

Report on the

Pike County Board of Education

Pike County, Alabama

October 1, 2009 through September 30, 2010

Filed: September 2, 2011



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, 2009 through September 30, 2010.

Sworn to and subscribed before me this
the 9 day of August, 2011.

Maritta Webster
Notary Public 8/30/11 exp

Sworn to and subscribed before me this
the 9 day of August, 2011.

Maritta Webster
Notary Public 8/30/11

Respectfully submitted,

Cherie D. Raffle
Examiner of Public Accounts

Jesse W. James
Examiner of Public Accounts

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Department of
Examiners of Public Accounts

SUMMARY

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

The Pike County Board of Education (the "Board") is 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, 2010.

Findings are numbered and reported by the fiscal year in which the finding originally occurred.

Problems were found with the Board's internal controls over financial reporting (Exhibit 12) and they are summarized below.

- ◆ 2009-01 indicates that money collected at local schools was not deposited in a timely manner.
- ◆ 2010-01 indicates that the receipts were not all available for review at one local school.

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; and Board Members: Linda Steed and Wyman Botts. Also in attendance were representatives of the Department of Examiners of Public Accounts: Brenda Hollis, Audit Manager, Cherie Raffle, Examiner, and Jesse James, Examiner.

Independent Auditor's Report

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Pike County Board of Education, as of and for the year ended September 30, 2010, 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, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 8, 2011 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

August 8, 2011

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Management's Discussion and Analysis
(Required Supplementary Information)

Pike County Board of Education

Management Discussion and Analysis

September 30, 2010

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, 2010. 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 2010 fiscal year by \$7.7 million (net assets). Of this amount, there exists a surplus of \$1.5 million in unrestricted net assets. The net assets invested in capital assets amounted to \$6.2 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 \$23.48 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 \$5.1 million.

On the fund financial statements:

- 1 At the end of the current fiscal year, unreserved fund balance for the General Fund was \$440 thousand.
- 2 There was an overall decrease of \$58 thousand in fund balance in governmental funds.
- 3 The Board's long-term debt is \$4.7 million. This debt consists of bonds and warrants in the amount of \$3.37 million, the proceeds of which are restricted for renovation and new construction, notes totaling \$1.25 million primarily for the purchase of new school buses and a capital leases in the amount of \$61 thousand for the purchase of new computer and 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*. Until now, fund information has been reported in the aggregate by type of fund. As required under the reporting model, the *fund financial statements* presented herein display information on each of the Board's most important governmental funds or *major funds*. This is required in order to better assess the Board's accountability for significant governmental programs or certain dedicated revenue. The Board's only *major funds* for FY 2010 are the General Fund and the Child Nutrition 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 Child Nutrition 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 \$7.7 million at September 30, 2010.

- 1 Of this figure, 81 percent or \$6.23 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 \$1.5 million exists for other uses.

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

	<u>9/30/2010</u>	<u>9/30/2009</u>
Current and other assets	\$ 4.92	\$ 4.96
Capital assets	10.79	11.38
Total Assets	\$15.71	\$16.34
Current and other liabilities	\$3.27	\$3.25
Long-term liabilities	4.71	5.09
Total Liabilities	\$7.98	\$8.34
Net Assets:		
Invested in Capital Assets, net of Related Debt	\$6.23	\$6.53
Restricted		.30
Unrestricted	1.50	1.17
Total Net Assets	\$7.73	\$8.00

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, 2010.

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

	<u>9/30/2010</u>	<u>9/30/2009</u>
Revenues:		
Program Revenues		
Charges for services	\$ 1.77	\$ 1.65
Operating grants and contributions	15.84	15.06
Capital grants and contributions	.79	.73
General Revenues:		
Local property taxes	1.49	1.42
Sales and use taxes	2.76	2.68
Other	.56	.73
Total Revenues	\$23.21	\$22.27
Expenses		
Instruction	\$12.47	\$12.33
Instructional support	3.80	3.49
Operations and maintenance	1.90	1.97
Auxiliary services	3.60	3.91
General administrative and central support	1.26	1.33
Interest and fiscal charges	.22	.23
Other	.23	.21
Total Expenses	\$23.48	\$ 23.47
Change in Net Assets	(\$.27)	(\$1.20)
Net Assets-Beginning	\$ 8.00	\$ 9.20
Net Assets-Ending	\$ 7.73	\$ 8.00

The Board's net assets decreased by \$272 thousand during the current fiscal year. This is directly attributable to a significant decrease in state funding.

Governmental Activities – As shown in *Table 2*, the cost of services rendered from the Board's governmental activities for the year ended September 30, 2010 was \$23.48 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, \$1.77 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 \$16.64 million.
- 3 Other general revenue sources, such as interest earnings etc., provided for \$521 thousand in revenues.

- 4 \$4.81 million of the Board's total costs of \$23.48 million was financed by district and state taxpayers, as follows: \$1.49 million in property taxes, \$2.76 million in sales and use taxes, and \$44 thousand in other tax revenues.

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

Table 3: Net Cost of Governmental Activities

Fiscal Year Ended September 30, 2010

(In millions)

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instructional services	\$12.47	(\$1.80)
Instructional support services	\$3.80	(\$.66)
Operations and maintenance services	\$1.90	(\$1.02)
Auxiliary services	\$3.60	(\$.45)
General administration and central support	\$1.26	(\$.88)
Interest and fiscal charges	\$.22	(\$.22)
Other expenses	\$.23	(\$.06)
Total	\$23.48	(\$5.09)

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 \$1.61 million. Approximately \$440 thousand of this amount constitutes unreserved fund balance of the General fund, which is available as of the end of the fiscal year for spending on near-future operations.

General Fund – The general fund is the primary operating fund of the Board. The net decrease in general fund balance as a result of operations this year was \$471 thousand. This is primarily due to cuts in state funding as a result of proration. The board’s total general fund balance is now \$440 thousand.

