

ANDALUSIA CITY BOARD OF EDUCATION

FINANCIAL STATEMENTS

Year Ended September 30, 2011

ANDALUSIA CITY BOARD OF EDUCATION  
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# RABREN, ODOM, PIERCE & HAYES, P.C.

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## INDEPENDENT AUDITORS' REPORT

Members of the Board  
Andalusia City Board of Education  
Andalusia, Alabama

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Andalusia City Board of Education (the Board), as of and for the year ended September 30, 2011, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Andalusia City Board of Education's management. Our responsibility is to express an opinion 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 *Governmental 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 the 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 Andalusia City Board of Education as of September 30, 2011, and the respective changes in financial position thereof for the year 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 May 17, 2012 on our consideration of the Andalusia City 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.

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### MEMBERS

American Institute of Certified Public Accountants, PCPS/The Alliance for CPA Firms, Alabama Society of Certified Public Accountants, Florida Institute of Certified Public Accountants  
Governmental Audit Quality Center

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison, and Schedule of Funding Progress information on pages 3 through 11, 36 through 37, and 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

*Rabren, Odom, Pierce & Hayes, PC*

Andalusia, Alabama  
May 17, 2012

# ANDALUSIA CITY BOARD OF EDUCATION

## Management Discussion and Analysis (MD&A) For the Year Ended September 30, 2011

### Introduction

The Management's Discussion and Analysis (MD&A) of Andalusia City Board of Education's financial performance provides an overall review of the Board's financial activities for the fiscal year ended September 30, 2011. The intent of this discussion and analysis is to look at the Board's financial performance as a whole. Readers should also review the notes to the financial statements and the financial statements to enhance their understanding of the Andalusia City Board of Education's financial performance.

The MD&A is an element of the new 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 in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A and is included in this report.

### Financial Highlights

Key financial highlights of the 2010-2011 fiscal year include the following:

- General Fund revenues exceeded expenditures and other financing uses by \$1,018,474 resulting in a fund balance of \$2,022,433 available as of the fiscal year ended 2011.
- The assets of the Board exceeded its liabilities at the close of the 2011 fiscal year by \$17,306,135 (net assets). Of this amount, \$2,517,519 (unrestricted net assets) may be used to meet the Board's future costs of operations.

### Overview of the Financial Statements

This discussion and analysis serves as an introduction to the Board's basic financial statements which are the government-wide financial statements, fund financial statements, and the notes to the financial statements. This report also includes supplementary information in addition to the basic financial statements themselves.

The first two statements are government-wide financial statements — the *Statement of Net Assets* and the *Statement of Activities*. These provide both long-term and short-term information about the Board's overall financial status. Although other governments may report governmental activities and business-type activities, the Board has no business-type activities.

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

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

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

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

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

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

### **Financial Analysis of the Board as a Whole**

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

#### **ANDALUSIA CITY BOARD OF EDUCATION**

	<b>Net Assets</b>	
	<u>Governmental Activities</u> <u>September 30, 2011</u>	<u>Governmental Activities</u> <u>September 30, 2010</u>
Current and other assets	\$ 2,742,195	\$ 1,681,017
Restricted assets	2,737,522	283,031
Capital assets	<u>15,355,471</u>	<u>15,821,697</u>
Total assets	<u>20,835,188</u>	<u>17,785,745</u>
Current and other liabilities	279,053	186,072
Long-term liabilities	<u>3,250,000</u>	<u>750,000</u>
Total liabilities	<u>3,529,053</u>	<u>936,072</u>
Net assets:		
Invested in capital assets, net of related debt	12,105,471	15,071,697
Restricted	2,683,145	-
Unrestricted	<u>2,517,519</u>	<u>1,777,976</u>
Total net assets	<u>\$17,306,135</u>	<u>\$16,849,673</u>

The Board's assets exceeded liabilities by \$17,306,135 at the close of the fiscal year, an increase of \$456,462. This increase is mainly due to the increase of sales tax and advalorem taxes collected.

The majority of the Board's net assets are invested in capital assets (land, buildings, and equipment) owned by the Board. These assets are not available for future expenditures since they will not be sold. Unrestricted net assets — the part of net assets that can be used to finance day-to-day operations without constraints established by enabling legislation, debt covenants, or other legal requirements — are \$2,517,519 at the end of the year.

The Board's total revenues and expenditures are reflected in the following chart:

**ANDALUSIA CITY BOARD OF EDUCATION**

	<b>Changes in Net Assets</b>	
	<u>Governmental Activities</u> <u>September 30, 2011</u>	<u>Governmental Activities</u> <u>September 30, 2010</u>
<u>Revenues</u>		
Program revenues:		
Charges for services	\$ 1,069,769	\$ 1,096,139
Operating grants and contributions	10,684,220	10,033,683
Capital grants and contributions	443,810	679,520
General revenues:		
Property taxes	722,576	716,586
Sales tax	1,043,567	975,832
Miscellaneous Taxes	1,166,151	975,053
Grants and Contributions – Non Restricted	96,000	98,550
Section 16 Land Funds	25,741	35,985
Investment Earnings	11,927	34,662
Contributions – Restricted	222,851	124,716
Miscellaneous	<u>425,336</u>	<u>328,845</u>
Total revenues	<u>15,911,948</u>	<u>15,099,571</u>
<u>Expenses</u>		
Instructional services	8,996,237	9,551,147
Instructional support services	2,136,520	2,126,386
Operation & maintenance services	1,404,288	1,624,691
Food Service	928,292	964,239
Student transportation services	519,493	504,448
General administrative services	669,329	693,177
Other	782,286	795,849
Interest and Fiscal Charges	<u>19,041</u>	<u>-</u>
Total expenses	<u>15,455,486</u>	<u>16,259,937</u>
Change in net assets	<u>456,462</u>	<u>(1,160,366)</u>
Net assets, beginning	16,849,673	18,010,039
Net assets, ending	<u>\$17,306,135</u>	<u>\$16,849,673</u>

The Board's total revenues increased by 5.38 percent and the total cost of all programs and services decreased 4.94 percent. This accounts for the Board's gain of \$456,462 for the fiscal year.

The increase in revenues can be attributed to the following sources of income:

- Program Revenues – 3% increase
- Tax Revenues – 10% increase
- Contributions – 79% increase
- Miscellaneous Revenues – 29% increase



The decrease in the total cost of all programs and services of \$804,451 can be found within the following programs:

- Instructional Services – 68% decrease
- Operations and Maintenance – 27% decrease
- General Administrative Services – 3% decrease

Program revenues, specifically operating grants and contributions, are the largest component of total revenues (77%).

- Operating grants and contributions contribute 88% of program revenues and 67% of total revenues. The major sources of revenues in this category are State foundation program funds, state transportation operating funds, and state and federal funds restricted for specific programs.
- Capital grants and contributions include state capital outlay funds and state funds to replace buses.
- Charges for services include federal reimbursement for meals, student meal purchases, and local school revenues.

General revenues, primarily property taxes and sales taxes, are used to provide \$3,714,149 for expenses not covered by program revenues.

Instructional services expenses, primarily salaries and benefits for classroom teachers, are the largest expense function of the Board (58%).

- In addition to teacher salaries and benefits, instructional services includes teacher aides, substitute teachers, textbooks, depreciation of instructional buildings, professional development, and classroom instructional materials, supplies, and equipment.
- Instructional support services includes salaries and benefits for school principals, assistant principals, librarians, counselors, school secretaries, school bookkeepers, speech therapists, and school nurses, and professional development expenses.
- Operation and maintenance services include utilities, security services, janitorial services, maintenance services, and depreciation of maintenance vehicles.
- In addition to bus driver salaries and benefits, student transportation services includes mechanics, bus aides, vehicle maintenance and repair expenses, vehicle fuel, depreciation of buses and bus shops, and fleet insurance.
- Food services includes salaries and benefits for cooks, servers, lunchroom managers, and cashiers, as well as donated and purchased food, food preparation and service supplies, kitchen and lunchroom equipment, and depreciation of equipment and facilities.
- General administrative services include salaries and benefits for the superintendent, assistants, clerical and financial staff, and other personnel that provide system-wide support for the schools. Also included are legal expenses, liability insurance, training for board members and general administrative staff, printing costs, and depreciation of central office equipment and facilities.

