

Report on the

Pike County Board of Education

Pike County, Alabama

October 1, 2010 through September 30, 2011

Filed: June 22, 2012



Department of Examiners of Public Accounts

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Ronald L. Jones, Chief Examiner



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

Dear Sir:

Under the authority of the *Code of Alabama 1975*, Section 41-5-21, we submit this report on the results of the audit of the Pike County Board of Education, Pike County, Alabama, for the period October 1, 2010 through September 30, 2011.

Sworn to and subscribed before me this
the 5th day of June, 2012.

J. M. Wick
Notary Public

Sworn to and subscribed before me this
the 5th day of June, 2012.

J. M. Wick
Notary Public

Respectfully submitted,

Jenelle H. Smith

Jenelle H. Smith
Examiner of Public Accounts

Julie J. Garner

Julie J. Garner
Examiner of Public Accounts

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Department of
Examiners of Public Accounts

SUMMARY

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

The Pike County Board of Education (the “Board”) is governed by a six-member body elected by the citizens of Pike County. The members and administrative personnel in charge with governance of the Board are listed in Exhibit 11. The Board is the governmental agency that provides general administration and supervision for Pike County public schools, preschool through high school, with the exception of schools administered by the Troy City Board of Education.

This report presents the results of an audit, the objectives of which were to determine whether the financial statements present fairly the financial position and results of financial operations and whether the Board complied with applicable laws and regulations, including those applicable to its major federal financial assistance programs. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States as well as the requirements of the Department of Examiners of Public Accounts under the authority of the *Code of Alabama 1975*, Section 41-5-14.

An unqualified opinion was issued on the financial statements, which means that the Board’s financial statements present fairly, in all material respects, its financial position and the results of its operations for the fiscal year ended September 30, 2011.

The finding is numbered and reported by the fiscal year in which the finding originally occurred.

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

A problem was found with the Board’s internal controls over financial reporting (Exhibit 14) and it is summarized below.

- ◆ 2009-01 relates to money collected at local schools not being deposited in a timely manner.

The following officials/employees were invited to an exit conference to discuss the findings and recommendations appearing in this report: Superintendent: Mark Bazzell, Ed.D; Chief School Finance Officer: Jennifer Hornsby; and Board Members: Linda Steed, Earnest Green, Herbert Reynolds, Wyman Botts, W. Greg Price, and Chris Wilkes. The following individuals attended the exit conference, held at the Board's offices: Superintendent: Mark Bazzell, Ed.D; Chief School Finance Officer: Jennifer Hornsby; Board Members: Linda Steed, Herbert Reynolds and W. Greg Price; and representatives of the Department of Examiners of Public Accounts: Brenda Hollis, Audit Manager, Jenelle Smith, Examiner of Public Accounts, and Julie Garner, Examiner of Public Accounts.

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 Pike County Board of Education, as of and for the year ended September 30, 2011, which collectively comprise the Pike 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 Pike County Board of Education's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

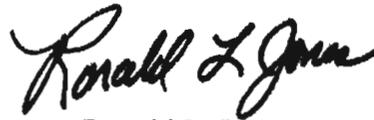
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Pike County Board of Education, as of September 30, 2011, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2012 on our consideration of the Pike County Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying Management's Discussion and Analysis (MD&A) and the 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 Pike 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

June 1, 2012

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Management's Discussion and Analysis
(Required Supplementary Information)

Pike County Board of Education

Management Discussion and Analysis

September 30, 2011

This section of the Pike County School Board's annual financial report represents management's discussion and analysis of the School Board's overall financial position and operating results of the fiscal year that ended on September 30, 2011. Readers are encouraged to read it in conjunction with the School Board's financial statements, which follow this analysis.

The Management's Discussion and Analysis (MD & A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999.

Financial Highlights

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

On the government-wide financial statements:

- 1 The assets of the Board exceeded its liabilities at the close of the 2011 fiscal year by \$8.69 million (net assets). Of this amount, there exists a surplus of \$1.72 million in unrestricted net assets. The net assets invested in capital assets amounted to \$6.16 million. The government-wide financial statements are a long-term availability approach to analyzing the financial statements.
- 2 The total cost of the Board's programs for the year was \$23.35 million. After taking away a portion of these costs paid for with charges for services, intergovernmental aid, interest earnings and other miscellaneous sources, the net cost that required funding from Pike County taxpayers was \$3.35 million.

On the fund financial statements:

- 1 At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1.31 million.
- 2 There was an overall increase of \$977 thousand in fund balance in governmental funds.
- 3 The Board's long-term debt is \$4.46 million. This debt consists of bonds and warrants in the amount of \$3.23 million, the proceeds of which are restricted for renovation and new construction, notes totaling \$1.20 million for the purchase of new school buses and a capital lease in the amount of \$9 thousand for the purchase of new copier equipment.

Using the Financial Statements – An Overview for the User

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Governmental Funds – Governmental *fund financial statements* begin with (exhibit #3). These statements account for basically the same governmental activities reported in the *government-wide financial statements*. As required under the reporting model, the *fund financial statements* presented herein display information on each of the Board's most important governmental funds or *major funds*. This is required in order to better assess the Board's accountability for significant governmental programs or certain dedicated revenue. The Board's only *major funds* for FY 2011 are the General Fund and the Special Revenue Fund.

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

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

After the presentation of the basic financial statements, the new reporting model requires additional required supplementary information to be presented following the notes to the basic financial statements. The required supplementary information provides a comparison of the original adopted budget to the final amended budget of the Board's General Fund and Special Revenue Fund, which is then further compared to the actual operating results for the fiscal year. The comparison of this data allows users to assess management's ability to project and plan for its operations throughout the year.

Government-Wide Financial Analysis

As indicated earlier, net assets may serve over time as a useful indicator of a government's financial position. Refer to *Table 1* when reading the following analysis of net assets. The Board's assets exceeded liabilities by \$8.69 million at September 30, 2011.

- 1 Of this figure, 71 percent or \$6.16 million reflects the Board's investment in capital assets (e.g., land, buildings, improvements, furniture and equipment, and transportation equipment), less accumulated depreciation and debt related to the acquisition of the assets. Since these capital assets are used in governmental activities, this portion of net assets is not available for future spending or funding of operations.
- 2 An unrestricted net assets account balance of \$1.72 million exists for other uses.

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

	<u>9/30/2011</u>	<u>9/30/2010</u>
Current and other assets	\$ 5.58	\$ 4.92
Capital assets	10.52	10.79
Total Assets	\$16.10	\$15.71
Current and other liabilities	\$2.95	\$3.27
Long-term liabilities	4.46	4.71
Total Liabilities	\$7.41	\$7.98
Net Assets:		
Invested in Capital Assets, net of Related Debt	\$6.16	\$6.23
Restricted	.81	
Unrestricted	1.72	1.50
Total Net Assets	\$8.69	\$7.73

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

The results of this year's fiscal operations as a whole are reported in detail in the *Statement of Activities* on (exhibit 2). *Table 2* below condenses the results of operations for the fiscal year into a format where the reader can easily see the total revenues of the Board for the year. It also shows the impact the operations had on changes in net assets as of September 30, 2011.