Child Nutrition Fund – The child nutrition fund is used to account for the revenues and expenditures of the school lunch and breakfast programs provided at the local schools. The Board primarily receives federal revenues from the U.S. Department of Agriculture passed through the State Department of Education.

The general fund reflects transfers out of \$556 thousand. Of this amount, \$521 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.

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 2010 General Fund budget reflected a significant decrease in revenues across every funding source. During October 2009, Governor Riley declared proration in the Education Budget at 7.5% and an additional 2% in September 2010. The effect was a 9.5% shortfall in anticipated state revenues for the year. These State revenues were primarily for the payment of employee salaries and benefits. However, State law prohibits the reduction of salaries and benefits paid to employees. 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 2.7% from FY 2009.

The original FY 10 budget was amended once during the year to reflect any materialistic changes in revenues and expenditures.

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

Amendment #1 was submitted to include the previous year’s carry-over dollars and other revenues not in the original budget as well as to adjust for budget shortfalls resulting from prorated 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, 2010, amounted to \$6.23 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>9/30/2010</u>
Land and land improvements	\$.97
Buildings and Improvements	8.01
Furniture and Equipment	.48
Vehicles	1.31
Equipment under Capital Lease	<u>.02</u>
Total Capital Assets	<u>\$10.79</u>

The Board expended available resources to acquire \$51 thousand in capital asset additions during the year as follows: Reclassification of Construction in Progress to Building Improvement totaled \$361 thousand, equipment additions totaled \$19 thousand and construction in progress of \$32 thousand. These additions are reduced by the current year’s depreciation expense of \$614 thousand and \$254 thousand of capital assets taken out of service during the year. Additional information on the Board's capital assets is presented in the notes to the financial statements.

Long-Term Debt – At year-end, the Board had \$4.71 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, computers and office equipment. *Table 5* provides details.

**Table 5: Outstanding Long-Term Debt
Fiscal Year Ended September 30, 2010
(In millions)**

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Net Change</u>	<u>Ending Balance</u>
Bonds & Warrants payable	\$3.52	(\$.12)	\$3.40
Notes Payable	\$1.48	(\$.23)	\$1.25
Capital Lease Payable	\$.09	(\$.03)	\$.06

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

- 1 During 2010, the Board made payments of \$90 thousand toward the principal on its Series 2003 Capital Warrants and payments of \$122 thousand for interest. The Board also made payment of \$55 thousand toward the principal on its Series 2009-B Capital Improvement Pool Warrants and \$12 thousand for interest.
- 2 In addition, using state fleet renewal allocations, the Board paid \$223 thousand against the principal and \$59 thousand in interest on notes which were secured for the acquisition of buses. The balance due is \$1,254,225.41 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 \$52,784.35 and \$3,109.32 for the purchase of 150 new computers and office equipment, respectively. The Board paid \$49,343.13 towards the principal. The balance due is \$61,788.62.

Economic Factors

The Pike County Board of Education is anticipating further program revenue cuts for the upcoming fiscal year. The Governor has already declared 3% proration of the FY 2011 education budget. 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 declined financially, 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 have largely left instructional activities unaffected for FY 2010. 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.

Basic Financial Statements

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Statement of Net Assets
September 30, 2010

	Governmental Activities
<u>Assets</u>	
Cash and Cash Equivalents	\$ 1,282,368.67
Investments	1,750,000.00
Receivables (Note 4)	706,456.97
Ad Valorem Property Taxes Receivable	1,078,354.98
Inventories	34,814.61
Deferred Charges - Warrant Issuance Costs	71,963.55
Capital Assets (Note 5)	10,791,234.45
Total Assets	<u>15,715,193.23</u>
<u>Liabilities</u>	
Payables (Note 8)	484,438.75
Deferred Revenue	1,219,543.45
Salaries and Benefits Payable	1,533,354.81
Accrued Interest Payable	34,179.87
Long-Term Liabilities:	
Portion Due or Payable Within One Year:	
Notes Payable	187,535.98
Capital Lease Payable	52,450.66
Bonds and Warrants Payable	137,575.72
Plus: Unamortized Premium	3,143.49
Portion Due or Payable After One Year:	
Notes Payable	1,066,689.43
Capital Lease Payable	9,327.96
Bonds and Warrants Payable	3,230,735.54
Plus: Unamortized Premium	23,838.85
Total Liabilities	<u>7,982,814.51</u>
<u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	6,230,266.82
Unrestricted	<u>1,502,111.90</u>
Total Net Assets	<u>\$ 7,732,378.72</u>

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

Statement of Activities
For the Year Ended September 30, 2010

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Governmental Activities			
Instruction	\$ 12,468,493.64	\$ 280,727.57	\$ 10,140,622.19
Instructional Support	3,806,756.98	32,018.30	3,114,786.09
Operation and Maintenance	1,905,066.60	16,488.83	506,017.78
Auxiliary Services:			
Transportation	1,950,763.82	44,077.20	1,546,912.69
Food Service	1,646,696.20	1,271,644.01	96,275.81
General Administration and Central Support	1,262,463.25	5,245.40	377,332.30
Interest and Fiscal Charges	217,377.10		
Other	230,287.76	117,609.11	55,751.13
Total Governmental Activities	<u>\$ 23,487,905.35</u>	<u>\$ 1,767,810.42</u>	<u>\$ 15,837,697.99</u>

General Revenues:

Taxes:
 Property Taxes for General Purposes
 Sales and Use Tax - General Purposes
 Miscellaneous Taxes
Contributions Not Restricted for
 Specific Purposes
Interest
Gain on Disposition of Capital Assets
Miscellaneous
 Total General Revenues