- Other expenses includes the salaries and benefits for adult and continuing education teachers, preschool teachers and aides, extended day personnel, and community education instructors. Includes cooperative agreement with the City of Andalusia for repayment of bonds issued to construct the Andalusia Elementary School. Also included are the materials, supplies, equipment, related depreciation, and other expenses for operating programs outside of those for educating students in the K through 12 instructional programs.
- Debt service includes interest, but not principal payments, on long-term debt issues and other expenses related to the issuance and continuance of debt issues.

**Financial Analysis of the Board's Funds**

The analysis of governmental funds serves the purpose of looking at what resources came into the funds, how they were spent, and what is available for future expenditures. Did the Board generate enough revenue to pay for current obligations? What is available for spending at the end of the year?

As of the end of the current fiscal year, the Board’s governmental funds reported a combined increase in fund balance of \$3,352,453. This increase resulted in a fund balance of \$5,255,029. Of this amount, \$2,473,795 was unreserved and available for use in future operations.

The general fund increased its fund balance by \$1,018,474, resulting in a fund balance of \$2,022,433.

The Food and Nutrition fund decreased its fund balance by \$29,991, resulting in a fund balance of \$265,755.

**General Fund Budgetary Highlights**

The original 2011 fiscal year budget, adopted on September 13, 2010, was based on a "conservative" approach that reflected only guaranteed revenues and necessary expenditures. The original budget figures were amended when revenues or expenditures exceed 10%. Over the course of the year, the Board revised the annual operating budgets two times: January 13, 2011, and May 25, 2011.

The comparison of general fund original budget to the final amended budget is on page 36. The differences between the original budget and the final amended budget of the Board were relatively minor (\$149,705 decrease in overall revenue appropriations and \$10,099 increase in overall expenditures) and can be briefly summarized as follows:

- Amendment #1 was necessary to record additional Federal Program Carryover Funds \$327,540; Series 2010 QSCB Bond Funds \$2,500,000; State Carryover Funds \$13,156; Title VI Rural and Low Income Funds \$45,536; and miscellaneous local revenues \$33,652. Expenditures were increased to include additional instructional and instructional support - \$371,384; and capital building projects \$2,491,500.

- Amendment #2 was necessary to record Supplemental High Hopes Allocation \$24,431; Career Tech Extended Contract \$17,346; additional Child Nutrition funds \$53,000; and miscellaneous revenues \$53,676. State Revenues were decreased by \$252,114 due to 3% proration. Required Child Nutrition Pass Thru funds were decreased by \$51,976. Expenditures were increased to include QSCB sinking fund payment \$111,411; and QSCB interest payment \$10,541.

Overall, the final amended budget is reflective of the actual operating activity for the year. Actual local revenues were \$631,739 more than budgeted local revenues due to ad valorem taxes collected being more than anticipated. For purposes of this budgetary analysis, only the General Fund of the Board is discussed in accordance with the new reporting model.

General Fund – The comparison of the General Fund original budget to the final amended budget is on page 36. The differences between the original budget and the final amended budget of the Board were relatively minor (with a 1% change in revenues and a <1% change in expenditures). Overall, the final budget is reflective of the actual operating activity for the year.

#### **Capital Assets and Debt Administration**

**Capital Assets** - At September 30, 2011, the Board had \$15,355,471 invested in capital assets including land, buildings, equipment, vehicles and construction in progress costing \$5,000 or more. This amount is net of accumulated depreciation to date. Increases during the year represent additions to those categories, while decreases represent retirements of assets during the year and depreciation of depreciable assets for the year. The capital asset activity for the year is detailed on page 28.

Construction In Progress at year-end of \$259,404 was for the Andalusia High School Physical Education Facility building project, paid for with Series 2010 QSCB Bond Funds. Also \$6,180 in equipment purchases were made with child nutrition funds for the Andalusia Elementary School cafeteria and \$7,995 in maintenance equipment purchase made with local funds for the Andalusia Elementary School.

**Long-Term Debt** - The Board entered into a lease purchase agreement with the Alabama School Finance Cooperative to issue \$750,000 of Qualified Zone Academy Bonds (QZAB) for the purpose of renovations at the Andalusia High School. The Board chose the deferred payment option and will make payments of \$56,606 for ten years starting on June 1, 2006. These annual payments will be deposited into a restricted fund which will accumulate to earn interest to repay the face amount of the QZAB.

The Board entered into a special pool loan agreement of Series 2010 Qualified School Construction Bonds (QSCB) issued by the Alabama Public School & College Authority (PSCA) for the purpose of construction of a Physical Education Facility at Andalusia High School. The Board will make sinking fund payments beginning September 1, 2011 in the amount of \$111,411 for 16 years until the bond matures on September 1, 2027. The Board agreed to have quarterly interest payments withheld from Public School Fund allocations. The amounts to be withheld for QSCB interest payments are \$10,541 for the fiscal year 2011 and \$10,750 for each of the remaining 16 years until the bond matures.

### **Economic Factors and Next Year's Budget**

The following are currently known Andalusia City economic factors considered in going into the 2011-2012 fiscal year.

***10 Mill Required Local Effort*** – Act 95-314, Section 16-13-231 of the *Code of Alabama* requires that local support for schools must be funded at an amount equivalent to 10 mills of district ad valorem tax. The State Department of Education reduces the Board's appropriation by this required local support. Because the assessed value of the property in Andalusia City is growing rapidly, the required 10 mill match continues to grow at a much higher rate than the Board's total tax revenues. In essence, even though the local ad valorem tax revenue has grown, the 10 mill match has caused the Board to lose money.

***Additional Ad Valorem Tax – City of Andalusia*** – The City Council of Andalusia voted to increase the annual rate of ad valorem tax by one-fourth of one percent to be used exclusively for the purpose of capital improvements. The board expects to receive approximately \$190,000 annually. This tax may be revoked at any time by majority vote of the City Council of Andalusia.

***Sales Tax Revenues*** – Sales tax revenues have increased approximately \$67,734. The current sales tax revenues have decreased approximately 5% as compared to amounts collected in the 2011 fiscal year.

***Student Enrollment*** - The latest student enrollment figure as of the forty-day report in the 2011-2012 school year of 1,713 indicates there will be an actual increase in enrollment of approximately 47 students for the 2012 fiscal year. This gain will result in an increase of 3.28 earned teacher units.

***Medical and Retirement Costs*** - Employee health insurance is provided through the Public Education Employees' Health Insurance Program (PEEHIP). PEEHIP employer costs decreased from \$752 per employee for fiscal year 2011 to \$714 per employee per month for fiscal year 2012 for a decreased cost of \$80,000. The employer contribution rate to the Teachers Retirement System (TRS) decreased from 12.51 percent for fiscal year 2011 to 10 percent for fiscal year 2012 for a decreased cost of \$150,000. (The State Department of Education ETF funding request includes employer contribution rates of 10 percent for TRS and \$714 per employee per month for PEEHIP for the fiscal year 2013 budget.

The Board must use local funds to pay the salary-related benefit costs not paid by state and federal funds.

***School Closing/Construction*** – The Andalusia City Board of Education voted to close the Andalusia Middle School and transfer 6<sup>th</sup> grade to Andalusia Elementary School and 7<sup>th</sup> and 8<sup>th</sup> grade to Andalusia High School. The Board plans to obtain financing for the additional facilities at the Elementary and High Schools through a cooperative agreement with the City of Andalusia.