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

	<u>9/30/2011</u>	<u>9/30/2010</u>
Revenues:		
Program Revenues		
Charges for services	\$ 1.87	\$ 1.77
Operating grants and contributions	17.03	15.84
Capital grants and contributions	.56	.79
General Revenues:		
Local property taxes	1.34	1.49
Sales and use taxes	2.92	2.76
Other	.59	.56
Total Revenues	\$ 24.31	\$ 23.21
Expenses		
Instruction	\$12.32	\$12.47
Instructional support	3.73	3.80
Operations and maintenance	1.97	1.90
Auxiliary services	3.68	3.60
General administrative and central support	1.18	1.26
Interest and fiscal charges	.20	.22
Other	.27	.23
Total Expenses	\$ 23.35	\$ 23.48
Change in Net Assets	.96	(.27)
Net Assets-Beginning	7.73	8.00
Net Assets-Ending	\$ 8.69	\$ 7.73

The Board's net assets increased by \$960 thousand during the current fiscal year.

Governmental Activities – As shown in *Table 2*, the cost of services rendered from the Board's governmental activities for the year ended September 30, 2011 was \$23.35 million. It is important to note that not all of these costs were borne by the taxpayers of Pike County:

- 1 Some of the cost, \$1.87 million, was paid by users who benefited from services provided during the year, such as Instruction, Instructional Support, Operation and Maintenance, Food Services and Other.
- 2 State and federal governments subsidized certain programs with operating and capital grants and contributions totaling \$17.59 million.
- 3 Other general revenue sources, such as interest earnings etc., provided for \$591 thousand in revenues.
- 4 \$4.26 million of the Board's total costs of \$23.35 million was financed by district and state taxpayers, as follows: \$1.34 million in property taxes, \$2.92 million in sales and use taxes.

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

Table 3: Net Cost of Governmental Activities
 Fiscal Year Ended September 30, 2011
 (In millions)

	Total Cost of Services	Net Cost of Services
Instructional services	\$12.32	(\$1.22)
Instructional support services	\$3.73	(\$.32)
Operations and maintenance services	\$1.97	(\$.69)
Auxiliary services	\$3.68	(\$.99)
General administration and central support	\$1.18	(\$.45)
Interest and fiscal charges	\$.20	(\$.20)
Other expenses	\$.27	(\$.02)
Total	\$23.35	(\$3.89)

Fund Level Financial Analysis

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

Governmental Funds – The focus of the Board's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the board's financial requirements (Note that the relationship between the *fund financial statements* and the *government-wide financial statements* are reconciled on (exhibits #4 and #6). At the end of the fiscal year, the Board's governmental funds reported combined ending fund balances of \$2.59 million. Approximately \$1.31 million of this amount constitutes unassigned fund balance of the General fund, which is available as of the end of the fiscal year for spending on near-future operations.

General Fund – The general fund is the primary operating fund of the Board. The net increase in general fund balance as a result of operations this year was \$873 thousand. This is primarily due to cuts in spending as a continuing effort to combat multiple years of proration. The board's total general fund balance is now \$1.31 million.

The general fund reflects transfers out of \$592 thousand. Of this amount, \$329 thousand represents an amount that is received from the state department of education and is mandated to be passed through to the child nutrition program.

Special Revenue Fund – The Special Revenue Fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The Special Revenue Fund had a net increase in fund balance of \$3 thousand, with an ending fund balance of \$877 thousand.

Budgetary Highlights

As mandated by the State of Alabama, the Board submits to the Alabama State Department of Education a balanced budget reflecting the projected revenues and expenditure plan for their use prior to the fiscal year commencing October 1 of every year. The final FY 2011 General Fund budget reflected a conservative approach to budgeting revenues. During February 2011, Governor Robert Bentley declared proration in the Education Budget at 3%. The 3% shortfall in anticipated state revenues for the year was primarily for the payment of employee salaries and benefits. As a result, the system budget was amended to reflect the decrease in state funds in areas other than salaries and benefits (e.g. instructional materials, supplies and maintenance).

The Board’s General Fund relies heavily upon the local sales tax generated. The Board saw an increase in actual sales tax revenues of 6% over FY 2010.

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

Amendment #1 was submitted to include the previous year’s carry-over dollars and other revenues not in the original budget as well as to adjust for budget shortfalls resulting from pro-rated state funds.

Capital Assets and Debt Administration

Capital Assets – The Board’s investment in capital assets for its governmental activities for the year ended September 30, 2011, amounted to \$6.15 million, net of accumulated depreciation and debt related to the acquisition of the assets. The Board’s investment in capital assets includes land at historical cost, buildings and improvements at historical cost, equipment and furniture at historical cost and construction in progress, and is shown in *Table 4*.

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

	<u>9/30/2011</u>
Land and land improvements	\$.91
Buildings and Improvements	7.72
Furniture and Equipment	.43
Vehicles	1.23
Equipment under Capital Lease	.01
Construction in Progress	<u>.21</u>
Total Capital Assets	<u>\$10.51</u>

The Board expended available resources to acquire \$374 thousand in capital asset additions during the year as follows: Building improvements classified as construction in progress totaled \$206 thousand; vehicle additions totaled \$143 thousand; equipment additions totaled \$25 thousand. These additions are reduced by the current year's depreciation expense of \$648 thousand. Additional information on the Board's capital assets is presented in the notes to the financial statements.

Long-Term Debt – At year-end, the Board had \$4.46 million in long-term debt outstanding. This debt was incurred for Capital Projects and included both new construction and renovation. It also included notes for the purchase of new school buses and office equipment. *Table 5* provides details.

**Table 5: Outstanding Long-Term Debt
Fiscal Year Ended September 30, 2011
(In millions)**

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Net Change</u>	<u>Ending Balance</u>
Bonds & Warrants payable	\$3.40	(\$.15)	\$3.25
Notes Payable	\$1.25	(\$.05)	\$1.20
Capital Lease Payable	\$.06	(\$.05)	\$.01

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

- 1 During 2011, the Board made payment of \$95 thousand toward the principal on its Series 2003 Capital Warrants and payment of \$118 thousand for interest. The Board also made payment of \$42 thousand toward the principal on its Series 2009-B Capital Improvement Pool Warrants and \$22 thousand for interest.
- 2 During 2011, the Board acquired new buses resulting in an additional note of \$143,481.34. In addition, the Board paid \$200 thousand against the principal and \$58 thousand in interest on notes which were secured for the acquisition of buses. The balance due is \$1,197,684 and this annual obligation will continue to be met with state fleet renewal dollars and local tax dollars.
- 3 Finally, the Board made payment against outstanding capital leases in the amount of \$46,232.02 and \$6,218.64 for the purchase of 150 new computers and office equipment, respectively. The Board paid \$52,450.66 towards the principal. FY 2011 was the final year of the computer lease. The balance due of \$9,327.96 represents the office equipment lease.