Changes in Net Assets

Net Assets - Beginning of Year

Net Assets - End of Year

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

		Net (Expenses) Revenues and Changes in Net Assets	
Capital Grants and Contributions		Total Governmental Activities	
\$	248,168.84	\$	(1,798,975.04)
			(659,952.59)
	361,283.16		(1,021,276.83)
	181,869.00		(177,904.93)
			(278,776.38)
			(879,885.55)
			(217,377.10)
			(56,927.52)
<u>\$</u>	<u>791,321.00</u>		<u>(5,091,075.94)</u>
			1,497,074.11
			2,756,506.02
			44,196.98
			2,325.30
			45,188.14
			11,944.60
			461,888.57
			<u>4,819,123.72</u>
			(271,952.22)
			<u>8,004,330.94</u>
		<u>\$</u>	<u>7,732,378.72</u>

Balance Sheet
Governmental Funds
September 30, 2010

	General Fund	Child Nutrition Fund
<u>Assets</u>		
Cash and Cash Equivalents	\$ 206,217.79	\$ 376,378.52
Investments	1,750,000.00	
Receivables (Note 4)	526,270.21	133,731.54
Ad Valorem Property Taxes Receivable	1,078,354.98	
Interfund Receivables	46,455.22	
Inventories		34,814.61
Total Assets	<u>3,607,298.20</u>	<u>544,924.67</u>
<u>Liabilities and Fund Balances</u>		
<u>Liabilities</u>		
Payables (Note 8)	484,438.75	
Interfund Payables	56,258.40	
Deferred Revenue	1,148,020.62	7,953.26
Salaries and Benefits Payable	1,478,632.37	54,722.44
Total Liabilities	<u>3,167,350.14</u>	<u>62,675.70</u>
<u>Fund Balances</u>		
Reserved for:		
Inventories		34,814.61
Debt Service Funds		
Capital Projects Funds		
Unreserved, Reported in:		
General Fund	439,948.06	
Special Revenue Funds		447,434.36
Total Fund Balances	<u>439,948.06</u>	<u>482,248.97</u>
Total Liabilities and Fund Balances	<u>\$ 3,607,298.20</u>	<u>\$ 544,924.67</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 699,772.36	\$ 1,282,368.67
	1,750,000.00
46,455.22	706,456.97
	1,078,354.98
56,258.40	102,713.62
	34,814.61
<u>802,485.98</u>	<u>4,954,708.85</u>

	484,438.75
46,455.22	102,713.62
63,569.57	1,219,543.45
	1,533,354.81
<u>110,024.79</u>	<u>3,340,050.63</u>

	34,814.61
11,432.36	11,432.36
288,736.16	288,736.16
	439,948.06
<u>392,292.67</u>	<u>839,727.03</u>
<u>692,461.19</u>	<u>1,614,658.22</u>
<u>\$ 802,485.98</u>	<u>\$ 4,954,708.85</u>

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

Total Fund Balances - Governmental Funds (Exhibit 3) \$ 1,614,658.22

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). 10,791,234.45

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 71,963.55

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	\$ 187,535.98	\$ 1,066,689.43	
Capital Lease Payable	52,450.66	9,327.96	
Bonds and Warrants Payable	137,575.72	3,230,735.54	
Plus: Unamortized Premium	3,143.49	23,838.85	
Accrued Interest Payable	34,179.87		
Total	\$ 414,885.72	\$ 4,330,591.78	(4,745,477.50)

Total Net Assets - Governmental Activities (Exhibit 1) \$ 7,732,378.72

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

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2010

	General Fund	Child Nutrition Fund
<u>Revenues</u>		
State	\$ 11,554,269.00	\$
Federal	58,487.54	1,124,430.63
Local	4,366,894.00	210,546.13
Other	37,034.06	38,198.94
Total Revenues	<u>16,016,684.60</u>	<u>1,373,175.70</u>
<u>Expenditures</u>		
Current:		
Instruction	9,522,911.06	
Instructional Support	2,771,519.09	
Operation and Maintenance	1,126,668.40	
Auxiliary Services:		
Transportation	1,713,929.11	
Food Service		1,718,223.90
General Administration and Central Support	945,586.09	
Other	34,298.27	
Capital Outlay	21,438.71	
Debt Service:		
Principal Retirement	90,601.97	
Interest and Fiscal Charges	6,550.54	
Other Debt Service/Debt Issuance Costs	1,365.00	
Total Expenditures	<u>16,234,868.24</u>	<u>1,718,223.90</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(218,183.64)</u>	<u>(345,048.20)</u>
<u>Other Financing Sources (Uses)</u>		
Indirect Cost	177,599.30	
Other Sources	52,871.94	
Sale of Capital Assets	39,300.00	
Long-Term Debt Issued	18,655.92	
Premium on Long-Term Debt Issued		
Transfers In	14,481.24	521,072.90
Transfers Out	(556,344.90)	
Payments to Refunding Escrow Agent		
Total Other Financing Sources (Uses)	<u>(253,436.50)</u>	<u>521,072.90</u>
Net Change in Fund Balances	(471,620.14)	176,024.70
Fund Balances - Beginning of Year	911,568.20	306,224.27
Fund Balances - End of Year	<u>\$ 439,948.06</u>	<u>\$ 482,248.97</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 798,610.00	\$ 12,352,879.00
4,121,801.94	5,304,720.11
757,405.53	5,334,845.66
77,634.61	152,867.61
<u>5,755,452.08</u>	<u>23,145,312.38</u>
2,722,182.96	12,245,094.02
1,012,652.33	3,784,171.42
704,179.81	1,830,848.21
16,469.51	1,730,398.62
	1,718,223.90
348,050.94	1,293,637.03
193,749.99	228,048.26
29,766.81	51,205.52
326,650.89	417,252.86
193,605.30	200,155.84
3,000.86	4,365.86
<u>5,550,309.40</u>	<u>23,503,401.54</u>
<u>205,142.68</u>	<u>(358,089.16)</u>
	177,599.30
9,003.12	61,875.06
	39,300.00
513,194.29	531,850.21
28,292.27	28,292.27
258,041.33	793,595.47
(237,250.57)	(793,595.47)
(538,485.70)	(538,485.70)
<u>32,794.74</u>	<u>300,431.14</u>
237,937.42	(57,658.02)
454,523.77	1,672,316.24
<u>\$ 692,461.19</u>	<u>\$ 1,614,658.22</u>

