

Report on the

Pickens County Board of Education

Pickens County, Alabama

October 1, 2009 through September 30, 2010

Filed: August 19, 2011



Department of Examiners of Public Accounts

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Ronald L. Jones, Chief Examiner



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

Dear Sir:

Under the authority of the *Code of Alabama 1975*, Section 41-5-21, I submit this report on the results of the audit of the Pickens County Board of Education, Pickens County, Alabama, for the period October 1, 2009 through September 30, 2010.

Sworn to and subscribed before me this
the 3 day of Aug, 2011.

Dedra A. Horth
Notary Public

Respectfully submitted,

James D. Howell
James D. Howell
Examiner of Public Accounts

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Department of
Examiners of Public Accounts

SUMMARY

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

The Pickens County Board of Education (the “Board”) is a five-member body elected by the citizens of Pickens County. The members and administrative personnel in charge of governance of the Board are listed in Exhibit 12. The Board is the governmental agency that provides general administration and supervision for Pickens County public schools, preschool through high school.

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

An unqualified opinion was issued on the financial statements, which means that the Board’s financial statements present fairly, in all material respects, its financial position and the results of its operations for the fiscal year ended September 30, 2010.

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

The following officials/employees were invited to an exit conference to discuss the results of this report: Dr. Leonard Duff, Superintendent; Jennifer Shirley, Chief School Finance Officer; and Board Members: Roger Minton, Travis Bailey, Michael Hinton, Debbie Holley, Nicholas Tolstick and Rodney Homan. The following individuals attended the exit conference, held at the offices of the Pickens County Board of Education: Leonard Duff and Jennifer Shirley. Also in attendance was a representative of the Department of Examiners of Public Accounts: James Howell, Audit Manager.

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Independent Auditor's Report

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Pickens County Board of Education, as of and for the year ended September 30, 2010, which collectively comprise the Pickens County Board of Education's basic financial statements as listed in the table of contents as Exhibits 1 through 8. These financial statements are the responsibility of the Pickens County Board of Education's management. Our responsibility is to express opinions on these financial statements based on our audit.


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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Pickens County Board of Education, as of September 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 2, 2011 on our consideration of the Pickens County Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying Management's Discussion and Analysis (MD&A) and the Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Exhibits 9 and 10) are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pickens County Board of Education's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 11) as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

August 2, 2011

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*Management's Discussion and Analysis
(Required Supplementary Information)*

PICKENS COUNTY BOARD OF EDUCATION
Management's Discussion and Analysis (MD&A)
September 30, 2010

The Management's Discussion and Analysis of the Pickens County Board of Education represents the overall financial and operation results of the fiscal year ended September 30, 2010. Please read the notes to the financial statements and the financial statement which follow this analysis.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments* issued in June 1999. Certain comparative information between the current fiscal year and the prior year is required to be presented in the MD&A and is included in this report. .

Financial Highlights: Significant Items to Note

Our Financial Statements provide these insights into the results of this year's operation.

- The Assets of the Board exceeded its liabilities at the close of 2010 fiscal year by \$9.998 million. Of this amount $-\$.65$ million (unrestricted net assets) may be used to meet the Boards future cost of operation. The net assets invested in capital assets, the net assets restricted for capital projects, and the net assets restricted for debt service, and other purposes amounted to \$7.94, \$0.79, and \$1.92 million, respectively.
- The total cost of the Board's program for the year was \$28.01 million. After taking away the portion of these costs paid for with Program Revenues (Charges for Services, Operating Grants and Capital Grants and Contributions) the net cost that required funding from Pickens County taxpayers was \$3.286 million. The Foundation Program requires a 10-mill equivalency local match that is derived from locally collected ad valorem and sales taxes. This amount for the year was \$2,554,148.34.
- During the year the State declared 9.5% proration in state funding. However, the Board was able to offset some of the decrease in funding by the use of flexibility in Capital funds.
- State Stabilization and ARRA funding was provided from the federal government in an effort to support the state's economy. SFSF funds were used to provide support for other current expenses which were cut from the Education Trust Fund. ARRA funding, which included Title I, Special Education, Preschool, and Technology funding, was used to cover personnel not earned thru the Foundation Program, hire additional personnel, and purchase needed materials and supplies for teachers. These funds are available for two years.
- No new school buses were purchased during the year. Fleet renewal funds were used for payment on existing bus notes.
- Capital outlays (including bond funding – APSCA 07) during the audit period included:
 - Aliceville High School Cafeteria
 - Aliceville High School Ag Building
 - Aliceville High School Senior High Building
 - Other Schools Various Small Projects

Using the Financial Statements – An Overview for the User

The financial section of this report consists of five parts – MD&A (Management’s Discussion and Analysis {this section}), the Independent Auditors’ Report, the Basic Financial Statements, Required Supplemental Information, and other Supplemental Information.