Economic Factors

The Pike County Board of Education is anticipating further program revenue cuts for the upcoming fiscal year. Sales tax and ad valorem revenues have been conservatively budgeted to more accurately reflect the anticipated revenues which will be available for the school system during the upcoming budget year. Despite 11% proration in FY 2009, 9.5% in FY 2010, and 3% in FY 2011, the district has been effective in mitigating cuts at the classroom level. While our economic condition has increased financially, it is noted that accrued salaries and benefits payable as of September 30, 2011 is approximately \$289 thousand less than the previous year and total long-term debt has decreased by \$250 thousand. The Board has been able to maintain a one month's operating reserve as required by the Alabama Department of Education. We are pleased that the implemented cuts largely left instructional activities unaffected for FY 2011. The Board will continue to conservatively budget and manage its expenditures.

CONTACTING THE SCHOOL BOARD'S FINANCIAL MANAGEMENT

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

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Basic Financial Statements

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Statement of Net Assets
September 30, 2011

	Governmental Activities
<u>Assets</u>	
Cash and Cash Equivalents	\$ 1,586,621.54
Investments	1,750,000.00
Receivables (Note 4)	1,037,545.85
Ad Valorem Property Taxes Receivable	1,098,262.01
Inventories	41,221.05
Deferred Charges - Warrants Issuance Costs	68,536.02
Capital Assets, Net (Note 5)	10,517,716.37
Total Assets	<u>16,099,902.84</u>
<u>Liabilities</u>	
Payables (Note 8)	483,237.60
Deferred Revenue	1,193,626.43
Salaries and Benefits Payable	1,244,485.88
Accrued Interest Payable	28,025.95
Long-Term Liabilities:	
Portion Due or Payable Within One Year:	
Notes Payable	207,961.44
Capital Lease Payable	6,218.64
Bonds and Warrants Payable	139,282.19
Plus: Unamortized Premium	3,143.59
Portion Due or Payable After One Year:	
Notes Payable	989,723.16
Capital Lease Payable	3,109.32
Bonds and Warrants Payable	3,091,453.35
Plus: Unamortized Premium	20,695.26
Total Liabilities	<u>7,410,962.81</u>
<u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	6,156,799.87
Restricted for:	
Capital Projects	341,447.24
Other Purposes	475,105.50
Unrestricted	<u>1,715,587.42</u>
Total Net Assets	<u>\$ 8,688,940.03</u>

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

Statement of Activities
For the Year Ended September 30, 2011

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Governmental Activities			
Instruction	\$ 12,318,709.80	\$ 361,110.87	\$ 10,393,124.53
Instructional Support	3,728,719.49	43,708.96	3,362,174.65
Operation and Maintenance	1,970,006.12	40,932.64	1,018,301.21
Auxiliary Services:			
Student Transportation	2,073,653.77	22,905.61	1,335,389.55
Food Service	1,614,740.69	1,227,340.07	115,616.44
General Administration and Central Support	1,177,564.44	16,314.55	710,949.04
Interest and Fiscal Charges	197,805.46		
Other	272,994.86	156,188.95	93,861.41
Total Governmental Activities	<u>\$ 23,354,194.63</u>	<u>\$ 1,868,501.65</u>	<u>\$ 17,029,416.83</u>

General Revenues:

Taxes:
Property Taxes for General Purposes
Sales and Use Tax - General Purposes
Miscellaneous Taxes
Contributions Not Restricted for Specific Programs
Interest
Miscellaneous
Total General Revenues
Changes in Net Assets
Net Assets - Beginning of Year
Net Assets - End of Year

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

		Net (Expenses) Revenues and Changes in Net Assets	
Capital Grants and Contributions		Total Governmental Activities	
\$	343,205.07	\$	(1,221,269.33)
			(322,835.88)
	219,657.93		(691,114.34)
			(715,358.61)
			(271,784.18)
			(450,300.85)
			(197,805.46)
			(22,944.50)
<u>\$</u>	<u>562,863.00</u>		<u>(3,893,413.15)</u>

1,335,080.09
2,923,592.26
50,107.60
2,690.64
26,781.60
511,722.27
<u>4,849,974.46</u>
956,561.31
<u>7,732,378.72</u>
<u>\$ 8,688,940.03</u>

Balance Sheet
Governmental Funds
September 30, 2011

	General Fund	Special Revenue Fund
<u>Assets</u>		
Cash and Cash Equivalents	\$ 475,343.20	\$ 710,008.22
Investments	1,750,000.00	
Receivables (Note 4)	500,402.47	536,805.88
Ad Valorem Property Taxes Receivable	1,098,262.01	
Interfund Receivables	347,702.67	5,810.38
Inventories		41,221.05
Total Assets	<u>4,171,710.35</u>	<u>1,293,845.53</u>
<u>Liabilities and Fund Balances</u>		
<u>Liabilities</u>		
Payables (Note 8)	483,237.60	
Interfund Payables	5,810.38	347,702.67
Deferred Revenues	1,172,355.55	21,270.88
Salaries and Benefits Payable	1,196,951.90	47,533.98
Total Liabilities	<u>2,858,355.43</u>	<u>416,507.53</u>
<u>Fund Balances</u>		
Nonspendable:		
Inventories		41,221.05
Restricted for:		
Capital Projects		
Child Nutrition Program		330,415.95
Other Purposes		103,468.50
Assigned to:		
Local Schools		402,232.50
Unassigned	1,313,354.92	
Total Fund Balances	<u>1,313,354.92</u>	<u>877,338.00</u>
Total Liabilities and Fund Balances	<u>\$ 4,171,710.35</u>	<u>\$ 1,293,845.53</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 401,270.12	\$ 1,586,621.54
	1,750,000.00
337.50	1,037,545.85
	1,098,262.01
	353,513.05
	41,221.05
401,607.62	5,867,163.50
	483,237.60
	353,513.05
	1,193,626.43
	1,244,485.88
	3,274,862.96
	41,221.05
401,607.62	401,607.62
	330,415.95
	103,468.50
	402,232.50
	1,313,354.92
401,607.62	2,592,300.54
\$ 401,607.62	\$ 5,867,163.50

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

Total Fund Balances - Governmental Funds (Exhibit 3) \$ 2,592,300.54

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

Capital assets used in the governmental activities are not financial resources and
therefore are not reported as assets in governmental funds (Note 5). 10,517,716.37

In the Statement of Activities, debt issuance costs are deferred and amortized
over the life of the debt and are included as deferred charges in the Statement
of Net Assets.