### **CONTACTING THE SCHOOL BOARD'S FINANCIAL MANAGEMENT**

This 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 Jean Sellers, Chief School Finance Officer, 122 Sixth Avenue, Andalusia, AL 36420 or by calling 334-222-3186 during regular office hours, Monday through Friday, from 7:30 a.m. to 4:00 p.m., central standard time.

## BASIC FINANCIAL STATEMENTS

ANDALUSIA CITY BOARD OF EDUCATION  
 STATEMENT OF NET ASSETS  
 September 30, 2011

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	<u>GOVERNMENTAL ACTIVITIES</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 1,510,252
Investments	50,035
Receivables	1,154,429
Inventory	25,259
Other Assets	2,220
Restricted Assets:	
Cash and Cash Equivalents	2,286,473
Investments	451,049
Capital Assets, Net of Depreciation	15,355,471
Total Assets	<u>20,835,188</u>
<b>LIABILITIES</b>	
Accounts Payable	63,949
Accrued Salaries	54,365
Deferred Revenue	160,739
Long-Term Liabilities:	
Note Payable	3,250,000
Total Liabilities	<u>3,529,053</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	12,105,471
Restricted for:	
Debt Service	451,049
Capital Projects	2,232,096
Unrestricted	2,517,519
Total Net Assets	<u>\$ 17,306,135</u>

The accompanying notes are an integral part of these statements.

ANDALUSIA CITY BOARD OF EDUCATION  
STATEMENT OF ACTIVITIES  
Year Ended September 30, 2011

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES
Instructional Services	\$ 8,996,237	\$ 188,556	\$ 7,243,601	\$ 340,615	\$ (1,223,465)
Instructional Support Services	2,136,520	65,560	1,830,873	14,559	(225,528)
Operation and Maintenance	1,404,288	62,447	633,139	41,022	(667,680)
Student Transportation Services	519,493	35,183	413,908	-	(70,402)
Food Services	928,292	672,439	104,881	29,502	(121,470)
General Administrative Services	669,329	14,166	379,592	-	(275,571)
Cooperative Agreement	480,000	-	-	-	(480,000)
Interest Expense	19,041	-	-	-	(19,041)
Other	293,583	31,418	78,226	18,112	(165,827)
Other Refunds	8,703	-	-	-	(8,703)
Total	<u>\$ 15,455,486</u>	<u>\$ 1,069,769</u>	<u>\$ 10,684,220</u>	<u>\$ 443,810</u>	<u>(3,257,687)</u>
General Revenues:					
Taxes					
Property Tax for General Purposes					722,576
Local Sales Tax					1,043,567
Other Taxes					1,166,151
City Council Appropriations/Payments					96,000
Investment Earnings					11,927
Section 16 Land Income					25,741
Miscellaneous					425,336
Contributions					222,851
Total General Revenues and Special Items					<u>3,714,149</u>
Change in Net Assets					456,462
Net Assets - Beginning					<u>16,849,673</u>
Net Assets - Ending					<u>\$ 17,306,135</u>

The accompanying notes are an integral part of these statements.



ANDALUSIA CITY BOARD OF EDUCATION  
 BALANCE SHEET - GOVERNMENTAL FUNDS  
 September 30, 2011

	GENERAL	CAPITAL PROJECTS FUND	SPECIAL REVENUE FUND - IDEA PART B
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 1,143,525	\$ -	\$ 94,182
Investments	-	-	-
Receivables	781,357	91,015	-
Due from Other Funds	279,782	16,515	-
Inventory, at Cost	-	-	-
Other Assets	2,220	-	-
Restricted Assets:			
Cash and Cash Equivalents	-	2,286,473	-
Investments	-	-	-
Total Assets	<u>\$ 2,206,884</u>	<u>\$ 2,394,003</u>	<u>\$ 94,182</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Accounts Payable	\$ -	\$ 54,377	\$ 9,572
Deferred Revenue	5,833	-	84,610
Due to Other Funds	178,618	91,015	-
Total Current Liabilities	<u>184,451</u>	<u>145,392</u>	<u>94,182</u>
<b>FUND BALANCES:</b>			
Nonspendable	2,220	-	-
Restricted	-	2,232,096	-
Assigned	18,325	16,515	-
Unassigned	2,001,888	-	-
Total Fund Balances	<u>2,022,433</u>	<u>2,248,611</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ 2,206,884</u>	<u>\$ 2,394,003</u>	<u>\$ 94,182</u>

The accompanying notes are an integral part of these statements.

SPECIAL REVENUE FUND - TITLE I PART A	SPECIAL REVENUE FUND - TITLE II PART A	SPECIAL REVENUE FUND - FOOD AND NUTRITION	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ (137,078)	\$ 53,073	\$ 137,096	\$ 219,454	\$ 1,510,252
-	-	-	50,035	50,035
137,078	-	118,315	26,664	1,154,429
-	-	-	-	296,297
-	-	25,259	-	25,259
-	-	-	-	2,220
-	-	-	-	2,286,473
-	-	-	451,049	451,049
<u>\$ -</u>	<u>\$ 53,073</u>	<u>\$ 280,670</u>	<u>\$ 747,202</u>	<u>\$ 5,776,014</u>
\$ -	\$ -	\$ -	\$ -	\$ 63,949
-	53,073	14,915	2,308	160,739
-	-	-	26,664	296,297
<u>-</u>	<u>53,073</u>	<u>14,915</u>	<u>28,972</u>	<u>520,985</u>
-	-	-	-	2,220
-	-	265,755	718,230	3,216,081
-	-	-	-	34,840
-	-	-	-	2,001,888
<u>-</u>	<u>-</u>	<u>265,755</u>	<u>718,230</u>	<u>5,255,029</u>
<u>\$ -</u>	<u>\$ 53,073</u>	<u>\$ 280,670</u>	<u>\$ 747,202</u>	<u>\$ 5,776,014</u>

ANDALUSIA CITY BOARD OF EDUCATION  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET ASSETS  
 September 30, 2011

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Total Fund Balance - Governmental Funds \$ 5,255,029

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

	Cost of Capital Assets	\$24,628,349	
	Accumulated Depreciation	<u>(9,272,878)</u>	
			15,355,471

In the Statement of Net Assets, salaries and benefits are measured by the amounts earned during the year. In the governmental funds, however, expenditures for salaries and benefits are measured by the amount of financial resources used (essentially the amounts actually paid). (54,365)

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore not reported as liabilities in the funds. Interest on long-term debt is not accrued in the funds but rather is recognized as an expenditure when due.

	Bonds and Warrants Payable	<u>(3,250,000)</u>
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Total Net Assets - Governmental Activities \$17,306,135

The accompanying notes are an integral part of these statements.

ANDALUSIA CITY BOARD OF EDUCATION  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS  
Year Ended September 30, 2011

	GENERAL	CAPITAL PROJECTS FUND	SPECIAL REVENUE FUND - IDEA PART B
<b>REVENUES</b>			
State Sources	\$ 8,261,281	\$ 406,055	\$ -
Federal Sources	732,333	-	261,390
Local Sources	3,270,355	96,856	-
Other Sources	30,627	-	-
Total Revenues	<u>12,294,596</u>	<u>502,911</u>	<u>261,390</u>
<b>EXPENDITURES</b>			
Current:			
Instructional Services	7,099,283	-	178,471
Instructional Support Services	1,700,949	-	29,331
Operation and Maintenance Services	1,258,126	-	-
Student Transportation Services	441,151	22,911	-
Food Services	-	-	-
General Administrative Services	531,470	-	53,588
Cooperative Agreement Expenses	-	480,000	-
Other Expenditures	113,753	-	-
Debt Service:			
Principal	-	-	-
Interest	-	-	-
Debt Issuance Costs	-	8,500	-
Capital Outlay	7,995	259,404	-
Total Expenditures	<u>11,152,727</u>	<u>770,815</u>	<u>261,390</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,141,869</u>	<u>(267,904)</u>	<u>-</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Indirect Cost	89,144	-	-
Long Term Debt Issued	-	2,500,000	-
Transfers In	9,027	-	-
Transfers Out	(278,546)	-	-
Other Financing Sources	65,683	-	-
Other Fund Uses	(8,703)	-	-
Total Other Fund Sources (Uses)	<u>(123,395)</u>	<u>2,500,000</u>	<u>-</u>
Net Change in Fund Balances	1,018,474	2,232,096	-
FUND BALANCES - OCTOBER 1, 2010	<u>1,003,959</u>	<u>16,515</u>	<u>-</u>
FUND BALANCES - SEPTEMBER 30, 2011	<u>\$ 2,022,433</u>	<u>\$ 2,248,611</u>	<u>\$ -</u>

The accompanying notes are an integral part of these statements.