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended September 30, 2010

Net Changes in Fund Balances - Total Governmental Funds (Exhibit 5) \$ (57,658.02)

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 (\$614,473.06) exceeded capital outlay (\$51,205.52) in the current period. (563,267.54)

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. 417,252.86

Warrant issuance costs are reported as expenditures in the governmental funds in the year of issuance; however, these costs are deferred and amortized over the life of the warrants in the government-wide financial statements. 3,000.86

Payments to refunding escrow agent are recorded as other financing uses in the governmental funds, but reduce long-term liabilities in the Statement of Net Assets and do not affect the Statement of Activities. 538,485.70

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.

Capital Lease	\$	(18,655.92)	
Warrants		<u>(513,194.29)</u>	(531,850.21)

Premiums on debt issuance are reported as other financing sources in the governmental funds, but are deferred and amortized in the Statement of Activities. (28,292.27)

In the Statement of Activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. The change in net assets differs from the change in fund balances by this amount.

Proceeds from Sale of Capital Assets	\$	(39,300.00)	
Gain on Disposition of Capital Assets		<u>11,944.60</u>	(27,355.40)

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

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	\$	(3,653.29)	
Amortization of Deferred Charge - Premium		1,309.93	
Amortization of Deferred Charge - Issuance Cost		(3,233.03)	
Loss on Refunding		<u>(13,512.90)</u>	(19,089.29)

Revenue reported in the Statement of Activities that does not provide current financial resources is not reported as revenue in the funds:

Accrued Interest Receivable, Current Year Increase/(Decrease)		<u>(3,178.91)</u>
Change in Net Assets of Governmental Activities (Exhibit 2)	\$	<u><u>(271,952.22)</u></u>

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Statement of Fiduciary Net Assets
September 30, 2010

	Agency Funds
<u>Assets</u>	
Cash	\$ 29,673.95
Investments	10,467.09
Total Assets	<u>40,141.04</u>
<u>Liabilities</u>	
Other Payables	40,141.04
Total Liabilities	<u>\$ 40,141.04</u>

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

Notes to the Financial Statements

For the Year Ended September 30, 2010

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, 2010

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.
- ◆ **Child Nutrition Fund** – The child nutrition fund is used to account for the revenues and expenditures of the school lunch and breakfast programs provided at the local schools. The Board primarily receives federal revenues from the U. S. Department of Agriculture passed through the State Department of Education.

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

Governmental Fund Types

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

Notes to the Financial Statements

For the Year Ended September 30, 2010

- ◆ **Capital Projects Funds** – These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

The Board reports the following fiduciary fund type:

Fiduciary Fund Type

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

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

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

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

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

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

Notes to the Financial Statements

For the Year Ended September 30, 2010

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 pledge 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.

3. Inventories

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

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

4. Capital Assets

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

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

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

5. Long-Term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Warrant 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.

Notes to the Financial Statements

For the Year Ended September 30, 2010

6. 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.

- ◆ **Unrestricted** – Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board.

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

Note 2 – Stewardship, Compliance, and Accountability

Budgets

Budgets are adopted on a basis of accounting consistent with accounting principles generally accepted in the United States of America (GAAP) for the General Fund 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, sales taxes, and certain federal revenues are budgeted only to the extent expected to be received rather than on the modified accrual basis of accounting. The Child Nutrition Program Fund budgets on a basis of accounting consistent with GAAP with the exception of salaries and benefits, which are budgeted only to the extent expected to be paid rather than on the modified accrual basis of accounting. All other governmental funds adopt budgets on the modified accrual basis of accounting. Capital project funds adopt project-length budgets. All appropriations lapse at fiscal year-end.

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

Notes to the Financial Statements

For the Year Ended September 30, 2010

Note 3 – Deposits and Investments

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

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

Note 4 – Receivables

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

	General Fund	Child Nutrition Fund	Other Governmental Funds	Total
Receivables:				
Sales Taxes	\$470,500.85	\$	\$	\$470,500.85
Intergovernmental	55,769.36	133,731.54	46,455.22	235,956.12
Total Receivables	\$526,270.21	\$133,731.54	\$46,455.22	\$706,456.97

Notes to the Financial Statements

For the Year Ended September 30, 2010

Governmental funds report deferred revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At September 30, 2010, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Ad Valorem Property Taxes	\$1,078,354.98	\$
Motor Vehicle Ad Valorem Taxes		69,665.64
Grant Drawdowns Prior to Meeting All Eligibility Requirements		63,569.57
Prepaid Child Nutrition Program Lunches		7,953.26
Total Deferred/Unearned Revenue for Governmental Funds	\$1,078,354.98	\$141,188.47