Deferred Charges - Warrant Issuance Costs 68,536.02

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

	Amounts Due or Payable Within One Year	Amounts Due or Payable After One Year	
Notes Payable	\$ 207,961.44	\$ 989,723.16	
Capital Lease Payable	6,218.64	3,109.32	
Bonds and Warrants Payable	139,282.19	3,091,453.35	
Plus: Unamortized Premium	3,143.59	20,695.26	
Accrued Interest Payable	28,025.95		
Total	\$ 384,631.81	\$ 4,104,981.09	(4,489,612.90)

Total Net Assets - Governmental Activities (Exhibit 1) \$ 8,688,940.03

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

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2011

	General Fund	Special Revenue Fund
<u>Revenues</u>		
State	\$ 12,113,131.00	\$ 7,200.00
Federal	125,561.64	5,795,882.39
Local	4,512,495.52	929,307.26
Other	16,210.09	96,080.16
Total Revenues	<u>16,767,398.25</u>	<u>6,828,469.81</u>
<u>Expenditures</u>		
Current:		
Instruction	9,319,140.77	2,692,942.84
Instructional Support	2,603,170.71	1,104,042.19
Operation and Maintenance	1,230,552.09	624,250.21
Auxiliary Services:		
Student Transportation	1,773,094.30	18,686.88
Food Service		1,762,170.95
General Administration and Central Support	511,534.62	707,339.74
Other	26,481.02	244,193.72
Capital Outlay	143,481.34	25,201.20
Debt Service:		
Principal Retirement	52,450.66	
Interest and Fiscal Charges	6,552.33	
Other Debt Service	1,365.00	
Total Expenditures	<u>15,667,822.84</u>	<u>7,178,827.73</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,099,575.41</u>	<u>(350,357.92)</u>
<u>Other Financing Sources (Uses)</u>		
Indirect Cost	200,863.64	
Long-Term Debt Issued	143,481.34	
Transfers In	7,193.45	345,020.50
Other Sources	14,122.65	15,327.23
Transfers Out	(591,829.63)	(7,193.45)
Total Other Financing Sources (Uses)	<u>(226,168.55)</u>	<u>353,154.28</u>
Net Changes in Fund Balances	873,406.86	2,796.36
Fund Balances - Beginning of Year	<u>439,948.06</u>	<u>874,541.64</u>
Fund Balances - End of Year	<u>\$ 1,313,354.92</u>	<u>\$ 877,338.00</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 561,202.00	\$ 12,681,533.00
	5,921,444.03
124,236.00	5,566,038.78
	112,290.25
<u>685,438.00</u>	<u>24,281,306.06</u>
49,303.01	12,061,386.62
	3,707,212.90
39,133.88	1,893,936.18
	1,791,781.18
	1,762,170.95
	1,218,874.36
	270,674.74
205,587.73	374,270.27
337,597.87	390,048.53
199,185.54	205,737.87
	1,365.00
<u>830,808.03</u>	<u>23,677,458.60</u>
<u>(145,370.03)</u>	<u>603,847.46</u>
	200,863.64
	143,481.34
460,544.09	812,758.04
	29,449.88
<u>(213,734.96)</u>	<u>(812,758.04)</u>
<u>246,809.13</u>	<u>373,794.86</u>
101,439.10	977,642.32
<u>300,168.52</u>	<u>1,614,658.22</u>
<u>\$ 401,607.62</u>	<u>\$ 2,592,300.54</u>

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended September 30, 2011

Net Changes in Fund Balances - Total Governmental Funds (Exhibit 5)	\$	977,642.32
Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$647,788.35) exceeded capital outlay (\$374,270.27) in the current period.		(273,518.08)
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.		390,048.53
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.		
Notes Payable		(143,481.34)
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	\$	6,153.92
Amortization of Deferred Charge - Premium		3,143.49
Amortization of Deferred Charge - Issuance Cost		<u>(3,427.53)</u>
		<u>5,869.88</u>
Change in Net Assets of Governmental Activities (Exhibit 2)	\$	<u>956,561.31</u>

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

Statement of Fiduciary Net Assets
September 30, 2011

	Agency Funds
<u>Assets</u>	
Cash	\$ 34,448.90
Investments	10,572.11
Total Assets	<u>45,021.01</u>
<u>Liabilities</u>	
Other Payables	45,021.01
Total Liabilities	<u>\$ 45,021.01</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, 2011

Note 1 – Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

Notes to the Financial Statements

For the Year Ended September 30, 2011

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

Fund Financial Statements

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

The Board reports the following major governmental funds:

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

- ◆ **Special Revenue Fund** – This fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Various federal, state, and local funding sources are included in this fund. Some of the significant federal funding sources include the federal funds that are received for Special Education, Title 1, State Fiscal Stabilization, Education Jobs and the Child Nutrition Program in addition to various smaller grants, which are required to be spent for the purposes of the applicable federal grants. Also included in this fund are the public and non-public funds received by the local schools which are generally not considered restricted or committed.

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

Governmental Fund Types

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

Notes to the Financial Statements

For the Year Ended September 30, 2011

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

The Board reports the following fiduciary fund type:

Fiduciary Fund Type

- ◆ **Agency Funds** – These funds are used to report assets held by the Board in a purely custodial capacity. The Board collects these assets and transfers from to the proper individual, private organization, or other government.

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within sixty (60) days of the end of the current fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, 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.

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

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

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

D. Assets, Liabilities and Net Assets/Fund Balances

1. Deposits and Investments

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

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

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

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.

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

3. Inventories

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

4. Restricted Assets

Certain funds received from the State Department of Education for capital projects and improvements, as well as certain resources set aside for the repayment of debt, included in cash on the balance sheet are considered restricted assets because they are maintained separately and their use is limited. The Public School Capital Projects and Fleet Renewal funds are restricted for use in various construction projects and the purchase of school buses.

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
Land Improvements (Exhaustible)	\$50,000	20 years
Buildings	\$50,000	50 years
Building Improvements	\$50,000	50 years
Equipment and Furniture	\$ 5,000	5 – 20 years
Vehicles	\$ 5,000	8 – 10 years
Equipment Under Capital Lease	\$ 5,000	5 – 20 years

Notes to the Financial Statements

For the Year Ended September 30, 2011

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, as well as issuance costs, are deferred and amortized over the life of the warrants. Warrant issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

7. Net Assets/Fund Equity

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

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

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

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

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

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

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

The Board has an established minimum fund balance policy. The Board's policy states that a General Fund reserve fund balance be maintained of an amount not less than one month's operating expenditures. Operating expenditures shall include all funds necessary to support the normal operations of the school district for one month. The Superintendent or Chief School Financial Officer will inform the Board, before the Board votes on a budget or budget amendment, if the approval of the budget or the budget amendment will prevent the establishment or maintenance of one month's operating balance. A one month operating balance shall be determined by dividing the General Fund expenditures and fund transfers out by twelve. In determining the General Fund expenditures and transfers out, the proposed budget or budget amendment shall be used.

Notes to the Financial Statements

For the Year Ended September 30, 2011

Note 2 – Stewardship, Compliance, and Accountability

Budgets

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund with the exception of salaries and benefits, which are budgeted only to the extent expected to be paid rather than on the modified accrual basis of accounting. Also, ad valorem taxes and sales taxes are budgeted only to the extent expected to be paid rather than on the modified accrual basis of accounting. The Special Revenue 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 annual appropriations lapse at fiscal year-end.