SPECIAL REVENUE FUND - TITLE I PART A	SPECIAL REVENUE FUND - TITLE II PART A	SPECIAL REVENUE FUND - FOOD AND NUTRITION	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ -	\$ -	\$ -	\$ 36,565	\$ 8,703,901
640,078	35,027	597,648	645,233	2,911,709
-	-	178,375	646,684	4,192,270
-	-	7,760	-	38,387
640,078	35,027	783,783	1,328,482	15,846,267
487,203	27,608	-	724,043	8,516,608
82,688	6,952	-	317,322	2,137,242
-	-	-	41,565	1,299,691
-	-	-	42,642	506,704
-	-	937,319	-	937,319
70,187	467	-	20,051	675,763
-	-	-	-	480,000
-	-	5,924	174,314	293,991
-	-	-	-	-
-	-	-	10,541	10,541
-	-	-	-	8,500
-	-	6,180	-	273,579
640,078	35,027	949,423	1,330,478	15,139,938
-	-	(165,640)	(1,996)	706,329
-	-	-	-	89,144
-	-	-	-	2,500,000
-	-	135,649	177,311	321,987
-	-	-	(43,441)	(321,987)
-	-	-	-	65,683
-	-	-	-	(8,703)
-	-	135,649	133,870	2,646,124
-	-	(29,991)	131,874	3,352,453
-	-	295,746	586,356	1,902,576
\$ -	\$ -	\$ 265,755	\$ 718,230	\$ 5,255,029

ANDALUSIA CITY BOARD OF EDUCATION  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
 Year Ended September 30, 2011

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Total Net Change in Fund Balances - Governmental Funds \$ 3,352,453

Amounts reported for governmental activities in the statement of activities are different because:

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

Capital Outlays	\$ 273,579	
Depreciation Expense	<u>(739,805)</u>	(466,226)

Proceeds from the issuance of debt are reported as financing sources in the governmental funds and this contribute to the change in fund balance. Issuing long--term debt increases liabilities in the Statement of Net Assets but does not affect the Statement of Activities. (2,500,000)

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 the governmental funds.

Accrued Salaries		<u>70,235</u>
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Change in Net Assets - Governmental Activities \$ 456,462

The accompanying notes are an integral part of these statements.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Andalusia City Board of Education (the Board) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government 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 Board's accounting policies are described below.

### REPORTING ENTITY

The Andalusia City Board of Education is governed by an elected board consisting of five members elected by qualified voters of the City. The Board is responsible for the general administration and supervision of the public schools within the City.

Statements No. 14 and No. 34 of the Governmental Accounting Standards Board establishes standards for defining and reporting on the financial reporting entity. The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for agencies that make up its legal entity. It is also financially accountable for a legally separate agency if its officials appoint a voting majority of that agency's governing body and either it is able to impose its will on that agency or there is a potential for the agency to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. There are no component units, which should be included as a part of the financial reporting entity of the Andalusia City Board of Education.

### BASIC FINANCIAL STATEMENT PRESENTATION

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

The statement of net assets presents the reporting entity's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in Capital Assets, Net of Related Debt – This category represents capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted – This category represents constraints imposed on net assets by external creditors, grantors, contributors, laws or regulations of other governments, or law through constitutional provision or enabling legislation.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unrestricted – This category represents net assets that are not subject to externally imposed stipulations and are available for any purpose.

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. 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 other governmental funds.

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.

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

IDEA Part B – This fund is used to help provide special education and related services to all children with disabilities.

Title I Part A – This fund is used to help improve teaching and learning of children failing, or most at-risk of failing, to meet challenging State academic standards.

Title II Part A – This fund is used to help increase student academic achievement by improving teacher and principal quality and increasing the number of highly qualified teachers in the classroom.

Child Nutrition Program – This fund is used to account for activities associated with providing nutritious breakfast and lunch services for school children.



NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 issuance and continuance of debt.

BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. 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, sales taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from sales taxes is recognized in the fiscal year in which the underlying transaction (sale) takes place. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The Board uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues reported in the governmental funds are considered to be available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from general long-term debt 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 grants, and general revenues. Thus, when program costs are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Board’s policy to first apply grant resources to such programs, followed by cost reimbursement grants, then general revenues.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the Board is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable – Amounts that cannot be spent because they are either not spendable in form or they are legally or contractually required to be maintained intact. Nonspendable fund balance for the General fund includes \$2,220 of prepaid expenses.

Restricted – Amounts with constraints placed on their use that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation. Restricted fund balance for Capital Projects, Food and Nutrition, and Other Governmental funds in the amount of \$2,232,096, \$265,755, and \$718,230 is restricted cash for the new physical education facility construction, food and nutrition services, and investments for the repayment of bonds as well as various other instructional and support services, respectively.

Committed – Amounts that can only be used for specific purposes imposed by formal action of the Board, and remain binding unless removed in the same manner.

Assigned – Amounts that are constrained by the Board for specific purposes but do not meet the criteria to be classified as restricted or committed. The General and Capital Projects fund has \$18,325 and \$16,515 respectively, of assigned fund balance for the outstanding purchase orders for encumbrances.

Unassigned – Residual amounts for the governmental funds and includes all spendable amounts not contained in the other classifications. Unassigned fund balance for the General fund is \$2,001,888 for any instructional, support, operations, maintenance, student, food, or general services.

BUDGETS

Budgets are adopted on a basis consistent with generally accepted accounting principles with the exception of encumbrances. Annual appropriated budgets are adopted for the general fund. All annual appropriations lapse at fiscal year end.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVENTORIES

Inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when purchased except commodities donated by the federal government, which are expensed when consumed.

CAPITAL ASSETS

Capital assets purchased, including capital outlay costs, are recorded as expenditures in the fund financial statements at the time of purchase. In the government-wide financial statements, all purchased capital assets are valued at cost where historical records are available and at estimated historical cost based on appraisals or deflated current replacement cost where no historical records exist.

Donated capital assets are recorded at fair market value on the date donated. Disposals are deleted at depreciated recorded cost.

The cost of normal maintenance and repairs that do not add to the value of assets or materially extend the useful lives of the assets is not capitalized.

Depreciation is computed using the straight-line method.

Capitalization thresholds and estimated useful lives of capital assets reported in the government-wide financial statements are as follows:

	<u>Capitalization Policy</u>	<u>Estimated Useful Life</u>
Land	All	N/A
Land Improvements	All	15 years
Buildings	All	15-40 years
Building Improvements	\$50,000	15-20 years
Vehicles	\$5,000	10 years
Equipment	\$5,000	5-10 years

Depreciation is used to allocate the actual or estimated historical cost of all capital assets over estimated useful lives.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CASH AND CASH EQUIVALENTS

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.

INVESTMENTS

Generally, all investments are reported at fair market value.