Note 5 – Capital Assets

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

	Balance 10/01/2009	Additions/ Reclassifications (*)	Retirements/ Reclassifications (*)	Balance 09/30/2010
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 192,129.33	\$	\$	\$ 192,129.33
Construction in Progress	328,777.50	32,549.60	(361,327.10)	
Total Capital Assets, Not Being Depreciated	520,906.83	32,549.60	(361,327.10)	192,129.33
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	1,562,593.45	361,327.10		1,923,920.55
Equipment and Furniture	1,295,021.83			1,295,021.83
Vehicles	3,176,632.33		(253,832.21)	2,922,800.12
Equipment Under Capital Lease		18,655.92		18,655.92
Total Capital Assets Being Depreciated	19,791,375.84	379,983.02	(253,832.21)	19,917,526.65
Less Accumulated Depreciation for:				
Land Improvements (Exhaustible)	(1,128,341.11)	(84,495.64)		(1,212,836.75)
Buildings	(4,804,389.49)	(220,438.31)		(5,024,827.80)
Buildings Improvements	(570,031.15)	(72,800.97)		(642,832.12)
Equipment and Furniture	(800,277.89)	(19,293.21)		(819,571.10)
Vehicles	(1,627,385.64)	(215,579.34)	226,476.81	(1,616,488.17)
Equipment Under Capital Lease		(1,865.59)		(1,865.59)
Total Accumulated Depreciation	(8,930,425.28)	(614,473.06)	226,476.81	(9,318,421.53)
Total Capital Assets Being Depreciated, Net	10,860,950.56	(234,490.04)	(27,355.40)	10,599,105.12
Total Governmental Activities Capital Assets, Net	\$11,381,857.39	\$(201,940.44)	\$(388,682.50)	\$10,791,234.45
(*) Additions/Reclassifications and Retirements/Reclassifications include reclassifications in the amount of \$361,327.10, which were reclassified from Construction in Progress to Building Improvements due to the completion of projects.				

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

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

	Current Year Depreciation Expense
<u>Governmental Activities:</u>	
Instruction	\$223,399.62
Instructional Support	22,585.56
Operation and Maintenance	74,218.39
<u>Auxiliary Services:</u>	
Transportation	220,365.20
Food Service	64,683.85
General Administration and Central Support	6,900.32
Other	2,320.12
Total Depreciation Expense – Governmental Activities	<u>\$614,473.06</u>

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.

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

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.

B. Funding Policy

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

Fiscal Year Ended September 30,	2010	2009	2008
Total Percentage of Covered Payroll	17.51%	17.07%	16.75%
Contributions:			
Percentage Contributed by the Board	12.51%	12.07%	11.75%
Percentage Contributed by the Employees	5.00%	5.00%	5.00%
Contributed by the Board	\$1,537,758.50	\$1,444,855.23	\$1,418,962.23
Contributed by Employees	614,343.00	598,657.67	603,848.36
Total Contributions	<u>\$2,152,101.50</u>	<u>\$2,043,512.90</u>	<u>\$2,022,810.59</u>

Notes to the Financial Statements

For the Year Ended September 30, 2010

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.

B. Funding Policy

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

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

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

For employees that retire other than for disability, for each year under 25 years of service, the retiree pays two percent of the employer premium and for each year over 25 years of service, the retiree premium is reduced by two percent of the employer premium. A tobacco surcharge is \$25.00 per month for retired members that smoke.

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

Fiscal Year Ended September 30,	Active Health Insurance Premiums Paid By Board	Amount of Premium Attributable to Retirees	Percentage of Active Employee Premiums Attributable to Retirees	Total Amount Paid Attributable to Retirees	Percentage of Required Amount Contributed
2010	\$752.00	\$241.27	32.08%	\$899,107.44	100%
2009	\$752.00	\$205.45	27.32%	\$778,554.45	100%
2008	\$775.00	\$212.35	27.40%	\$799,661.33	100%

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

Note 8 – Payables

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

	Vendors	Intergovernmental	Total Payables
Governmental Activities:			
General Fund	\$86.88	\$484,351.87	\$484,438.75
Total Governmental Activities	\$86.88	\$484,351.87	\$484,438.75

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

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, 2010. If the Board completes the lease payments according to the schedule below, which is the stated intent of the Board, ownership of the leased equipment will pass to the Board. Until that time, the leased equipment will be identified separately on the balance sheet. The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of September 30, 2010.

Fiscal Year Ending	Governmental Activities
September 30, 2011	\$59,002.99
2012	6,218.64
2013	3,109.32
Total Minimum Lease Payments	68,330.95
Less: Amount Representing Interest	(6,552.33)
Present Value of Net Minimum Lease Payments	\$61,778.62

Note 10 – Long-Term Debt

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

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. A long-term note payable in the amount of \$123,776.84 was incurred to repay sales tax distribution errors.

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

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

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

	Debt Outstanding 10/01/2009	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 09/30/2010	Amounts Due Within One Year
Governmental Activities:					
Bonds and Warrants Payable:					
Series 2003 Capital Outlay Warrants	\$3,000,000.00	\$	\$ (90,000.00)	\$2,910,000.00	\$ 95,000.00
Series 1999D Capital Improvement Pool Bonds	524,972.80		(524,972.80)		
Series 2009B Capital Improvement Pool Bonds		513,194.29	(54,883.03)	458,311.26	42,575.72
Total Bonds and Warrants Payable	3,524,972.80	513,194.29	(669,855.83)	3,368,311.26	137,575.72
Long-Term Notes Payable	1,477,252.11		(223,026.70)	1,254,225.41	187,535.98
Capital Lease Payable	92,465.83	18,655.92	(49,343.13)	61,778.62	52,450.66
Deferred Amounts:					
Unamortized Premium		28,292.27	(1,309.93)	26,982.34	3,143.49
Governmental Activities Long-Term Liabilities	\$5,094,690.74	\$560,142.48	\$(943,535.59)	\$4,711,297.63	\$380,705.85

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 Bonds and Warrants 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 long-term note payable for sales tax distribution errors will be repaid by the General Fund. The capital leases payable will be paid by the General Fund.