The Board’s new financial statements are comprised of these components: 1) *Government-wide Financial Statement*, 2) *Fund Financial Statements*, and 3) *Notes to the Basic Financial Statements*.

Government-Wide Financial Statements

The purpose of these statements is to provide readers with a broad overview of the Boards’ finances as a whole instead of an individual fund basis. The report states that all activities of the board reported in this report are classified as government activities. These activities include the following:

- Instruction includes teacher salaries and benefits, instructional aides, substitute teachers, textbooks, professional development, and classroom instructional materials, supplies and equipment.
- Instructional Support includes salaries and benefits for principals assistant principals, librarians, counselors school secretaries and bookkeepers, speech therapist, school nurses, and professional development.
- Operation and Maintenance includes utilities, security services, janitorial services, maintenance services.
- Auxiliary Services includes student transportation expenses, such as bus driver salaries and benefits, mechanics, bus aides, vehicle maintenance and repair expenses, vehicle fuel, fleet insurance; and food service expenses such as lunchroom managers, cooks, cashiers and servers’ salaries and benefits as well as donated and purchased food, food preparation and service supplies, kitchen and lunchroom equipment.
- General Administrative and Central Support includes salaries and benefits for the superintendent, assistants, clerical, and financial staff, and other personnel that provide system-wide support for the schools. Also included are legal expenses, liability insurance, training for board members and general administrative staff, printing costs.
- Interest and Fiscal Charges include interest, but not principal payments, on long-term debt issues and other expenses related to the issuance and continuance of debt issues.
- Other includes the salaries and benefits for community education instructors. Also included are the materials, supplies, equipment, and other expenses for operating programs outside of those for educating students in the K-12 grade instructional programs.

Government-wide Statements report the capitalization of capital assets the outstanding balances of long-term debt and other obligations.

These statements report all assets and liabilities perpetuated by these activities using the accrual basis of accounting. The accrual basis takes into account all of the Boards’ current year revenues and expenses regardless of when received or paid. This approach moves the financial reporting method for governmental entities closer to the financial reporting methods used in the private sector. The following government-wide financial statements report on all of the governmental activities of the Board as a whole.

The Statement of Net Assets (Exhibit # 1) is most closely related to a balance sheet. It presents information on all of the board's assets (what it owns) and liabilities (what it owes), with the difference between the two reported in net assets. The net assets reported in this statement represent the accumulation of changes in net assets for the current fiscal year and all fiscal years in the past combined.

The Statement of Activities (Exhibit # 2) is most closely related to an income statement. It presents information showing how the Board's net assets changed during current fiscal year only. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The statement identifies the extent to which each expenditure function draws from general revenues of the Board (local taxes) or is financed through charges for services (such as lunchrooms) and intergovernmental aid (federal programs and state allotments).

Fund Financial Statements

The Fund Financial Statement provides 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 used fund accounting to ensure and demonstrate accountability. Only one kind of fund (governmental) is presented in the fund financial statements.

Governmental Funds – Governmental fund financials begin with (exhibit # 3). Most of the Board 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 fund 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 Board's major funds are the General Fund, Child Nutrition Program Fund and QZAB Debt Service Fund.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential for the statements to fairly represent the Board's financial position and its operations. The notes contain important information that is not part of the basic financial statements.

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 basic of reporting.

Financial Analysis of the Board as a Whole

As noted earlier, net assets may serve as a useful indicator of a government’s financial position. Refer to TABLE 1 when reading the following analysis of net assets. The Board’s assets exceeded liabilities by \$10.00 million at September 30, 2010.