RESTRICTED ASSETS

Certain funds received for capital projects and improvements, as well as certain resources set aside for repayment of debt, are classified as restricted assets on the balance sheet because they are maintained separately and their use is limited.

	<u>Restricted Assets</u> <u>September 30, 2011</u>	
Cash and Cash Equivalents	\$	2,286,473
Investments		<u>451,049</u>
Total Restricted Assets	\$	<u><u>2,737,522</u></u>

COMPENSATED ABSENCES

For vacation leave and other compensated absences with similar characteristics, GASB Statement No. 16 requires the accrual of a liability as the benefits are earned by the employees if both of these conditions are met:

- a. The employees' right to receive compensation is attributable to services already rendered.
- b. It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

An accrual for earned sick leave should be made only to the extent it is probable that the benefits will result in termination payments, rather than be taken as absences due to illness or other contingencies, such as medical appointments and funerals.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

COMPENSATED ABSENCES (Continued)

Professional and support personnel are provided 2 days of personal leave per year with pay. Professional employees are paid, at the Board's substitute rate, for up to 2 days of unused personal leave. Professional and support personnel may convert unused, unreimbursed personal leave to sick leave at the end of the scholastic year. Unused personal leave cannot be carried over to succeeding years; therefore, no liability for unpaid leave is accrued in the financial statements.

All twelve month professional employees are allowed two weeks of vacation leave. All other twelve month employees are allowed one week of vacation leave. Unused vacation leave cannot be carried over to succeeding years; therefore, no liability for unpaid leave is accrued in the financial statements.

Professional and support employees earn non-vesting sick leave at the rate of one day per month worked. Employees may accumulate an unlimited number of sick leave days. Accrued sick leave is limited to one day per month worked as applied to membership service in determining the total years of creditable service in the teachers' retirement system, with no additional cost to the Board. Employees do not receive compensation for unused sick leave at termination; therefore, no liability is recorded on the financial statements.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - CASH AND INVESTMENTS

The Board's policy is to deposit funds in a financial institution approved as a qualified public depository by the Security for Alabama Funds Enhancement (SAFE Program). The Board follows the deposit and investment policies as required by the *Code of Alabama 1975*, Section 41-14A-3 and Section 36-17-18.

The Board had cash on deposit with various qualified public depositories at September 30, 2011 of \$1,497,464. At year end the Board also had cash on hand in various funds totaling \$12,788.

At September 30, 2011 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.

Restricted cash and cash equivalents of \$2,286,473 is for the construction of the new physical education facility. The funds are from the issuance of the Capital Outlay Pool Warrant, Series 2010-QSCB bond.

NOTE 3 - RESTRICTED INVESTMENTS

At September 30, 2011, the Board reported restricted investments of \$451,049 related to the capital Outlay Pool Warrant, Series 2010-QSCB and QZAB bonds (Note 14).

NOTE 4 - LEGAL COMPLIANCE

BUDGETS

On or before October 1 of each year, the Board is required to prepare and submit to the state superintendent of education the annual budget to be adopted by the Board. The city superintendent of education or Board cannot approve any budget for operations of the school system for any fiscal year which shows expenditures in excess of income, estimated to be available, plus any balances on hand. The superintendent, with the approval of the Board, has the authority to make changes within the approved budget provided that a deficit is not incurred by such changes.

The budget was originally adopted by the Board on September 13, 2010. Budgeted amounts presented are as amended by the Board on May 25, 2011.

NOTE 5 - RISK MANAGEMENT

The Board carries traditional insurance coverage rather than finance risks through self-insurance.

The State makes payments for unemployment compensation insurance for Board employees except those employees paid from federal grants. The state also pays the employer health insurance premiums for Board employees except those employees paid from federal grants. Payments made by the state for unemployment compensation and health insurance are recorded as revenues and expenditures in the funds from which the employees are paid. Payments made by the Board are recorded as expenditures in the applicable federal fund.

The State Board of Adjustment is a State agency with which people can file claims against the Board to collect reimbursement for damages when all other means have been exhausted.

ANDALUSIA CITY BOARD OF EDUCATION  
 NOTES TO THE FINANCIAL STATEMENTS  
 September 30, 2011

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NOTE 6 - RECEIVABLES

Government-wide financial statement receivables at September 30, 2011 consist of:

	Governmental Activities
State Department of Education:	
Child Nutrition	\$ 109,026
Fresh Fruits and Vegetables	9,289
Title I, Part A	137,078
Title II Competitive	19,578
PSF Capital Outlay	278
QSCB Bonds	90,737
Vocational Rehabilitation	7,086
Andalusia City Schools Foundation	3,943
City of Andalusia	662,885
Covington County Commission	88,991
Covington County Probate Judge	9,132
Covington County Probate Judge-Helping Schools	442
Covington County Schools	1,239
Department of Industrial Relations	5,212
State of Alabama	8,196
University of Alabama - Learn & Serve	1,317
	<hr/>
TOTALS	<u><u>\$ 1,154,429</u></u>

NOTE 7 - PAYMENTS OR SERVICES FURNISHED BY OTHER AGENCIES

Certain payments or services are furnished by the State on behalf of the Board. Included in these items is the employer's portion of fringe benefits (health insurance, retirement, and unemployment compensation). These payments or services are reflected as revenues and expenditures on the Board's financial statements in the applicable funds.

NOTE 8 - DONATED FOOD PROGRAM

The commodities received from the federal government in connection with the donated food program are reflected in the accompanying financial statements. The total assigned value of commodities donated for fiscal year ended September 30, 2011 was \$45,089.

ANDALUSIA CITY BOARD OF EDUCATION  
 NOTES TO THE FINANCIAL STATEMENTS  
 September 30, 2011

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NOTE 9 - DUE TO/FROM OTHER FUNDS

The following is a schedule of the due to/from other funds in the fund financial statements at September 30, 2011:

	<u>Due From</u>	<u>Due To</u>
General Funds:		
Local Default Source	\$ 101,164	\$ 176,859
At Risk	608	-
Helping Schools Tag	-	442
High Hopes	24,431	-
HS Graduation Exam Remediation	3,237	-
Init Extended Contracts	3,512	-
PSF - Interest	2,420	-
Restricted Grant	-	1,317
School Nurses	14,741	-
Section 16 - EFT	123,837	-
Education Jobs Fund	5,832	-
Capital Projects Fund:		
PSF - Capital Outlay	-	278
Transportation Fleet Renewal	16,515	-
Qualified School Construction	-	90,737
Special Revenue Fund:		
Title II, Part D	-	19,578
Vocational Rehabilitation Services	-	7,086
	<u>\$ 296,297</u>	<u>\$ 296,297</u>



ANDALUSIA CITY BOARD OF EDUCATION  
 NOTES TO THE FINANCIAL STATEMENTS  
 September 30, 2011

NOTE 10 - CAPITAL ASSETS

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

	Balance 10/1/2010	Additions	Retirements	Balance 9/30/2011
<u>Governmental Activities:</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 541,471	\$ -	\$ -	\$ 541,471
Construction in Progress	-	259,404	-	259,404
Total Capital Assets, Not Being Depreciated	<u>541,471</u>	<u>259,404</u>	<u>-</u>	<u>800,875</u>
Capital Assets Being Depreciated:				
Land Improvements (Exhaustible)	533,676	-	-	533,676
Buildings	18,057,582	-	-	18,057,582
Buildings Improvements	3,394,345	-	-	3,394,345
Vehicles	772,000	-	-	772,000
Equipment	1,055,696	14,175	-	1,069,871
Total Capital Assets Being Depreciated	<u>23,813,299</u>	<u>14,175</u>	<u>-</u>	<u>23,827,474</u>
Less Accumulated Depreciation for:				
Land Improvements (Exhaustible)	469,656	8,695	-	478,351
Buildings	5,170,658	418,219	-	5,588,877
Buildings Improvements	1,482,798	209,814	-	1,692,612
Vehicles	638,790	29,689	-	668,479
Equipment	771,171	73,388	-	844,559
Total Accumulated Depreciation	<u>8,533,073</u>	<u>739,805</u>	<u>-</u>	<u>9,272,878</u>
Total Capital Assets, Being Depreciated, Net	<u>15,280,226</u>	<u>(725,630)</u>	<u>-</u>	<u>14,554,596</u>
Governmental Activities Capital Assets, Net	<u>\$ 15,821,697</u>	<u>\$ (466,226)</u>	<u>\$ -</u>	<u>\$ 15,355,471</u>