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

Note 3 – Deposits and Investments

Deposits

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

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

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

Note 4 – Receivables

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

	General Fund	Special Revenue Fund	Other Governmental Funds	Total
<u>Receivables:</u>				
Sales Taxes	\$466,031.18	\$	\$	\$ 466,031.18
Intergovernmental	34,371.29	536,805.88	337.50	571,514.67
Total Receivables	<u>\$500,402.47</u>	<u>\$536,805.88</u>	<u>\$337.50</u>	<u>\$1,037,545.85</u>

Governmental funds report deferred revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At September 30, 2011, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Ad Valorem Taxes Receivable	\$1,098,262.01	\$
Motor Vehicle Ad Valorem Taxes		74,093.54
Grant Drawdowns Prior to Meeting All Eligibility Requirements		13,335.12
Prepaid Child Nutrition Program Lunches		7,935.76
Total Deferred/Unearned Revenue for Governmental Funds	<u>\$1,098,262.01</u>	<u>\$95,364.42</u>

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

Note 5 – Capital Assets

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

	Balance 10/01/2010	Additions	Retirements	Balance 09/30/2011
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 192,129.33	\$	\$	\$ 192,129.33
Construction in Progress		205,587.73		205,587.73
Total Capital Assets, Not Being Depreciated	192,129.33	205,587.73		397,717.06
Capital Assets Being Depreciated:				
Land Improvements (Exhaustible)	1,996,412.88			1,996,412.88
Buildings	11,760,715.35			11,760,715.35
Buildings Improvements	1,923,920.55			1,923,920.55
Equipment and Furniture	1,295,021.83	25,201.20		1,320,223.03
Vehicles	2,922,800.12	143,481.34		3,066,281.46
Equipment Under Capital Lease	18,655.92			18,655.92
Total Capital Assets Being Depreciated	19,917,526.65	168,682.54		20,086,209.19
Less Accumulated Depreciation for:				
Land Improvements (Exhaustible)	(1,212,836.75)	(65,715.75)		(1,278,552.50)
Buildings	(5,024,827.80)	(220,438.31)		(5,245,266.11)
Buildings Improvements	(642,832.12)	(74,652.55)		(717,484.67)
Equipment and Furniture	(819,571.10)	(65,782.45)		(885,353.55)
Vehicles	(1,616,488.17)	(217,468.11)		(1,833,956.28)
Equipment Under Capital Lease	(1,865.59)	(3,731.18)		(5,596.77)
Total Accumulated Depreciation	(9,318,421.53)	(647,788.35)		(9,966,209.88)
Total Capital Assets Being Depreciated, Net	10,599,105.12	(479,105.81)		10,119,999.31
Total Governmental Activities Capital Assets, Net	\$10,791,234.45	\$(273,518.08)	\$	\$10,517,716.37

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

	Current Year Depreciation Expense
Governmental Activities:	
Instruction	\$257,323.18
Instructional Support	21,506.59
Operation and Maintenance	76,069.94
Auxiliary Services:	
Student Transportation	222,253.99
Food Service	59,618.60
General Administration and Central Support	8,695.93
Other	2,320.12
Total Depreciation Expense – Governmental Activities	\$647,788.35

Notes to the Financial Statements

For the Year Ended September 30, 2011

Note 6 – Defined Benefit Pension Plan

A. Plan Description

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

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

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

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

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

B. Funding Policy

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

Fiscal Year Ended September 30,	2011	2010	2009
Total Percentage of Covered Payroll	17.51%	17.51%	17.07%
<u>Contributions:</u>			
Percentage Contributed by the Board	12.51%	12.51%	12.07%
Percentage Contributed by the Employees	5.00%	5.00%	5.00%
Contributed by the Board	\$1,521,825.79	\$1,537,758.50	\$1,444,855.23
Contributed by Employees	608,243.72	614,343.00	598,657.67
Total Contributions	<u>\$2,130,069.51</u>	<u>\$2,152,101.50</u>	<u>\$2,043,512.90</u>

Note 7 – Other Postemployment Benefits (OPEB)

A. Plan Description

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

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

B. Funding Policy

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

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

For employees that retire other than for disability, for each year under 25 years of service, the retiree pays two percent of the employer premium and for each year over 25 years of service, the retiree premium is reduced by two percent of the employer premium. A tobacco surcharge is \$27.00 per month for retired members that smoke.

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

Fiscal Year Ended September 30,	Active Health Insurance Premiums Paid By Board	Amount of Premium Attributable to Retirees	Percentage of Active Employee Premiums Attributable to Retirees	Total Amount Paid Attributable to Retirees	Percentage of Required Amount Contributed
2011	\$752.00	\$198.94	26.45%	\$725,015.13	100%
2010	\$752.00	\$241.27	32.08%	\$899,107.44	100%
2009	\$752.00	\$205.45	27.32%	\$778,554.45	100%

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

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 – Payables

On September 30, 2011, payables for the Board’s individual major funds are as follows:

	Vendors	Intergovernmental	Total Payables
<u>Governmental Activities:</u>			
General Fund	\$4,882.98	\$478,354.62	\$483,237.60
Total Governmental Activities	<u>\$4,882.98</u>	<u>\$478,354.62</u>	<u>\$483,237.60</u>

Note 9 – Lease Obligations

Capital Leases

The Board is obligated under certain leases accounted for as capital leases. Assets under capital leases totaled \$18,655.92 at September 30, 2011. If the Board completes the lease payments according to the schedule below, which is the stated intent of the Board, ownership of the leased equipment will pass to the Board. Until that time, the leased equipment will be identified separately on the balance sheet. The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of September 30, 2011.

Fiscal Year Ending	Governmental Activities
September 30, 2012	\$6,218.64
2013	<u>3,109.32</u>
Total Minimum Lease Payments	9,327.96
Less: Amount Representing Interest	
Present Value of Net Minimum Lease Payments	<u>\$9,327.96</u>

Notes to the Financial Statements

For the Year Ended September 30, 2011

Note 10 – Long-Term Debt

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

Long-term notes were incurred to purchase school buses. Titles to the buses are held in the name of the Board with a lien held by the Bank. Payments on the Notes were made from the Board's annual State allocation of Transportation – Fleet Renewal funds.

The Board issued the Series 2009B Capital Improvement Pool Refunding Bonds during fiscal year 2010 for the purpose of refunding the Series 1999D Capital Improvement Pool Bonds.

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

	Debt Outstanding 10/01/2010	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 09/30/2011	Amounts Due Within One Year
<u>Governmental Activities:</u>					
<u>Bonds and Warrants Payable:</u>					
Series 2003 Capital Outlay Warrants	\$2,910,000.00	\$	\$ (95,000.00)	\$2,815,000.00	\$ 95,000.00
Series 2009B Capital Improvement Pool Bonds	458,311.26		(42,575.72)	415,735.54	44,282.19
Total Bonds and Warrants Payable	3,368,311.26		(137,575.72)	3,230,735.54	139,282.19
Long-Term Notes Payable	1,254,225.41	143,481.34	(200,022.15)	1,197,684.60	207,961.44
Capital Lease Payable	61,778.62		(52,450.66)	9,327.96	6,218.64
<u>Deferred Amounts:</u>					
Unamortized Premium	26,982.34		(3,143.49)	23,838.85	3,143.59
Governmental Activities Long-Term Liabilities	\$4,711,297.63	\$143,481.34	\$(393,192.02)	\$4,461,586.95	\$356,605.86

Payments on the Series 2003 Warrants payables are made by the debt service fund with property taxes. Payments on the Pool Bonds Series 2009B are made by the Debt Service Fund with pledged Public School funds withheld from the Board's allocation from the Alabama State Department of Education. The long-term notes payable for buses are paid from fleet renewal monies received from the State Department of Education. The capital leases payable will be paid by the General Fund.