- Of this figure, \$7.94 million reflects the Board’s investment in capital assets. Since these capital assets represents investment in land, buildings, school buses, furniture and equipment, this portion of the net assets is not available for future spending or funding of operations.
- Restricted net assets account for \$2.70 million of total net assets. Restricted net assets are reported separately to show the external legal constraints from debt covenants and enabling legislation that limit the Board’s ability to use those net assets for day-to-day operations. There exists a balance of unrestricted net assets of -\$0.65 million at September 30, 2010 which maybe used to meet the Boards future cost of operations.

	Governmental Activities			
	2009	%	2010	%
Current & Other Assets	\$7.03	40.54%	\$5.74	34.22%
Capital Assets	10.32	59.46%	11.04	65.78%
Total Assets	\$17.35	100.00%	\$16.78	100.00%
Current Liabilities	\$4.31	55.82%	\$3.66	54.04%
Non-Current Liabilities	3.41	44.18%	3.12	45.96%
Total Liabilities	\$7.71	100.00%	\$6.78	100.00%
Net Assets				
Invested in Capital Assets, Net of Related Debt	\$6.94	71.96%	\$7.94	79.45%
Restricted for:				
Capital Projects	1.14	11.79%	0.79	7.85%
Other Purposes	1.74	18.05%	1.92	19.20%
Unrestricted	-0.17	-1.80%	-0.65	-6.50%
Total Net Assets	\$9.64	100.00%	\$10.00	100.00%

At the end of the current fiscal year, the Board was able to report positive balances in two categories of net assets: invested in capital assets-net of related debt and restricted.

Government Activities – The Board’s net assets increased by \$0.36 million during the current fiscal year.

As shown in Table 2, the cost of services rendered from the Boards governmental activities for the year ended September 30, 2010 was \$28.01 million. It is important to note that not all of this cost was borne by the taxpayers of Pickens County.

- Some of the cost, \$2.16 million, was paid by users who benefited from services provided during the year, such as school lunches, etc.
- State and Federal government subsidized certain programs with operating and capital grants and contributions totaling \$22.57 million.
- Other general revenue sources, such as interest earnings, and other miscellaneous revenue provided \$1.09 million.
- \$2.55 million of the Board’s total cost of \$28.01 million was financed by district and state taxpayers, as follows: \$1.65 million in property tax, \$.90 million in sales taxes.

	2009	Governmental Activities %	2010	%
Revenues				
<i>Program Revenues</i>				
Charges for Services	\$2.27	8.17%	\$2.16	7.61%
Operating Grants & Contributions	20.67	74.45%	20.66	72.82%
Capital Grants & Contributions	1.35	4.86%	1.91	6.73%
<i>General Revenue</i>				
Property Taxes for General Purposes	1.71	6.16%	1.65	5.83%
Sales & Use Tax	0.82	2.96%	0.90	3.17%
Miscellaneous/Interest Earning	0.94	3.40%	1.09	3.84%
Total Revenues	\$27.76	100.00%	\$28.37	100.00%
Expenses				
Instruction	\$15.62	56.43%	\$15.82	56.49%
Instruction Support	3.90	14.09%	3.89	13.89%
Operation & Maintenance	1.82	6.58%	1.92	6.85%
<i>Auxiliary Services</i>				
Food Service	2.01	7.26%	2.02	7.21%
Transportation	2.42	8.74%	2.36	8.43%
General Administrative & Central Support	1.06	3.83%	1.16	4.14%
Other	0.77	2.78%	0.78	2.78%
Interest	0.08	0.29%	0.06	0.21%
Total Expenses	\$27.68	100.00%	\$28.01	100.00%
Increase (Decrease) in Net Assets	\$0.08		\$0.36	
Net Assets - Beginning	\$9.56		\$9.64	
Net Assets - Ending	\$9.64		\$10.00	

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

	2009		2010	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instructional Services	\$15.62	(\$0.93)	\$15.82	(\$0.30)
Instructional Support	3.90	(0.40)	3.89	(0.33)
Operation & Maintenance Services	1.82	(0.49)	1.92	(0.87)
Auxiliary Services				
Food Services	2.01	(0.40)	2.02	(0.51)
Transportation	2.42	(0.24)	2.36	(0.20)
General Administrative & Central Support	1.06	(0.58)	1.16	(0.82)
Interest	0.08	(0.08)	0.06	(0.06)
Other Expenses	0.77	(0.26)	0.78	(0.20)
Total	\$27.68	(\$3.40)	\$28.01	(\$3.29)

Performance of School Board Funds

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

Government Funds

The focus of the Board's governmental funds is to provide information on near term inflow, outflows, and balances of spendable resources. Such information is useful in assessing the Board's financial requirements. (Note that the relationship between the fund financial statements and the government-wide financial statements are reconciled on (Exhibits 4 and 6). At the end of the fiscal year, the Board's governmental funds report combined ending fund balances of \$2.198 million.