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

<u>Governmental Activities</u>	
Instructional Services	\$ 524,114
Instructional Support Services	28,391
Operation and Maintenance Services	82,351
Student Transportation Services	36,216
Food Services	61,413
General Administrative Services	7,320
Total Depreciation Expense - Governmental Activities	<u>\$ 739,805</u>

NOTE 11 - DEFINED BENEFIT PENSION PLAN

The employees of the Board are covered under a defined benefit plan, the Teachers' Retirement System (TRS), which is administered by the Retirement Systems of Alabama (RSA). The plan is a cost-sharing multiple-employer public employer retirement system. The payroll for employees covered by the TRS for the year ended September 30, 2011 was \$7,890,464; the Board's total payroll was \$8,181,358.

Participation in the TRS is mandatory for Board personnel employed in a nontemporary capacity on at least a one-half time basis. After ten or more years of creditable service, a member has a vested interest (is eligible for deferred benefits) in the Teachers' Retirement System. Upon attainment of age 60, a member who has at least 10 years of creditable service may apply for monthly retirement benefits assuming the member has not withdrawn his contributions. A member who has at least 25 years of creditable service in the TRS may apply for service retirement at any age. Unused accrued sick leave may be converted to creditable service at retirement.

Retirement benefits are calculated based on a retirement formula, which yields the highest monthly benefit. The formula multiplies the retirees' average final salary (best three of the last ten years), the number of years of creditable service and the retirement benefit factor of 2.0125% to calculate the yearly annual benefit. Divide the annual benefit by twelve to calculate the monthly benefit amount. Unless otherwise requested, the member will receive the highest monthly benefit.

The member may elect an optional monthly benefit amount in order to provide a benefit for a beneficiary. The retiree may select from 4 separate options, all of which provide a lower monthly benefit than the retirement formula.

A member who is in service and has at least 10 years of service when disability occurs may apply for disability retirement benefits. Benefits are calculated under the same methods used for service retirement except a reduction factor of one-fourth of one percent for each month the member is less than age 60 or for each month of creditable service less than 30 years is applied. The maximum reduction is 25 percent. The member receives the larger of the two calculations. Once a member attains 25 years of creditable service, there is no reduction in benefits. The TRS also provides pre-retirement death benefits in the amount of the annual salary and life insurance.

Funding Policy

Employees are required to contribute 5% of their salary to RSA and may contribute additional amounts under RSA-1. The Board is required to contribute at an actuarially determined rate. For the year ending September 30, 2011 the employer cost rate is 10.00% based on the actuarial valuation performed as of September 30, 2008.

ANDALUSIA CITY BOARD OF EDUCATION  
 NOTES TO THE FINANCIAL STATEMENTS  
 September 30, 2011

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NOTE 11 - DEFINED BENEFIT PENSION PLAN (Continued)

Annual Pension Cost

For the year ended September 30, 2011, the Board's annual pension cost of \$989,385 was the Board's actual and required contribution. The required contribution was determined using the entry age actuarial cost method. The actuarial assumptions as of September 30, 2010, the latest actuarial valuation date, were: (a) 8.0% rate of return, (b) projected salary increases ranging from 5.00% to 7.75% per year, and (c) no cost-of-living adjustments. Both (a) and (b) included an inflation component of 4.50%. The actuarial value of RSA assets was determined using the five-year market related value. RSA's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at September 30, 2010 was 30 years.

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC) *</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
9/30/2008	\$ 706,491	100%	\$ -
9/30/2009	\$ 728,822	100%	\$ -
9/30/2010	\$ 753,213	100%	\$ -

\* \$ in 1,000's

Funding Progress

As of September 30, 2010, the most recent actuarial valuation date, the plan was 71.10 percent funded. The actuarial accrued liability for benefits was \$28,299,523 and the actuarial value of assets was \$20,132,779, resulting in an unfunded actuarial accrued liability (UAAL) of \$8,166,744. The covered payroll (annual payroll of active employees covered by the plan) was \$6,183,204, and the ratio of the UAAL to covered payroll was 132.10 percent.

The Schedule of Funding Progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

ANDALUSIA CITY BOARD OF EDUCATION  
 NOTES TO THE FINANCIAL STATEMENTS  
 September 30, 2011

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NOTE 11 - DEFINED BENEFIT PENSION PLAN (Continued)

Covered employees are required by state statute to contribute 5 percent of their salary to the TRS. The State of Alabama and the Board are required to contribute the remaining amounts necessary to pay benefits when due. The Board is required to pay the employer amount on employees paid from federal funds. The actuarial information as it relates to the plan has not been made available by TRS to the Board. 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:

	September 30, 2011	September 30, 2010	September 30, 2009
Total Percentage of Covered Payroll	15.00%	17.51%	17.07%
Contributions:			
Percentage Contributed by the Board	10.00%	12.51%	12.07%
Percentage Contributed by Employees	5.00%	5.00%	5.00%
Amount Contributed by Board	\$ 989,385	\$ 1,025,209	\$ 995,440
Amount Contributed by Employees	395,466	410,959	412,360
Total Contributions	<u>\$ 1,384,851</u>	<u>\$ 1,436,168</u>	<u>\$ 1,407,800</u>

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The Public Education Employees' Health Insurance Fund (PEEHIF) was established in 1983 under the provisions of Act Number 455 to provide a uniform plan of health insurance for current and retired employees of state educational institutions. The plan is administered by the Public Education Employees' Health Insurance Board (PEEHIB). The employer's share of premiums for retired Board employee's health insurance is included as part of the premium for active employees and is funded on a pay-as-you go basis. Retirees who are eligible for Medicare benefits must pay \$10.00 per month for coverage while those who are not eligible must pay \$146.00 per month for coverage. The estimated portion of health insurance premiums paid by the Board for retired employees was approximately \$450,687, for the fiscal year 2011. The Board has no responsibility for the payment of health care benefits, beyond the payment of the premium, for retired employees.

NOTE 13 - COOPERATIVE AGREEMENT WITH THE CITY OF ANDALUSIA

The Board has a Cooperative Agreement with the City of Andalusia in connection with the General Obligation School Warrants, Series 2003 issued to construct the new elementary school.

ANDALUSIA CITY BOARD OF EDUCATION  
 NOTES TO THE FINANCIAL STATEMENTS  
 September 30, 2011

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NOTE 13 - COOPERATIVE AGREEMENT WITH THE CITY OF ANDALUSIA (Continued)

According to the agreement, the City appropriated \$500,000 annually ending in the fiscal year 2008 and the Board is responsible for the payment of all debt service on the warrants in excess of the \$500,000 through fiscal year 2008. Thereafter, the Board is responsible for the full annual payment on the warrants until maturity. To secure this payment, the Board agreed to designate and pledge the County Tax to the extent necessary to pay its portion of the annual debt service on the warrants. The Board makes monthly payments to the warrant fund for 1/12 of the annual debt service. The liability associated with these warrants is reflected in the City's financial statements.

The Board's annual payments are as follows:

<u>Warrant Year</u>	<u>School Board's Share</u>
2012	\$ 486,970
2013	482,670
2014	486,920
	<u>\$ 1,456,560</u>

During fiscal year ended September 30, 2011, the Board paid approximately \$40,411 per month. The total of those payments consisted of \$420,068 of principal and \$59,932 of interest.