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

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

Fiscal Year Ending	Capital Improvement Pool Warrants Series 2009B		Capital Outlay School Warrants Series 2003	
	Principal	Interest	Principal	Interest
September 30, 2012	\$ 44,282.19	\$20,528.22	\$ 95,000.00	\$ 114,935.00
2013	46,488.55	18,314.10	100,000.00	111,035.00
2014	47,764.10	15,989.68	105,000.00	106,935.00
2015	50,184.19	13,601.48	110,000.00	102,635.00
2016	52,528.44	11,350.82	115,000.00	98,135.00
2017-2021	174,488.07	17,758.38	650,000.00	416,070.00
2022-2026			820,000.00	264,525.00
2027-2030			820,000.00	71,825.00
Totals	<u>\$415,735.54</u>	<u>\$97,542.68</u>	<u>\$2,815,000.00</u>	<u>\$1,286,095.00</u>

Issuance Costs and Premiums

The Board has issuance costs in connection with the issuance of its 2003 Capital Outlay School Warrants. The issuance costs are being amortized using the straight-line method over a period of thirty years. The Board has warrant issuance costs and a bond premium in connection with the issuance of its 2009B Capital Improvement Pool Bonds. The issuance costs and premium are being amortized using the straight-line method over a period of nine years.

	2003 Series Issuance Costs	2009B Issuance Costs	Total Issuance Costs	Premium
Total Issuance Costs and Discount	\$ 92,823.05	\$3,000.86	\$ 95,823.91	\$28,292.27
Amount Amortized Prior Years	(23,721.43)	(138.93)	(23,860.36)	(1,309.93)
Balance of Issuance Costs and Discount	69,101.62	2,861.93	71,963.55	26,982.34
Current Amount Amortized	(3,094.10)	(333.43)	(3,427.53)	(3,143.49)
Balance of Issuance Costs and Discount	<u>\$ 66,007.52</u>	<u>\$2,528.50</u>	<u>\$ 68,536.02</u>	<u>\$23,838.85</u>

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

Long-Term Notes Payable		Capital Lease Payable		Total Principal and Interest Requirements to Maturity
Principal	Interest	Principal	Interest	
\$ 207,961.44	\$ 50,280.05	\$6,218.64	\$	\$ 539,205.54
216,658.58	41,582.91	3,109.32		537,188.46
225,219.21	32,520.89			533,428.88
160,219.76	23,096.32			459,736.75
167,075.53	16,240.55			460,330.34
220,550.08	13,769.70			1,492,636.23
				1,084,525.00
				891,825.00
\$1,197,684.60	\$177,490.42	\$9,327.96	\$	\$5,998,876.20

Pledged Revenues

The Board issued Series 2003 Capital Outlay School Warrants for the purpose of constructing or acquiring certain capital improvements to public schools that are under the administration of the Board, and to pay the expenses of issuing the 2003 warrants. The Board pledged to repay the tax anticipation warrants from the proceeds of its share of the 5 Mill County School Tax. Future revenues of \$4,101,095.00 are pledged to repay the principal and interest on the warrants at September 30, 2011. Proceeds of the 5 Mill County School Tax in the amount of \$726,803.00 were received by the Board during the fiscal year ended September 30, 2011, of which \$213,734.96 was used to pay principal and interest on the warrants. The Series 2003 Capital Outlay School Warrants will mature in fiscal year 2030.

The Series 2009-B Capital Improvement Pool Refunding Bonds which are pledged to be repaid from the 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 \$513,278.22 are pledged to repay the principal and interest on the Series 2009-B bonds at September 30, 2011. Pledged funds in the amount of \$64,806.96 were used to pay to principal and interest on the bonds during the fiscal year ended September 30, 2011. This amount represents 12 percent of the Board's capital purchase allocation. The Series 2009-B bonds will mature in fiscal year 2019.

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

Note 11 – Risk Management

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

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

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

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

Note 12 – Interfund Transactions

Interfund Receivables and Payables

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

	Interfund Receivables		Totals
	General Fund	Special Revenue Fund	
Interfund Payables:			
General Fund	\$	\$5,810.38	\$ 5,810.38
Special Revenue Fund	347,702.67		347,702.67
Totals	\$347,702.67	\$5,810.38	\$353,513.05

Interfund Transfers

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

	Transfers Out			Total
	General Fund	Special Revenue Fund	Other Governmental Funds	
Transfers In:				
General Fund	\$	\$7,193.45	\$	\$ 7,193.45
Special Revenue Fund	345,020.50			345,020.50
Other Governmental Funds	246,809.13		213,734.96	460,544.09
Totals	\$591,829.63	\$7,193.45	\$213,734.96	\$812,758.04

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

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

Note 13 – Subsequent Event

On January 16, 2012, the Pike County Board of Education issued \$6,660,000.00 of Capital Outlay School Warrants, Series 2012, dated February 1, 2012. The proceeds of the warrants shall be used for the defeasance of the Series 2003 Capital Outlay School Warrants as well as the construction of facilities to include a new gymnasium at Goshen High, a new Arts Complex at Pike County High, a new field house at Pike County High and assorted roofing and renovation projects on all campuses. In addition to the warrant proceeds, the Board intends to utilize \$2,000,000.00 of available funds held by the PSCA to complete the projects.

Required Supplementary Information

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

	Budgeted Amounts		Actual Amounts Budgetary Basis
	Original	Final	
Revenues			
State	\$ 12,280,024.00	\$ 11,976,900.00	\$ 12,113,131.00
Federal	77,850.00	77,850.00	125,561.64
Local	4,062,627.00	4,228,452.00	4,757,073.41
Other			16,210.09
Total Revenues	<u>16,420,501.00</u>	<u>16,283,202.00</u>	<u>17,011,976.14</u>
Expenditures			
Current:			
Instruction	8,976,088.00	9,391,478.49	9,645,012.48
Instructional Support	2,630,735.00	2,822,538.59	2,694,975.29
Operation and Maintenance	1,276,193.70	1,246,193.70	1,275,607.97
Auxiliary Services - Student Transportation	1,664,836.00	1,721,573.00	1,781,671.88
General Administration and Central Support	632,683.00	593,841.00	511,534.62
Other	27,475.00	27,475.00	27,792.53
Capital Outlay		150,000.00	143,481.34
Debt Service:			
Principal Retirement	53,000.00	59,300.00	52,450.66
Interest and Fiscal Charges			6,552.33
Other Debt Service	1,365.00	1,365.00	1,365.00
Total Expenditures	<u>15,262,375.70</u>	<u>16,013,764.78</u>	<u>16,140,444.10</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,158,125.30</u>	<u>269,437.22</u>	<u>871,532.04</u>
Other Financing Sources (Uses)			
Indirect Cost	210,087.94	216,502.36	200,863.64
Long-Term Debt Issued			143,481.34
Transfers In	1,300.00	900.68	7,193.45
Other Financing Sources			14,122.65
Transfers Out	(588,059.71)	(538,232.83)	(591,829.63)
Total Other Financing Sources (Uses)	<u>(376,671.77)</u>	<u>(320,829.79)</u>	<u>(226,168.55)</u>
Net Change in Fund Balances	781,453.53	(51,392.57)	645,363.49
Fund Balances - Beginning of Year	<u>2,000,000.00</u>	<u>1,949,813.36</u>	<u>1,520,981.50</u>
Fund Balances - End of Year	<u>\$ 2,781,453.53</u>	<u>\$ 1,898,420.79</u>	<u>\$ 2,166,344.99</u>