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

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, 2011	\$ 42,575.72	\$ 22,231.24	\$ 95,000.00	\$ 118,735.00
2012	44,282.20	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
2016-2020	227,016.50	29,109.20	625,000.00	441,675.00
2021-2025			780,000.00	298,380.00
2026-2030			1,000,000.00	110,500.00
Totals	<u>\$458,311.26</u>	<u>\$119,773.92</u>	<u>\$2,910,000.00</u>	<u>\$1,404,830.00</u>

Deferred Amounts

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	Loss on Refunding
Total Issuance Costs and Premium Amount Amortized Prior Years	\$ 92,823.05 (20,627.33)	\$3,000.86	\$ 95,823.91 (20,627.33)	\$28,292.27	\$ 13,512.90
Balance of Issuance Costs and Premium Current Amount Amortized	72,195.72 (3,094.10)	3,000.86 (138.93)	75,196.58 (3,233.03)	28,292.27 (1,309.93)	13,512.90 (13,512.90)
Balance of Issuance Costs and Premium	<u>\$ 69,101.62</u>	<u>\$2,861.93</u>	<u>\$ 71,963.55</u>	<u>\$26,982.34</u>	<u>\$</u>

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

Long-Term Notes Payable		Capital Lease Payable		Total Principal and Interest Requirements to Maturity
Principal	Interest	Principal	Interest	
\$ 187,535.98	\$ 53,618.43	\$52,450.66	\$6,552.33	\$ 578,699.36
195,456.58	45,697.83	6,218.64		522,118.47
203,712.30	37,442.11	3,109.32		520,101.38
211,561.94	28,837.10			516,087.82
146,343.34	19,885.66			442,649.67
309,615.27	21,659.65			1,654,075.62
				1,078,380.00
				1,110,500.00
\$1,254,225.41	\$207,140.78	\$61,778.62	\$6,552.33	\$6,422,612.32

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 \$4,314,830.00 are pledged to repay the principal and interest on the warrants at September 30, 2010. Proceeds of the 5 Mill County School Tax in the amount of \$731,551.45 were received by the Board during the fiscal year ended September 30, 2010, of which \$202,101.91 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 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 \$578,085.18 are pledged to repay the principal and interest on the Series 2009-B bonds at September 30, 2010. Pledged funds in the amount of \$66,999.87 were used to pay to pay principal and interest on the bonds during the fiscal year ended September 30, 2010. This amount represents 12 percent of the pledged funds received by the Board. The Series 2009-B bonds will mature in fiscal year 2019.

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

Defeased Debt

On October 28, 2009, the Alabama Public School and College Authority, on behalf of the various Boards of Education in the pool, issued \$174,960,000.00 in Capital Improvement Pool Refunding Bonds Series 2009-B (“Series 2009-B”) with interest rates ranging from 3.00% to 5.00% to refund and retire on a current basis \$151,170,000.00 of outstanding Capital Improvement Pool Bonds Series 1999-D (“Series 1999-D”) with interest rates ranging from 5.75% to 6.00% and to advance refund \$27,815,000.00 of outstanding Capital Improvement Pool Bonds Series 2001-A (“Series 2001-A”) which were scheduled to mature in fiscal years 2014 through 2018 with interest rates ranging from 5.50% to 5.625%. The net proceeds of \$186,130,483.97 (\$156,199,314.97 for Series 1999-D and \$29,931,169.00 for Series 2001-A) after a premium of \$12,193,548.45 and payment of \$1,023,064.48 in underwriting fees and other issuance costs were used to purchase U. S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series 1999-D and the portion of the Series 2001-A which were refunded. As a result, the Series 1999-D is considered to be defeased and the liabilities for those bonds have been removed.

The Board had a .345% participation in the Series 1999-D. This resulted in the Board being obligated for \$513,194.29 of the total principal of \$174,960,000.00 for the Series 2009-B allocated to Series 1999-D bonds. The Board’s portion of the net proceeds deposited in an irrevocable trust with an escrow agent was \$538,485.70 for the Series 1999-D. The liabilities removed were \$524,972.80 for the Series 1999-D.

The Board’s portion of the refunding resulted in a difference between the reacquisition price and the net carrying amount of the Series 1999-D of \$13,512.90. As a result of the refunding, the Board reduced its total debt service requirements by \$54,787.40 for the Series 1999-D, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$40,069.46 for the Series 1999-D.

Notes to the Financial Statements

For the Year Ended September 30, 2010

Note 10 – Risk Management

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

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

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

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

Note 11 – Interfund Transactions

Interfund Receivables and Payables

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

	Interfund Receivables		Totals
	General Fund	Other Governmental Funds	
Interfund Payables:			
General Fund	\$	\$56,258.40	\$ 56,258.40
Other Governmental Funds	46,455.22		46,455.22
Totals	\$46,455.22	\$56,258.40	\$102,713.62

Interfund Transfers

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

	Transfers In			Totals
	General Fund	Child Nutrition Fund	Other Governmental Funds	
Transfers Out:				
General Fund	\$	\$521,072.90	\$ 35,272.00	\$556,344.90
Other Governmental Funds	14,481.24		222,769.33	237,250.57
Totals	\$14,481.24	\$521,072.90	\$258,041.33	\$793,595.47

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.