- Approximately \$1.104 million deficit constitutes unreserved fund balance of the General Fund.
- Special Revenue Funds, included in Other Governmental Funds, and Debt Service Fund had an unreserved fund balance of \$3.302 million.

Budgetary Highlights

On or before October 1 of each year, the Board is mandated by State law to prepare and submit to the State Superintendent of Education the annual budget adopted by the Board. The State Department of Education normally requires such budgets to be submitted by September 15th of each year. The original budget was adopted by the Board on September 4, 2009. During the year, the Board revised the annual budget one time on July 8, 2010 to include some federal funds and state allocations that were not available at the time of the original budget approval.

Capital Assets and Debt Administration – Capital Assets

The Board's investment in capital assets for the year ended September 30, 2010, amounted to \$11.03. The Board's investment in capital assets includes: Land and Land Improvements, Buildings and Improvements, Furniture and Equipment, and vehicles all at estimated historical costs. See Table 4. Also, additional information is located in Note 5 of Notes to the Financial Statements.

	Governmental Activities	
	2009	2010
Land & Improvements	\$0.38	\$0.38
Buildings & Improvements	15.79	15.3
Furniture & Equipment	5.2	5.09
Construction in Progress	0.31	1.35
Less: Accumulated Depreciation	11.37	11.09
Total	<u>\$10.32</u>	<u>\$11.03</u>

Long-Term Debt

At year-end, the Board had \$3.12 million in general long-term debt outstanding.

	Beginning Balance	Net Change	Ending Balance
Governmental Activities			
Certificates of Participation Payable - 2001	\$1,236,000.00	\$0.00	\$1,236,000.00
Certificates of Participation Payable - 2005	783,000.00	0.00	\$783,000.00
Notes Payable:			
School Buses - 2004	38,517.32	-38,517.32	0.00
School Buses - 2005	100,766.57	-50,290.03	50,476.54
School Buses - 2006	\$61,370.55	-19,518.92	41,851.63
School Buses - 2007	\$837,405.50	-127,185.11	710,220.39
School Buses - 2008	\$350,736.26	-55,016.36	295,719.90
Governmental Activities Long Term Liabilities	<u>\$3,407,796.20</u>	<u>-\$290,527.74</u>	<u>\$3,117,268.46</u>

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

- The Board decreased long-term debt by \$290,527.74 with the retirement of loans.

Economic factors

Employee health insurance is provided through the Public Education Employees Insurance Plan (PEEHIP). For FY 12 the Board's allocation will decrease to \$714.00 per month. Also, employer contributions to Teacher's Retirement System (TRS) will decrease to 10.00%.

	<u>Retirement</u> <u>Percentage</u>	<u>PEEHIP</u> <u>Per Month</u>
FY 2003	5.02%	\$433.00
FY 2004	6.56	479.00
FY 2005	7.09	550.00
FY 2006	8.17	668.00
FY 2007	9.36	717.00
FY 2008	11.75	775.00
FY 2009	12.07	752.00
FY 2010	12.51	752.00
FY 2011	12.51	752.00
FY 2012	10.00	714.00

During 2006 Governor Riley signed into law the School Fiscal Accountability Act (Act Number 2006-196). Included in this act, each school system is required to have a one-month operating reserve. As of September 30, 2010 Pickens County Board of Education 1 month reserve balance should be \$1,722,273. However, currently the Board has a .3 month reserve. The Board has implemented a Fiscal Accountability Plan to bring up the monthly reserve to one month.

System ADM (Average Daily Membership) which represents the total, average daily enrollment for the system during the first twenty days after Labor Day continues to fall. ADM for FY 11 is 2955.50.

