483.97 (\$156,199,314.97 for Series 1999-D and \$29,931,169.00 for Series 2001-A) after a premium of \$12,193,548.45 and payment of \$1,023,064.48 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 1999-D and the refunded portion of the Series 2001-A bonds. As a result, the portion of the 2001-A bonds that were refunded are considered to be defeased and the liability for this debt has been removed.

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. The Board’s portion of the net proceeds deposited in an irrevocable trust with an escrow agent was \$793,404.08. The liabilities removed for the Series 2001-A was \$737,600.52.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$55,803.56. This difference is being netted against the net debt and amortized over the remaining life of the refunded debt which is shorter than the life of the new debt issued. As a result of the advance refunding, the Board reduced its total debt service requirements by \$86,201.64, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$80,622.44.

**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, 2010, the outstanding amount for the QZAB certificates, which is \$2 million and \$1 million respectively, is considered to be defeased.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2010*

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#### *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 purchased from 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 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, 2010***

**Note 12 – Interfund Transactions**

**Interfund Receivables and Payables**

The interfund receivables and payables at September 30, 2010, were as follows:

	Interfund Receivables		Totals
	General Fund	Other Governmental Funds	
<b>Interfund Payables:</b>			
Sales Tax Fund	\$1,091,966.58	\$773,000.00	\$1,864,966.58
Other Governmental Funds	5,363,675.31	10,672.05	5,374,347.36
<b>Totals</b>	<b>\$6,455,641.89</b>	<b>\$783,672.05</b>	<b>\$7,239,313.94</b>

**Interfund Transfers**

The amounts of interfund transfers during the fiscal year ending September 30, 2010, were as follows:

	Transfers In			Total
	General Fund	Sales Tax Fund	Other Governmental Funds	
<b>Transfers Out:</b>				
General Fund	\$	\$36,598.67	\$11,175,200.07	\$11,211,798.74
Other Governmental Funds	725,551.34		1,734,042.12	2,459,593.46
<b>Totals</b>	<b>\$725,551.34</b>	<b>\$36,598.67</b>	<b>\$12,909,242.19</b>	<b>\$13,671,392.20</b>

**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.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2010***

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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 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. Although discussions are still in progress, the parties have been unable to agree upon a methodology for calculating the claim and thus have been unable to resolve the outstanding claim. As of April 5, 2011, no funds related to this claim have been received from BP America, Inc., by the Board.

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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, 2010***

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>
	<b>Original</b>	<b>Final</b>	<b>Budgetary Basis</b>
<b><u>Revenues</u></b>			
State	\$ 102,086,082.00	\$ 95,995,417.24	\$ 94,236,381.29
Local	78,586,738.00	87,097,363.26	92,295,304.37
Other	1,072,532.76	1,747,532.76	1,834,600.93
Total Revenues	181,745,352.76	184,840,313.26	188,366,286.59
<b><u>Expenditures</u></b>			
Current:			
Instructional	115,510,920.79	115,399,981.55	114,693,389.31
Instructional Support	29,151,119.76	29,410,528.28	30,643,498.88
Operation and Maintenance	8,764,749.50	8,336,056.00	8,992,048.98
Auxiliary Services:			
Student Transportation	9,140,191.00	8,946,315.00	8,618,937.27
General Administrative	6,149,708.00	6,050,114.00	6,039,024.78
Other	2,701,578.00	2,969,478.38	2,910,891.62
Capital Outlay	231,000.00	231,000.00	919,475.52
Debt Service:			
Principal Retirement	290,000.00	290,000.00	285,739.63
Interest and Fiscal Charges	3,642,434.00	3,642,434.00	3,964,216.28
Total Expenditures	175,581,701.05	175,275,907.21	177,067,222.27
Excess (Deficiency) of Revenues Over Expenditures	6,163,651.71	9,564,406.05	11,299,064.32
<b><u>Other Financing Sources (Uses)</u></b>			
Indirect Cost	1,500,000.00	1,397,618.61	1,157,072.80
Transfers In	675,000.00		725,551.34
Other Financing Sources	50,000.00	50,000.00	99,570.74
Sale of Capital Assets			50,670.00
Transfers Out	(9,138,254.71)	(9,144,634.50)	(11,211,798.74)
Total Other Financing Sources (Uses)	(6,913,254.71)	(7,697,015.89)	(9,178,933.86)
Net Change in Fund Balances	(749,603.00)	1,867,390.16	2,120,130.46
Fund Balances - Beginning of Year	877,000.00	853,707.78	1,110,231.42
Fund Balances - End of Year	\$ 127,397.00	\$ 2,721,097.94	\$ 3,230,361.88