Required Supplementary Information

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>
<u>Revenues</u>			
State	\$ 12,417,763.55	\$ 11,540,827.88	\$ 11,554,269.00
Federal	83,416.00	77,850.00	58,487.54
Local	4,082,075.00	4,309,839.44	4,340,553.86
Other	30,000.00	25,050.00	37,034.06
Total Revenues	<u>16,613,254.55</u>	<u>15,953,567.32</u>	<u>15,990,344.46</u>
<u>Expenditures</u>			
Current:			
Instruction	9,502,033.11	9,515,014.13	9,468,011.27
Instructional Support	2,667,123.00	2,849,352.21	2,734,838.68
Operation and Maintenance	1,285,553.00	1,151,253.00	1,127,230.59
Auxiliary Services - Transportation	1,878,985.00	1,847,923.00	1,723,062.24
General Administration and Central Support	881,796.00	988,863.60	945,586.09
Other	27,653.55	27,533.55	35,326.46
Capital Outlay			21,438.71
Debt Service:			
Principal Retirement	53,000.00	53,000.00	90,601.97
Interest and Fiscal Charges			6,550.54
Other Debt Service		1,365.00	1,365.00
Total Expenditures	<u>16,296,143.66</u>	<u>16,434,304.49</u>	<u>16,154,011.55</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>317,110.89</u>	<u>(480,737.17)</u>	<u>(163,667.09)</u>
<u>Other Financing Sources (Uses)</u>			
Transfers In	7,526.00	433,658.56	14,481.24
Other Sources	42,195.00	38,300.00	52,871.94
Indirect Costs	191,462.00	195,831.80	177,599.30
Sale of Capital Assets	5,000.00	24,736.00	39,300.00
Long-Term Debt Issued			18,655.92
Transfers Out	(563,293.89)	(523,098.89)	(556,344.90)
Total Other Financing Sources (Uses)	<u>(317,110.89)</u>	<u>169,427.47</u>	<u>(253,436.50)</u>
Net Change in Fund Balances		(311,309.70)	(417,103.59)
Fund Balances - Beginning of Year	<u>2,200,000.00</u>	<u>2,342,975.09</u>	<u>1,938,085.09</u>
Fund Balances - End of Year	<u>\$ 2,200,000.00</u>	<u>\$ 2,031,665.39</u>	<u>\$ 1,520,981.50</u>

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	\$	\$ 11,554,269.00
		58,487.54
(1) (2)	26,340.14	4,366,894.00
		37,034.06
	<u>26,340.14</u>	<u>16,016,684.60</u>
(3)	(54,899.79)	9,522,911.06
(3)	(36,680.41)	2,771,519.09
(3)	562.19	1,126,668.40
(3)	9,133.13	1,713,929.11
		945,586.09
(3)	1,028.19	34,298.27
		21,438.71
		90,601.97
		6,550.54
		1,365.00
	<u>(80,856.69)</u>	<u>16,234,868.24</u>
	<u>(54,516.55)</u>	<u>(218,183.64)</u>
		14,481.24
		52,871.94
		177,599.30
		39,300.00
		18,655.92
		(556,344.90)
		<u>(253,436.50)</u>
	(54,516.55)	(471,620.14)
(4)	<u>(1,026,516.89)</u>	911,568.20
	<u>\$ (1,081,033.44)</u>	<u>\$ 439,948.06</u>

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

Explanation of differences:

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 Decrease in Fund Balances - Budget to GAAP

- (4) The amount reported as "fund balance" on the budgetary basis of accounting derives from the basis of accounting used in preparing the Board's budget. 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.

\$ 23,111.67

3,228.47

(80,856.69)

\$ (54,516.55)

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>
<u>Revenues</u>			
Federal	\$ 984,505.00	\$ 984,505.00	\$ 1,124,430.63
Local	229,250.00	229,250.00	210,546.13
Other	46,000.00	46,000.00	38,198.94
Total Revenues	<u>1,259,755.00</u>	<u>1,259,755.00</u>	<u>1,373,175.70</u>
<u>Expenditures</u>			
Current:			
Auxiliary Services - Food Services	1,735,827.89	1,735,827.89	1,715,227.54
Capital Outlay	45,000.00	45,000.00	
Total Expenditures	<u>1,780,827.89</u>	<u>1,780,827.89</u>	<u>1,715,227.54</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(521,072.89)</u>	<u>(521,072.89)</u>	<u>(342,051.84)</u>
<u>Other Financing Sources (Uses)</u>			
Transfers In	521,072.89	521,072.89	521,072.90
Total Other Financing Sources (Uses)	<u>521,072.89</u>	<u>521,072.89</u>	<u>521,072.90</u>
Net Change in Fund Balances			179,021.06
Fund Balances - Beginning of Year			<u>357,950.35</u>
Fund Balances - End of Year	<u>\$</u>	<u>\$</u>	<u>\$ 536,971.41</u>

Explanation of differences:

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 Decrease 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.

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	\$	\$ 1,124,430.63
		210,546.13
		38,198.94
		<u>1,373,175.70</u>
(1)	(2,996.36)	1,718,223.90
	<u>(2,996.36)</u>	<u>1,718,223.90</u>
	<u>(2,996.36)</u>	<u>(345,048.20)</u>
		<u>521,072.90</u>
		<u>521,072.90</u>
	(2,996.36)	176,024.70
(2)	<u>(51,726.08)</u>	<u>306,224.27</u>
	<u>\$ (54,722.44)</u>	<u>\$ 482,248.97</u>
	<u>\$ (2,996.36)</u>	
	<u>\$ (2,996.36)</u>	

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Supplementary Information

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

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
<u>U. S. Department of Agriculture</u>		
<u>Food and Nutrition Service</u>		
<u>Passed Through State 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		
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	
Impact Aid	84.041	
<u>Passed Through State 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 Grants to Local Educational Agencies (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
Safe and Drug-Free Schools and Communities State Grants	84.186	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 (M)		
Sub-Total Forward		