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	\$	\$ 12,113,131.00
		125,561.64
(1) (2)	(244,577.89)	4,512,495.52
		16,210.09
	<u>(244,577.89)</u>	<u>16,767,398.25</u>
(3)	325,871.71	9,319,140.77
(3)	91,804.58	2,603,170.71
(3)	45,055.88	1,230,552.09
(3)	8,577.58	1,773,094.30
		511,534.62
(3)	1,311.51	26,481.02
		143,481.34
		52,450.66
		6,552.33
		1,365.00
	<u>472,621.26</u>	<u>15,667,822.84</u>
	<u>228,043.37</u>	<u>1,099,575.41</u>
		200,863.64
		143,481.34
		7,193.45
		14,122.65
		<u>(591,829.63)</u>
		<u>(226,168.55)</u>
	228,043.37	873,406.86
(4)	<u>(1,081,033.44)</u>	<u>439,948.06</u>
	<u>\$ (852,990.07)</u>	<u>\$ 1,313,354.92</u>

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

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

The Board budgets on the modified accrual basis of accounting with the following exceptions:

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

Net Increase in Fund Balances - Budget to GAAP

- (4) The amount reported as "fund balance" on the budgetary basis of accounting derives from the basis of accounting used in preparing the Board's budget. This amount differs from the fund balance reported in the Statement of Revenues, Expenditures and Changes in Fund Balances (Exhibit 5) because of the cumulative effect of transactions such as those described above.

\$ (230,791.89)

(13,786.00)

472,621.26

\$ 228,043.37

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

	Budgeted Amounts		Actual Amounts
	Original	Final	Budgetary Basis
<u>Revenues</u>			
State	\$	\$	\$ 7,200.00
Federal	5,455,434.82	6,052,873.96	5,795,882.39
Local	802,279.00	802,279.00	929,307.26
Other	25,000.00	25,000.00	96,080.16
Total Revenues	<u>6,282,713.82</u>	<u>6,880,152.96</u>	<u>6,828,469.81</u>
<u>Expenditures</u>			
Current:			
Instruction	2,386,521.77	2,755,501.31	2,692,942.84
Instructional Support	1,021,057.54	1,152,244.06	1,104,042.19
Operation and Maintenance	600,126.00	600,346.00	624,250.21
Auxiliary Services:			
Student Transportation	6,049.00	13,168.57	18,686.88
Food Service	1,842,273.12	1,860,034.49	1,769,359.41
General Administration and Central Support	704,914.69	740,886.83	707,339.74
Other	133,890.00	170,890.00	244,193.72
Capital Outlay	3,000.00	37,000.00	25,201.20
Total Expenditures	<u>6,697,832.12</u>	<u>7,330,071.26</u>	<u>7,186,016.19</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(415,118.30)</u>	<u>(449,918.30)</u>	<u>(357,546.38)</u>
<u>Other Financing Sources (Uses)</u>			
Transfers In	531,856.30	475,474.02	345,020.50
Other Financing Sources			15,327.23
Transfers Out	<u>(14,312.00)</u>	<u>(13,012.00)</u>	<u>(7,193.45)</u>
Total Other Financing Sources (Uses)	<u>517,544.30</u>	<u>462,462.02</u>	<u>353,154.28</u>
Net Change in Fund Balances	102,426.00	12,543.72	(4,392.10)
Fund Balances - Beginning of Year	<u>41,054.00</u>	<u>970,118.98</u>	<u>929,264.08</u>
Fund Balances - End of Year	<u>\$ 143,480.00</u>	<u>\$ 982,662.70</u>	<u>\$ 924,871.98</u>

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	\$	\$
		7,200.00
		5,795,882.39
		929,307.26
		96,080.16
		<u>6,828,469.81</u>
		2,692,942.84
		1,104,042.19
		624,250.21
		18,686.88
(1)	7,188.46	1,762,170.95
		707,339.74
		244,193.72
		25,201.20
	<u>7,188.46</u>	<u>7,178,827.73</u>
	<u>7,188.46</u>	<u>(350,357.92)</u>
		345,020.50
		15,327.23
		<u>(7,193.45)</u>
		<u>353,154.28</u>
	7,188.46	2,796.36
(2)	<u>(54,722.44)</u>	<u>874,541.64</u>
	<u>\$ (47,533.98)</u>	<u>\$ 877,338.00</u>

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

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

The Board budgets on the modified accrual basis of accounting with the following exceptions:

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

Net Increase in Fund Balances - 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 (Exhibit 5) because of the cumulative effect of transactions such as those described above.

\$ 7,188.46

\$ 7,188.46

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Supplementary Information

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

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
<u>U. S. Department of Agriculture</u>		
<u>Passed Through Alabama Department of Education</u>		
Child Nutrition Cluster:		
School Breakfast Program - Cash Assistance	10.553	N/A
National School Lunch Program:		
Cash Assistance	10.555	N/A
Non-Cash Assistance - Commodities	10.555	N/A
Sub-Total National School Lunch Program		
Sub-Total Child Nutrition Cluster (M)		
Fresh Fruit and Vegetable Program	10.582	N/A
Total U. S. Department of Agriculture		
<u>U. S. Department of Education</u>		
<u>Direct Programs</u>		
Indian Education, Grants to Local Educational Agencies	84.060	N/A
Impact Aid	84.041	N/A
<u>Passed Through Alabama Department of Education</u>		
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)		
Special Education Cluster:		
Special Education - Grants to States	84.027	N/A
ARRA - Special Education - Grants to States, Recovery Act	84.391	N/A
Special Education - Preschool Grants	84.173	N/A
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	N/A
Sub-Total Special Education Cluster (M)		
Career and Technical Education - Basic Grants to States	84.048	N/A
Tech-Prep Education	84.243	N/A
Education Technology State Grants Cluster:		
Education Technology State Grants	84.318	N/A
ARRA - Education Technology State Grants	84.386	N/A
Sub-Total Education Technology State Grants Cluster		
Sub-Total U. S. Department of Education Forward		
Sub-Total Forward		