Due to the implementation of GASB 34, payments on the above have been reported as Cooperative Agreement Expenses in the financial statements.

NOTE 14 - LONG-TERM DEBT

During the year ended September 30, 2005, the Andalusia City Board of Education (the lessee) entered into a lease purchase agreement with the Alabama School Finance Cooperative (the lessor). This agreement was structured to qualify as a "Qualified Zone Academy Bond" (QZAB) pursuant to Section 1397E of the Internal Revenue Code of 1986, as amended.

Under this agreement, the Board issued a QZAB in the amount of \$750,000. This obligation is referred to as the "Board of Education of the City of Andalusia, Alabama QZAB". The funds from the QZAB will be used for (a) rehabilitating or repairing the public school facility; (b) providing equipment; (c) developing course materials for education; (d) training teacher and other school personnel.

The Andalusia City Board of Education chose the deferred payment option. Under this option, the Board will make payments of \$56,606 for ten years starting on June 1, 2006. These annual payments will be deposited into a restricted fund which will accumulate to earn interest to repay the face amount of the QZAB. The Board will recognize interest as income annually beginning June 2007. At the end of the bond term, the payment of debt principal will be recognized at one time. As of September 30, 2011, the Board had \$339,638 in restricted investments for the repayment of the QZAB.

ANDALUSIA CITY BOARD OF EDUCATION  
 NOTES TO THE FINANCIAL STATEMENTS  
 September 30, 2011

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NOTE 14 - LONG-TERM DEBT (Continued)

During November 2010, the Andalusia City Board of Education obtained a Pool Loan from the Alabama Public School and College Authority (the Authority) in the amount of \$2,500,000 to fund the construction of a new Physical Education Facility. The Board accepted the Board Pool Loan and entered into the Special Pool Loan Agreement, dated as of September 8, 2010 between the Board, the State Superintendent of Education and the Authority and, in order to evidence the obligation to repay the Board Pool Loan the Board will issue to the Authority its Capital Outlay Pool Warrant, Series 2010-QSCB in the principal amount of \$2,500,000.

In August 2009, Governor Riley signed Act No. 2009-813, providing for the sale of Qualified School Construction Bonds (QSCB) by the PSCA. This legislation allows the local school board to pledge local taxes and public school funds (PSF Capital Purchase) for the local school board's payments for the QSCB bonds. The Andalusia City Board of Education has agreed to have the quarterly interest payments withheld for annual PSF Capital Purchase allocations. The amounts to be withheld for QSCB interest payments are \$10,541 for the current fiscal year and \$10,750 for each of the remaining 16 years until the bond matures.

The first annual sinking fund payment was made on September 1, 2011 in the amount of \$111,411 with the same amount for each of the following 16 years until the bond matures on September 1, 2027. The annual sinking fund payment will not be withheld from annual PSF Capital Purchase allocations although the annual sinking fund payment may be made from the PSF Capital Purchase funds or available local sources.

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

Governmental Activities

	<u>Balance</u> <u>10/1/2010</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Balance</u> <u>9/30/2011</u>	<u>Amounts Due</u> <u>Within One Year</u>
Captial Outlay Pool Warrant, Series 2010 - QSCB	\$ -	\$ 2,500,000	\$ -	\$ 2,500,000	\$ -
Qualified Zone Academy Bonds	750,000	-	-	750,000	-
	<u>\$ 750,000</u>	<u>\$ 2,500,000</u>	<u>\$ -</u>	<u>\$ 3,250,000</u>	<u>\$ -</u>

ANDALUSIA CITY BOARD OF EDUCATION  
 NOTES TO THE FINANCIAL STATEMENTS  
 September 30, 2011

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NOTE 14 - LONG-TERM DEBT (Continued)

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

Fiscal Year Ending	Principal	Interest	Total
September 30, 2012	\$ -	\$ -	\$ -
September 30, 2013	-	-	-
September 30, 2014	-	-	-
September 30, 2015	-	-	-
September 30, 2016	-	-	-
Thereafter	<u>3,250,000</u>	<u>-</u>	<u>3,250,000</u>
	<u><u>\$3,250,000</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,250,000</u></u>

NOTE 15 - DEFERRED REVENUE

Governmental funds report deferred revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

At September 30, 2011, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unearned Revenue
Child Nutrition Program	\$ 14,915
Education Jobs Fund	5,833
IDEA, Part B	84,610
Title II, Part A	53,072
Title II, Part D	302
Title VI, Part B	<u>2,007</u>
	<u><u>\$ 160,739</u></u>

ANDALUSIA CITY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2011

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NOTE 16 - INTERFUND TRANSFERS

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

	Transfers In	Transfers Out
General Fund	\$ 9,027	\$ 278,546
Child Nutrition Fund	135,649	-
Other Governmental Funds	177,311	43,441
	<u>\$ 321,987</u>	<u>\$ 321,987</u>

The Board typically used transfers to fund ongoing operating subsidies.

NOTE 17 - CONTINGENCY

The Board receives various amounts under grants and programs that are subject to audit and adjustment by the grantor agencies. Any amounts disallowed, if any, may constitute a liability of the applicable funds. Such amounts, if any, are not considered to be material by the Board.

NOTE 18 - SUBSEQUENT EVENTS

Subsequent to year end, the Andalusia City Board of Education voted to close the Andalusia Middle School and transfer 6<sup>th</sup> grade to Andalusia Elementary School and 7<sup>th</sup> and 8<sup>th</sup> grade to Andalusia High School. The Board plans to obtain financing for the additional facilities at the Elementary and High Schools through a cooperative agreement with the City of Andalusia.

Subsequent events have been evaluated through May 17, 2012 which is the date the financial statements were available to be issued.



REQUIRED SUPPLEMENTARY INFORMATION

ANDALUSIA CITY BOARD OF EDUCATION  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-  
BUDGET AND ACTUAL-GENERAL FUND  
Year Ended September 30, 2011

	ORIGINAL	FINAL	ACTUAL BUDGETARY BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
<b>REVENUES</b>				
State Sources	\$ 8,470,377	\$ 8,260,040	\$ 8,261,281	\$ 1,241
Federal Sources	763,649	766,953	732,333	(34,620)
Local Sources	2,596,288	2,638,616	3,270,355	631,739
Other Sources	14,500	29,500	30,627	1,127
Total Revenues	<u>11,844,814</u>	<u>11,695,109</u>	<u>12,294,596</u>	<u>599,487</u>
<b>EXPENDITURES</b>				
Current:				
Instructional Services	7,401,140	7,361,414	7,099,283	262,131
Instructional Support Services	1,709,033	1,736,396	1,700,949	35,447
Operation and Maintenance Services	1,448,434	1,380,915	1,266,121	114,794
Student Transportation Services	441,081	443,284	441,151	2,133
General Administrative Services	532,730	540,730	531,470	9,260
Other Expenditures	115,850	115,850	113,753	2,097
Debt Services	-	79,778	-	79,778
Capital Outlay	-	-	-	-
Total Expenditures	<u>11,648,268</u>	<u>11,658,367</u>	<u>11,152,727</u>	<u>505,640</u>
Excess of Revenues Over Expenditures	<u>196,546</u>	<u>36,742</u>	<u>1,141,869</u>	<u>1,105,127</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Indirect Cost	-	-	89,144	89,144
Transfers In	-	-	9,027	(9,027)
Transfers Out	-	-	(278,546)	278,546
Other Financing Sources	103,317	143,372	65,683	(77,689)
Other Fund Uses	(296,371)	(193,270)	(8,703)	184,567
Total Other Fund Uses	<u>(193,054)</u>	<u>(49,898)</u>	<u>(123,395)</u>	<u>465,541</u>
Net Change in Fund Balances	<u>3,492</u>	<u>(13,156)</u>	<u>1,018,474</u>	<u>1,570,668</u>
FUND BALANCES - OCTOBER 1, 2010	<u>1,003,959</u>	<u>1,003,959</u>	<u>1,003,959</u>	<u>-</u>
FUND BALANCES - SEPTEMBER 30, 2011	<u>\$ 1,007,451</u>	<u>\$ 990,803</u>	<u>\$ 2,022,433</u>	<u>\$ 1,570,668</u>

The accompanying Notes to Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund are an integral part of these statements.