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
10/01/2009-09/30/2010	\$ 261,967.36	\$ 261,967.36	\$ 261,967.36	\$ 261,967.36
10/01/2009-09/30/2010	761,631.28	761,631.28	761,631.28	761,631.28
10/01/2009-09/30/2010	72,457.36	72,457.36	72,457.36	72,457.36
	<u>834,088.64</u>	<u>834,088.64</u>	<u>834,088.64</u>	<u>834,088.64</u>
	1,096,056.00	1,096,056.00	1,096,056.00	1,096,056.00
10/01/2009-09/30/2010	28,374.63	28,374.63	28,374.63	28,374.63
	<u>1,124,430.63</u>	<u>1,124,430.63</u>	<u>1,124,430.63</u>	<u>1,124,430.63</u>
10/01/2009-09/30/2010	210,927.00	210,927.00	210,927.00	210,927.00
10/01/2009-09/30/2010	1,425.30	1,425.30	1,425.30	1,425.30
10/01/2009-09/30/2010	1,610,249.94	1,610,249.94	1,491,031.54	1,491,031.54
10/01/2009-09/30/2010	1,188,047.00	1,188,047.00	549,832.21	549,832.21
	<u>2,798,296.94</u>	<u>2,798,296.94</u>	<u>2,040,863.75</u>	<u>2,040,863.75</u>
10/01/2009-09/30/2010	567,803.00	567,803.00	544,105.66	544,105.66
10/01/2009-09/30/2010	571,174.00	571,174.00	246,373.11	246,373.11
10/01/2009-09/30/2010	12,924.00	12,924.00	12,924.00	12,924.00
10/01/2009-09/30/2010	17,764.00	17,764.00	9,764.00	9,764.00
	<u>1,169,665.00</u>	<u>1,169,665.00</u>	<u>813,166.77</u>	<u>813,166.77</u>
10/01/2009-09/30/2010	56,067.00	56,067.00	56,067.00	56,067.00
10/01/2009-09/30/2010	16,152.00	16,152.00	16,152.00	16,152.00
10/01/2009-09/30/2010	4,068.00	4,068.00	4,068.00	4,068.00
10/01/2009-09/30/2010	173,139.21	173,139.21	144,582.21	144,582.21
10/01/2009-09/30/2010	31,918.00	31,918.00	23,728.35	23,728.35
	<u>205,057.21</u>	<u>205,057.21</u>	<u>168,310.56</u>	<u>168,310.56</u>
	\$ 4,461,658.45	\$ 4,461,658.45	\$ 3,310,980.38	\$ 3,310,980.38

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

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
Sub-Total Brought Forward		
Reading First State Grants	84.357	N/A
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
<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>U. S. Department of Health and Human Services</u>		
<u>Passed Through State Department of Education</u>		
Child Care and Development Block Grant	93.575	N/A
<u>Social Security Administration</u>		
<u>Passed Through State 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	
Total Expenditures of Federal Awards		

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

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

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
	\$ 4,461,658.45	\$ 4,461,658.45	\$ 3,310,980.38	\$ 3,310,980.38
10/01/2009-09/30/2010	15,779.08	15,779.08	15,779.08	15,779.08
10/01/2009-09/30/2010	61,162.02	61,162.02	21,945.33	21,945.33
10/01/2009-09/30/2010	246,458.52	246,458.52	202,838.01	202,838.01
10/01/2009-09/30/2010	816.00	816.00	184.50	184.50
10/01/2009-09/30/2010	539,811.00	539,811.00	539,811.00	539,811.00
10/01/2009-09/30/2010	21,688.94	21,688.94	21,688.94	21,688.94
	5,347,374.01	5,347,374.01	4,113,227.24	4,113,227.24
10/01/2009-09/30/2010	10,000.00	10,000.00	10,000.00	10,000.00
10/01/2009-09/30/2010	864.00	864.00	864.00	864.00
10/01/2009-09/30/2010	56,198.24	56,198.24	56,198.24	56,198.24
	\$ 6,538,866.88	\$ 6,538,866.88	\$ 5,304,720.11	\$ 5,304,720.11

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

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, 2009 through September 30, 2010

Board Members		Term Expires
Hon. W. Greg Price	President	2014
Hon. Linda Steed	Vice-President	2016
Hon. Earnest Green	Member	2014
Hon. Herbert Reynolds	Member	2012
Hon. Chris Wilkes	Member	2016
Hon. Wyman Botts	Member	2016
<u>Administrative Personnel</u>		
Mark Bazzell, Ed.D.	Superintendent	2011
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, 2010, which collectively comprise the Board’s basic financial statements and have issued our report thereon dated August 8, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purposes of expressing an opinion on the effectiveness of the 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 certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs, as items 2009-01 and 2010-01 that we consider to be significant deficiencies 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

August 8, 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***

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, 2010. 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, 2010.

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.

***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***

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.

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

August 8, 2011

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

Section I – Summary of Examiner's Results

Financial Statements

Type of opinion issued: Unqualified

Internal control over financial reporting:
 Material weakness(es) identified? Yes X No

Significant deficiency(ies) identified? 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 Numbers	Name of Federal Program or Cluster
84.010 and 84.389	Title I, Part A Cluster
84.027, 84.173, 84.391 and 84.392	Special Education Cluster
84.318 and 84.386	Education Technology Cluster
84.394	State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act

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

Auditee qualified as low-risk auditee? X Yes No

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

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>	
2010-01	Internal Control	<p><u>Finding:</u> Internal control procedures require that proper accounting records be maintained at the local schools. At one local school, all receipt information was not available for audit purposes.</p> <p><u>Recommendation:</u> All receipt information should be maintained for audit purposes.</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



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

Corrective Action Plan *For the Year Ended September 30, 2010*

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, 2010

Finding Ref. No.	Corrective Action Plan Details
2009-01	<p><i>Finding:</i> 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><i>Response:</i> 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</p>
2010-01	<p><i>Finding:</i> Internal control procedures require that proper accounting records be maintained at the local schools. At one local school, all receipt information was not available for audit purposes.</p> <p><i>Response:</i> Record retention procedures will be reviewed by all bookkeeping personnel to insure that records are properly maintained. Superintendent: Dr. Mark Bazzell Chief School Finance Officer: Jennifer Hornsby</p>