	<b>Budget to GAAP Differences</b>	<b>Actual Amounts GAAP Basis</b>
	\$	\$ 94,236,381.29
		92,295,304.37
		1,834,600.93
		<u>188,366,286.59</u>
(1)	2,083,865.04	112,609,524.27
(1)	528,181.11	30,115,317.77
(1)	81,490.91	8,910,558.07
(1)	96,728.39	8,522,208.88
		6,039,024.78
(1)	(51,337.49)	2,962,229.11
		919,475.52
		285,739.63
		3,964,216.28
	<u>2,738,927.96</u>	<u>174,328,294.31</u>
	<u>2,738,927.96</u>	<u>14,037,992.28</u>
		1,157,072.80
		725,551.34
		99,570.74
		50,670.00
		<u>(11,211,798.74)</u>
		<u>(9,178,933.86)</u>
	2,738,927.96	4,859,058.42
(2)	<u>(15,202,856.74)</u>	<u>(14,092,625.32)</u>
	<u>\$ (12,463,928.78)</u>	<u>\$ (9,233,566.90)</u>

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***Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual - General Fund  
For the Year Ended September 30, 2010***

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**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. Encumbrances outstanding at year-end are reported only as reservations of fund balances and do not constitute expenditures or liabilities.

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\$ 2,738,927.96

\$ 2,738,927.96

***Schedule of Revenues, Expenditures and Changes in Fund Balances***  
***Budget and Actual - Sales Tax Fund***  
***For the Year Ended September 30, 2010***

	Budgeted Amounts		Actual Amounts Budgetary Basis
	Original	Final	
<b><u>Revenues</u></b>			
Local	\$ 12,801,000.00	\$ 12,801,000.00	\$ 11,296,867.09
Total Revenues	12,801,000.00	12,801,000.00	11,296,867.09
<b><u>Expenditures</u></b>			
Current:			
Operation and Maintenance	12,643,096.00	12,743,096.00	14,065,873.30
Capital Outlay	100,000.00		
Total Expenditures	12,743,096.00	12,743,096.00	14,065,873.30
Excess (Deficiency) of Revenues Over Expenditures	57,904.00	57,904.00	(2,769,006.21)
<b><u>Other Financing Sources (Uses)</u></b>			
Transfers In			36,598.67
Other Financing Sources			2,408.20
Total Other Financing Sources (Uses)			39,006.87
Net Change in Fund Balances	57,904.00	57,904.00	(2,729,999.34)
Fund Balances - Beginning of Year		2,518,575.28	2,518,575.28
Fund Balances - End of Year	\$ 57,904.00	\$ 2,576,479.28	\$ (211,424.06)

<b>Budget to GAAP Differences</b>	<b>Actual Amounts GAAP Basis</b>
\$	\$ 11,296,867.09
	<u>11,296,867.09</u>
	14,065,873.30
	<u>14,065,873.30</u>
	<u>(2,769,006.21)</u>
	36,598.67
	<u>2,408.20</u>
	<u>39,006.87</u>
	(2,729,999.34)
	<u>2,518,575.28</u>
<u>\$</u>	<u>\$ (211,424.06)</u>

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*Supplementary Information*

***Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2010***

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>
<b><u>U. S. Department of Agriculture</u></b>		
<b><u>Passed Through Alabama Department of Education</u></b>		
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		
Total U. S. Department Agriculture		
<b><u>U. S. Department of Education</u></b>		
<b><u>Passed Through Alabama Department of Education</u></b>		
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 (M)		
Migrant Education - State Grant Program	84.011	N.A.
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.
Reading First State Grants	84.357	N.A.
Tech-Prep Education	84.243	N.A.
ARRA - State Fiscal Stabilization Fund -		
Education State Grants, Recovery Act (M)	84.394	N.A.
Advanced Placement Program	84.330	N.A.
Education for Homeless Children and Youth Cluster:		
Education for Homeless Children and Youth	84.196	N.A.
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	N.A.
Sub-Total Education for Homeless Children and Youth Cluster		
Sub-Total U. S. Department of Education Forward		
Sub-Total Forward		