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
10/01/2010-09/30/2011	\$ 257,534.90	\$ 257,534.90	\$ 257,534.90	\$ 257,534.90
10/01/2010-09/30/2011	751,471.66	751,471.66	751,471.66	751,471.66
10/01/2010-09/30/2011	75,040.19	75,040.19	75,040.19	75,040.19
	826,511.85	826,511.85	826,511.85	826,511.85
	1,084,046.75	1,084,046.75	1,084,046.75	1,084,046.75
10/01/2010-09/30/2011	40,576.25	40,576.25	40,576.25	40,576.25
	1,124,623.00	1,124,623.00	1,124,623.00	1,124,623.00
10/01/2010-09/30/2011	235,074.00	235,074.00	235,074.00	235,074.00
10/01/2010-09/30/2011	2,690.64	2,690.64	2,690.64	2,690.64
10/01/2010-09/30/2011	1,559,025.40	1,559,025.40	1,344,980.93	1,344,980.93
10/01/2010-09/30/2011	638,214.79	638,214.79	638,214.60	638,214.60
	2,197,240.19	2,197,240.19	1,983,195.53	1,983,195.53
10/01/2010-09/30/2011	603,037.34	603,037.34	585,000.00	585,000.00
10/01/2010-09/30/2011	324,800.89	324,800.89	324,800.89	324,800.89
10/01/2010-09/30/2011	12,955.00	12,955.00	12,955.00	12,955.00
10/01/2010-09/30/2011	8,000.00	8,000.00	8,000.00	8,000.00
	948,793.23	948,793.23	930,755.89	930,755.89
10/01/2010-09/30/2011	134,458.00	134,458.00	134,458.00	134,458.00
10/01/2010-09/30/2011	4,834.00	4,834.00	4,834.00	4,834.00
10/01/2010-09/30/2011	33,203.00	33,203.00	32,234.14	32,234.14
10/01/2010-09/30/2011	8,189.65	8,189.65	8,189.65	8,189.65
	41,392.65	41,392.65	40,423.79	40,423.79
	3,564,482.71	3,564,482.71	3,331,431.85	3,331,431.85
	\$ 4,689,105.71	\$ 4,689,105.71	\$ 4,456,054.85	\$ 4,456,054.85

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

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
Sub-Total Brought Forward		
Sub-Total U. S. Department of Education Brought Forward		
Rural Education	84.358	N/A
Improving Teacher Quality State Grants	84.367	N/A
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	N/A
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act (M)	84.394	N/A
Education Jobs Fund (M)	84.410	N/A
<u>Passed Through Alabama Department of Rehabilitation Services</u>		
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	N/A
Total U. S. Department of Education		
<u>Social Security Administration</u>		
<u>Passed Through Alabama Department of Education</u>		
Social Security - Disability Insurance	96.001	N/A
<u>Other Federal Assistance</u>		
<u>U. S. Department of Defense</u>		
<u>Direct Program</u>		
Navy JROTC	N/A	N/A
Total Expenditures of Federal Awards		

(M) = Major Program

(N/A) = Not Available or Not Applicable

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

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
	\$ 4,689,105.71	\$ 4,689,105.71	\$ 4,456,054.85	\$ 4,456,054.85
	3,564,482.71	3,564,482.71	3,331,431.85	3,331,431.85
10/01/2010-09/30/2011	99,639.69	99,639.69	69,248.64	69,248.64
10/01/2010-09/30/2011	242,573.51	242,573.51	227,318.27	227,318.27
10/01/2010-09/30/2011	631.50	631.50	631.50	631.50
10/01/2010-09/30/2011	557,932.00	557,932.00	557,932.00	557,932.00
10/01/2010-09/30/2011	464,977.00	464,977.00	464,977.00	464,977.00
10/01/2010-09/30/2011	22,410.77	22,410.77	22,410.77	22,410.77
	4,952,647.18	4,952,647.18	4,673,950.03	4,673,950.03
10/01/2010-09/30/2011	990.00	990.00	990.00	990.00
10/01/2010-09/30/2011	121,881.00	121,881.00	121,881.00	121,881.00
	\$ 6,200,141.18	\$ 6,200,141.18	\$ 5,921,444.03	\$ 5,921,444.03

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

Note 1 – Basis of Presentation

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

Additional Information

Board Members and Administrative Personnel
October 1, 2010 through September 30, 2011

Board Members **Term Expires**

Hon. Linda Steed	President	2016
Hon. Earnest Green	Vice-President	2014
Hon. Herbert Reynolds	Member	2012
Hon. Chris Wilkes	Member	2012
Hon. Wyman Botts	Member	2016
Hon. W. Greg Price	Member	2014

Administrative Personnel

Mark Bazzell, Ed.D.	Superintendent	2016
Jennifer Hornsby	Chief School Finance Officer/ Custodian of Funds	Indefinite

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Pike County Board of Education (the “Board”) as of and for the year ended September 30, 2011, which collectively comprise the Board’s basic financial statements and have issued our report thereon dated June 1, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Pike County Board of Education is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Board’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board’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 was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 2009-01 that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

The Board's response to the findings identified in our audit is described in the accompanying Auditee Response/Corrective Action Plan. We did not audit the Board's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, members of the Pike County Board of Education, the Superintendent, the Chief School Finance 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

June 1, 2012

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

Independent Auditor's Report

Compliance

We have audited the Pike County Board of Education's (the "Board") compliance with the types of compliance requirements described in the ***OMB Circular A-133 Compliance Supplement*** that could have a direct and material effect on each of the Board's major federal programs for the year ended September 30, 2011. The Board's major federal programs are identified in the Summary of Examiner's Results Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Board's management. Our responsibility is to express an opinion on the Board's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States; and OMB Circular A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Board's compliance with those requirements.

In our opinion, the Board complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2011.

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

Internal Control Over Compliance

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

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

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

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

This report is intended solely for the information and use of management, members of the Pike County Board of Education, the Superintendent, the Chief School Finance 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

June 1, 2012

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

Section I – Summary of Examiner's Results

Financial Statements

Type of opinion issued: Unqualified
 Internal control over financial reporting:
 Material weakness(es) identified? _____ Yes X No
 Significant deficiency(ies) identified? X Yes _____ None reported
 Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553 and 10.555	Child Nutrition Cluster
84.010 and 84.389	Title I, Part A Cluster
84.027, 84.173, 84.391 and 84.392	Special Education Cluster
84.394	State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act
84.410	Education Jobs Fund

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000.00
 Auditee qualified as low-risk auditee? _____ Yes X No

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

Section II – Financial Statement Findings (GAGAS)

Ref. No.	Type of Finding	Finding/Noncompliance	Questioned Costs
2009-01	Internal Control	<p><u>Finding:</u> Internal control procedures require that money collected at the local schools be deposited daily. During the review of receipts at local schools, it was noted that money collected was not deposited into the bank in a timely manner.</p> <p><u>Recommendation:</u> Receipts should be deposited in a timely manner.</p>	

Section III – Federal Awards Findings and Questioned Costs

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

Auditee Response/Corrective Action Plan

PIKE COUNTY BOARD OF EDUCATION

Board of Education

Dr. Mark Bazzell
Superintendent



Rev. Earnest Green, President
Rev. Herbert Reynolds, Vice President
W. Greg Price
Wyman Botts
Linda Steed
Chris Wilkes

Corrective Action Plan *For the Year Ended September 30, 2011*

As required by the Office of Management and Budget (OMB) Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section .315(c), the Pike County Board of Education has prepared and hereby submits the following Corrective Action Plan for the finding included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2011

Finding

Ref. No.

Corrective Action Plan Details

2009-01

Finding: Internal control procedures require that money collected at the local schools be deposited daily. During the review of receipts at local schools, it was noted that money collected was not deposited into the bank in a timely manner.

Response: Board policies and procedures will be reintroduced to the teachers, bookkeepers and principals of the local schools to insure that receipts and deposits are processed timely.

Superintendent: Dr. Mark Bazzell

Chief School Finance Officer: Jennifer Hornsby