ANDALUSIA CITY BOARD OF EDUCATION  
NOTES TO THE SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND  
September 30, 2011

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NOTE 1 - BUDGETARY COMPARISON

The Andalusia City Board of Education has not included budgetary comparisons for the major special revenue funds because the Board does not adopt a legal budget for each special revenue fund. The Board legally adopts a budget for the general fund and for all federal funds as a whole.

ANDALUSIA CITY BOARD OF EDUCATION  
 SCHEDULE OF FUNDING PROGRESS – DEFINED BENEFIT PENSION PLAN  
 Year Ended September 30, 2011

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Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability (AAL) Entry Age ( b )	Unfunded AAL (UAAL) ( b - a )	Funded Ratio ( a / b )	Covered Payroll ( c )	UAAL as a Percentage of Covered Payroll ((b - a) / c)
6/30/2005	\$19,248,207	\$23,027,338	\$ 3,779,131	83.6%	\$ 5,326,408 *	71.0%
9/30/2006	\$19,821,133	\$23,945,100	\$ 4,123,967	82.8%	\$ 5,458,443	75.6%
9/30/2007	\$20,650,916	\$25,971,534	\$ 5,320,618	79.5%	\$ 6,310,616 **	84.3%
9/30/2008	\$20,812,477	\$26,804,117	\$ 5,991,640	77.6%	\$ 6,294,341	95.2%
9/30/2009	\$20,582,348	\$27,537,400	\$ 6,955,052	74.7%	\$ 6,236,922	111.5%
9/30/2010	\$20,132,779	\$28,299,523	\$ 8,166,744	71.1%	\$ 6,183,204	132.1%

\* Includes pay increase granted under Act 2005-174.

\*\* Includes pay increase granted under Act 2007-296.

Dollar amounts in thousands

SUPPLEMENTARY INFORMATION

ANDALUSIA CITY BOARD OF EDUCATION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended September 30, 2011

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER	DISBURSEMENTS/ EXPENDITURES
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Safe and Drug Free	84.184D		\$ 28,216
Passed Through State Department of Education:			
Title I, Part A Cluster:			
Title I, Part A (M)	84.010	104	640,078
ARRA Title I, Part A (M)	84.389	104	214,020
			<u>854,098</u>
Education Technology State Grants Cluster:			
Title II, Part D, Formula Funds	84.318	104	4,211
Title II, Part D, Competitive Funds	84.318	104	28,078
ARRA Title II, Part D, Formula Funds	84.386	104	3,167
			<u>35,456</u>
Special Education (IDEA) Cluster:			
IDEA, VI B, School Program (M)	84.027	104	261,390
ARRA IDEA, Part B (M)	84.391	104	223,102
ARRA IDEA, Part B Preschool (M)	84.392	104	13,071
IDEA, Preschool Incentive (M)	84.173	104	29,485
			<u>527,048</u>
State Fiscal Stabilization Fund Cluster:			
ARRA State Fiscal Stabilization (M)	84.394	104	419,444
Title II, Part A, Teacher Training	84.367	104	35,027
Title IV, Safe & Drug Free School	84.186	104	520
Title VI, Part B, Rural Education Initiative	84.358	104	43,093
Vocational - Tech Prep	84.243	104	2,392
Vocational - Basic Grants to States	84.048A	104	24,480
ARRA Education Job Funds (M)	84.410	104	311,918
Multisensory Structural Language Education Training	84.323A	104	4,155
Passed Through Alabama Department of Rehabilitation Services:			
Vocational Rehabilitation Cluster:			
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	104	27,242
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>2,313,089</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed Through State Department of Education:			
Food Distribution Program (N)	10.550	104	45,010
Fresh Fruits and Vegetables (N)	10.582	104	58,526
Team Nutrition Grants	10.574	104	2,000
Child Nutrition Cluster:			
National School Breakfast Program (M)	10.553	104	94,085
National School Lunch Program (M)	10.555	104	398,027
Subtotal Child Nutrition Cluster			<u>492,112</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>597,648</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Passed Through State Department of Education:			
Disability Insurance/SSI Cluster:			
Disability Determination	96.001	104	972
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>972</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,911,709</u>

(N) Non-cash assistance  
(M) Major program

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

ANDALUSIA CITY BOARD OF EDUCATION  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended September 30, 2011

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NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Andalusia City 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 financial statements.

ANDALUSIA CITY BOARD OF EDUCATION  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 September 30, 2011

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Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified  
 Internal control over financial reporting:  
 Material weakness(es) identified? \_\_\_\_\_yes  X no  
 Significant deficiency(ies) identified? \_\_\_\_\_yes  X none reported  
 Noncompliance material to financial statements noted? \_\_\_\_\_yes  X no

Federal Awards

Internal Control over major programs:  
 Material weakness(es) identified? \_\_\_\_\_yes  X no  
 Significant deficiency(ies) identified? \_\_\_\_\_yes  X none reported

Type of auditor's report issued on compliance  
 for major programs: Unqualified

Any audit findings disclosed that are required to be  
 reported in accordance with Circular A-133,  
 Section .510(a)? \_\_\_\_\_yes  X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>10.553; 10.555</u>	<u>Child Nutrition Cluster</u>
<u>84.010; 84.389</u>	<u>Title I, Part A Cluster</u>
<u>84.027; 84.173; 84.391; 84.392</u>	<u>Special Education Cluster</u>
<u>84.394</u>	<u>State Fiscal Stabilization</u>
<u>84.410</u>	<u>Education Jobs Fund</u>

Dollar threshold used to distinguish  
 between Type A and Type B programs: \$  300,000

Auditee qualified as low -risk auditee  X yes \_\_\_\_\_no



ANDALUSIA CITY BOARD OF EDUCATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
September 30, 2011

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Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

# RABREN, ODOM, PIERCE & HAYES, P.C.

Certified Public Accountants

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Jana G. Ealum  
Katherine M. Odom  
Anna N. Till

## 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*

Members of the Board  
Andalusia City Board of Education  
Andalusia, Alabama

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Andalusia City Board of Education, as of and for the year ended September 30, 2011, which collectively comprise the Andalusia City Board of Education's basic financial statements and have issued our report thereon dated May 17, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a 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.

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MEMBERS

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Andalusia City Board of Education's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

*Rabren, Odom, Pierce & Hayes, PC*

Andalusia, Alabama  
May 17, 2012

# RABREN, ODOM, PIERCE & HAYES, P.C.

Certified Public Accountants

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Jana G. Ealum  
Katherine M. Odom  
Anna N. Till

## INDEPENDENT AUDITORS' 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

Members of the Board  
Andalusia City Board of Education  
Andalusia, Alabama

### Compliance

We have audited Andalusia City Board of Education's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Andalusia City Board of Education's major federal programs for the year ended September 30, 2011. The Andalusia City Board of Education's major federal programs are identified in the summary of auditor'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 Andalusia City Board of Education's management. Our responsibility is to express an opinion on the Andalusia City Board of Education's compliance based on our audit.

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

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

### Internal Control Over Compliance

Management of the Andalusia City Board of Education is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Andalusia City Board of Education's internal control over compliance with 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 Andalusia City Board of Education's internal control over compliance.

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

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

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

*Rabren, Odom, Pierce & Hayes, PC*

Andalusia, Alabama  
May 17, 2012