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
10/01/2009-09/30/2010	\$ 4,880,599.40	\$ 4,880,599.40	\$ 4,880,599.40	\$ 4,880,599.40
10/01/2009-09/30/2010	599,354.26	599,354.26	599,354.26	599,354.26
	5,479,953.66	5,479,953.66	5,479,953.66	5,479,953.66
10/01/2009-09/30/2010	1,142,393.24	1,142,393.24	1,142,393.24	1,142,393.24
	6,622,346.90	6,622,346.90	6,622,346.90	6,622,346.90
	6,622,346.90	6,622,346.90	6,622,346.90	6,622,346.90
10/01/2009-09/30/2010	6,344,638.55	6,344,638.55	5,074,751.21	5,074,751.21
10/01/2009-09/30/2010	3,928,135.00	3,928,135.00	3,600,948.24	3,600,948.24
	10,272,773.55	10,272,773.55	8,675,699.45	8,675,699.45
10/01/2009-09/30/2010	29,869.00	29,869.00	24,736.53	24,736.53
10/01/2009-09/30/2010	289,156.00	289,156.00	285,801.23	285,801.23
10/01/2009-09/30/2010	111,756.99	111,756.99	96,206.41	96,206.41
10/01/2009-09/30/2010	425,000.00	425,000.00	384,376.73	384,376.73
10/01/2009-09/30/2010	94,796.00	94,796.00	94,794.05	94,794.05
10/01/2009-09/30/2010	20,979.00	20,979.00	20,979.00	20,979.00
10/01/2009-09/30/2010	6,391,492.00	6,391,492.00	6,391,492.00	6,391,492.00
10/01/2009-09/30/2010	4,816.00	4,816.00	4,816.00	4,816.00
10/01/2009-09/30/2010	37,500.00	37,500.00	33,652.63	33,652.63
10/01/2009-09/30/2010	4,261.00	4,261.00	4,261.00	4,261.00
	41,761.00	41,761.00	37,913.63	37,913.63
	17,682,399.54	17,682,399.54	16,016,815.03	16,016,815.03
	\$ 24,304,746.44	\$ 24,304,746.44	\$ 22,639,161.93	\$ 22,639,161.93

***Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2010***

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>
Sub-Total Brought Forward		
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.
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)		
<b><u>Passed Through Alabama Department of Rehabilitation Services</u></b>		
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	N.A.
<b><u>U. S. Department of Education</u></b>		
<b><u>Direct Program</u></b>		
Comprehensive School Reform Demonstration	84.332	
Total U. S. Department of Education		
Sub-Total Forward		

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
	\$ 24,304,746.44	\$ 24,304,746.44	\$ 22,639,161.93	\$ 22,639,161.93
	17,682,399.54	17,682,399.54	16,016,815.03	16,016,815.03
10/01/2009-09/30/2010	5,915,776.87	5,915,776.87	4,432,905.49	4,432,905.49
10/01/2009-09/30/2010	6,286,380.00	6,286,380.00	2,645,352.07	2,645,352.07
	12,202,156.87	12,202,156.87	7,078,257.56	7,078,257.56
10/01/2009-09/30/2010	157,262.48	157,262.48	157,262.48	157,262.48
10/01/2009-09/30/2010	202,698.00	202,698.00	36,330.02	36,330.02
	359,960.48	359,960.48	193,592.50	193,592.50
	12,562,117.35	12,562,117.35	7,271,850.06	7,271,850.06
10/01/2009-09/30/2010	140,329.57	140,329.57	136,181.31	136,181.31
10/01/2009-09/30/2010	1,304,224.37	1,304,224.37	766,256.47	766,256.47
10/01/2009-09/30/2010	159,790.99	159,790.99	152,386.13	152,386.13
10/01/2009-09/30/2010	455,623.00	455,623.00	294,596.50	294,596.50
	615,413.99	615,413.99	446,982.63	446,982.63
10/01/2009-09/30/2010	33,118.46	33,118.46	33,118.46	33,118.46
10/01/2009-09/30/2010	9,000.00	9,000.00	8,547.34	8,547.34
	32,346,603.28	32,346,603.28	24,679,751.30	24,679,751.30
	\$ 38,968,950.18	\$ 38,968,950.18	\$ 31,302,098.20	\$ 31,302,098.20

***Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2010***

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

(M) = Major Program  
N.A. = Not Available

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		
	\$ 38,968,950.18	\$ 38,968,950.18	\$ 31,302,098.20	\$ 31,302,098.20
10/01/2009-09/30/2010	8,280.00	8,280.00	8,280.00	8,280.00
	<u>8,280.00</u>	<u>8,280.00</u>	<u>8,280.00</u>	<u>8,280.00</u>
10/01/2009-09/30/2010	162,252.81	162,252.81	162,252.81	162,252.81
10/01/2009-09/30/2010	124,458.62	124,458.62	124,458.62	124,458.62
	<u>286,711.43</u>	<u>286,711.43</u>	<u>286,711.43</u>	<u>286,711.43</u>
	<u>\$ 39,263,941.61</u>	<u>\$ 39,263,941.61</u>	<u>\$ 31,597,089.63</u>	<u>\$ 31,597,089.63</u>

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***Notes to the Schedule of Expenditures  
of Federal Awards  
For the Year Ended September 30, 2010***

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***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.

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## *Additional Information*

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***Board Members and Administrative Personnel***  
***October 1, 2009 through September 30, 2010***

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<b>Board Members</b>			<b>Term Expires</b>
Hon. Tracy Roberts	President	31490 Tara Boulevard Spanish Fort, AL 36527	2010
Hon. Angie Swiger	Vice-President	2222 West Beach Boulevard Gulf Shores, AL 36542	2014
Hon. Robert A. Wills	Member	P. O. Box 547 Bay Minette, AL 36507	2012
Hon. Elmer McDaniel	Member	21310 Brewton Road Robertsdale, AL 36567	2014
Hon. Norman Moore	Member	210 West Palm Avenue Foley, AL 36535	2010
Hon. Robert Callahan, Jr.	Member	206 Pinecrest Fairhope, AL 36532	2014
Hon. Frank Trione	Member	10210 Plantation Drive Daphne, AL 36526	2012
<b><u>Administrative Personnel</u></b>			
Dr. Faron L. Hollinger	Superintendent	P. O. Box 7052 Spanish Fort, AL 36577	2009
JaNay C. Dawson	Interim Superintendent	210 West Satsuma Avenue Foley, AL 36535	2010
Dr. Alan T. Lee	Superintendent	120 Dunbar Loop Daphne, AL 36526	2013
Jean McCutchen	Chief School Financial Officer	571 Margiana Drive Satsuma, AL 36572	Indefinite

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***Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance With  
Government Auditing Standards***

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We have audited the financial statements of the governmental activities, 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, 2010, which collectively comprise the Baldwin County Board of Education's basic financial statements and have issued our report thereon dated April 5, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the Baldwin County Board of Education's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purposes 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 that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

***Compliance and Other Matters***

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

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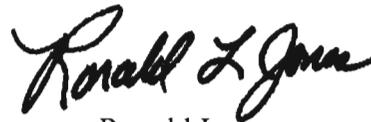
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***Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance With  
Government Auditing Standards***

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This report is intended solely for the information and use of management, 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

April 5, 2011

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***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***

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**Compliance**

We have audited the compliance of the Baldwin County Board of Education with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended September 30, 2010. 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 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, 2010.

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***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***

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**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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 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.

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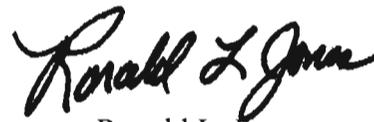
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***Report on Compliance With Requirements That Could  
Have a Direct and Material Effect on Each Major  
Program and on Internal Control Over Compliance in  
Accordance With OMB Circular A-133***

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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

April 5, 2011

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***Schedule of Findings and Questioned Costs***  
***For the Year Ended September 30, 2010***

**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 Circular A-133? \_\_\_\_\_ Yes     X  No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010 and 84.389 84.027, 84.173, 84.391 and 84.392 84.318 and 84.386 84.394	Title I, Part A Cluster Special Education Cluster (IDEA) Education Technology State Grants Cluster State Fiscal Stabilization Grant, Recovery Act

Dollar threshold used to distinguish between Type A and Type B programs: \$947,912.69  
 Auditee qualified as low-risk auditee?  X  Yes    \_\_\_\_\_ No

***Schedule of Findings and Questioned Costs***  
***For the Year Ended September 30, 2010***

**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.	