	<u>ADM</u>
FY 2005	3317.40
FY 2006	3238.92
FY 2007	3180.25
FY 2008	3102.05
FY 2009	3139.35
FY 2010	3020.90
FY 2011	2955.50

State Stabilization and ARRA funding will be exhausted by September 30, 2011. Before this time the Board will need to carefully review personnel and expenditures to make the necessary changes.

Contacting the School Board's Financial Management

This financial report is designed to provide citizens, taxpayers, investors, and creditors with an 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 Jennifer Shirley, Chief School Financial Officer, at the Pickens County Board of Education, 377 LaDow Center Circle, P. O. Box 32, Carrollton, AL 35447, or by calling (205) 367-2083 during regular office hours, Monday through Friday, from 8:00 a.m. to 4:00 p.m., CST.

Basic Financial Statements

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Statement of Net Assets
September 30, 2010

	Governmental Activities
<u>Assets</u>	
Cash and Cash Equivalents	\$ 1,705,390.40
Cash with Fiscal Agent	1,333,664.23
Investments	703,154.14
Ad Valorem Property Taxes Receivable	1,299,482.51
Receivables (Note 4)	600,820.17
Inventories	76,386.33
Deferred Charges - Issuance Costs	23,931.12
Capital Assets (Note 5):	
Nondepreciable	1,736,176.44
Depreciable, Net	9,300,721.66
Total Assets	<u>16,779,727.00</u>
<u>Liabilities</u>	
Due To Other Governments	2,085.59
Deferred Revenue	1,599,828.91
Salaries and Benefits Payable	1,918,494.15
Accrued Interest Payable	11,656.76
Compensated Absences	132,648.92
Long-Term Liabilities:	
Portion Due or Payable Within One Year:	
Notes Payable	254,144.46
Portion Due or Payable After One Year:	
Notes Payable	844,124.00
2005 Certificate of Participation Payable	783,000.00
2001 Certificate of Participation Payable	1,236,000.00
Total Liabilities	<u>6,781,982.79</u>
<u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	7,943,560.76
Restricted for:	
Debt Service	1,333,664.23
Capital Projects	785,154.57
Other Purposes	584,835.72
Unrestricted	<u>(649,471.07)</u>
Total Net Assets	<u>\$ 9,997,744.21</u>

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

Statement of Activities
For the Year Ended September 30, 2010

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Governmental Activities			
Instruction	\$ 15,822,915.18	\$ 262,862.18	\$ 14,171,814.66
Instructional Support	3,887,301.72	65,254.18	3,479,221.19
Operation and Maintenance	1,924,802.18	147,775.26	431,831.42
Auxiliary Services:			
Student Transportation	2,361,119.93	157,993.39	1,667,293.32
Food Service	2,020,202.75	1,428,659.47	81,598.10
General Administration and Central Support	1,156,271.22	1,602.00	333,842.57
Interest and Fiscal Charges	57,001.96		
Other	780,185.09	92,117.48	491,919.26
Total Governmental Activities	<u>\$ 28,009,800.03</u>	<u>\$ 2,156,263.96</u>	<u>\$ 20,657,520.52</u>

General Revenues:

Taxes:

Property Taxes for General Purposes

Property Taxes for Specific Purposes

Sales Tax

Other Taxes

Investment Earnings

Miscellaneous

Total General Revenues

Changes in Net Assets

Net Assets - Beginning of Year

Net Assets - End of Year

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

		Net (Expenses) Revenues and Changes in Net Assets	
Capital Grants and Contributions		Total Governmental Activities	
\$	1,086,765.65	\$	(301,472.69)
	8,591.56		(334,234.79)
	474,648.80		(870,546.70)
	340,030.16		(195,803.06)
			(509,945.18)
			(820,826.65)
			(57,001.96)
			(196,148.35)
<u>\$</u>	<u>1,910,036.17</u>		<u>(3,285,979.38)</u>

1,536,432.90
117,616.00
881,092.11
19,007.33
118,768.01
969,692.76
<u>3,642,609.11</u>
356,629.73
<u>9,641,114.48</u>
<u>\$ 9,997,744.21</u>

Balance Sheet
Governmental Funds
September 30, 2010

	General Fund	Child Nutrition Program Fund
<u>Assets</u>		
Cash and Cash Equivalents	\$ 474,187.94	\$ 480,902.63
Cash with Fiscal Agent		
Investments		
Ad Valorem Property Taxes Receivable	1,299,482.51	
Receivables (Note 4)	102,582.49	153,213.78
Interfund Receivables	286,872.98	
Inventories		76,386.33
Total Assets	<u>2,163,125.92</u>	<u>710,502.74</u>
<u>Liabilities and Fund Balances</u>		
<u>Liabilities</u>		
Due to Other Governments		
Interfund Payables	66,550.08	
Deferred Revenues	1,355,824.70	157,848.33
Salaries and Benefits Payable	1,845,093.55	73,400.60
Total Liabilities	<u>3,267,468.33</u>	<u>231,248.93</u>
<u>Fund Balances</u>		
Reserved for:		
Encumbrances		
Inventories		76,386.33
Debt Service		
Capital Projects		
Unreserved, Reported in:		
General Fund	(1,104,342.41)	
Special Revenue Funds		402,867.48
Total Fund Balances	<u>(1,104,342.41)</u>	<u>479,253.81</u>
Total Liabilities and Fund Balances	<u>\$ 2,163,125.92</u>	<u>\$ 710,502.74</u>

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

QZAB Debt Service Fund	Other Governmental Funds	Total Governmental Funds
\$ 1,333,664.23	\$ 750,299.83	\$ 1,705,390.40
	703,154.14	1,333,664.23
	345,023.90	703,154.14
	66,550.08	1,299,482.51
		600,820.17
		353,423.06
		76,386.33
<u>1,333,664.23</u>	<u>1,865,027.95</u>	<u>6,072,320.84</u>
	2,085.59	2,085.59
	286,872.98	353,423.06
	86,155.88	1,599,828.91
		1,918,494.15
	<u>375,114.45</u>	<u>3,873,831.71</u>
	57,705.48	57,705.48
1,333,664.23		76,386.33
	796,811.33	1,333,664.23
		796,811.33
		(1,104,342.41)
	635,396.69	1,038,264.17
<u>1,333,664.23</u>	<u>1,489,913.50</u>	<u>2,198,489.13</u>
<u>\$ 1,333,664.23</u>	<u>\$ 1,865,027.95</u>	<u>\$ 6,072,320.84</u>

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

Total Fund Balances - Governmental Funds (Exhibit 3) \$ 2,198,489.13

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

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

Cost of Capital Assets	\$ 22,126,840.53	
Accumulated Depreciation	<u>(11,089,942.43)</u>	
		11,036,898.10

Issuance costs are reported in the year that warrants are issued in the governmental
funds; however, issuance costs are deferred and amortized in the government-wide
financial statements. 23,931.12

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

	Amounts Due or Payable Within One Year	Amounts Due or Payable After One Year	
Notes Payable	\$ 254,144.46	844,124.00	
2005 Certificate of Participation Payable		783,000.00	
2001 Certificate of Participation Payable		1,236,000.00	
Accrued Interest Payable	11,656.76		
Compensated Absences	<u>132,648.92</u>		
Total Long-Term Liabilities	\$ 398,450.14	\$ 2,863,124.00	<u>(3,261,574.14)</u>

Total Net Assets - Governmental Activities (Exhibit 1) \$ 9,997,744.21

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

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

	General Fund	Child Nutrition Program Fund
<u>Revenues</u>		
State	\$ 17,039,456.17	\$
Federal	169,131.36	1,240,346.36
Local	2,676,000.96	357,262.24
Other	120,422.38	441.70
Total Revenues	20,005,010.87	1,598,050.30
<u>Expenditures</u>		
Current:		
Instruction	12,807,806.53	
Instructional Support	2,667,697.32	
Operation and Maintenance	663,151.48	120,726.73
Auxiliary Services:		
Student Transportation	1,884,689.33	
Food Service		2,044,686.70
General Administration and Central Support	861,301.74	
Other	387,088.68	
Capital Outlay	815,173.06	130,187.00
Debt Service:		
Principal Retirement		
Interest and Fiscal Charges		
Total Expenditures	20,086,908.14	2,295,600.43
Excess (Deficiency) of Revenues Over Expenditures	(81,897.27)	(697,550.13)
<u>Other Financing Sources (Uses)</u>		
Indirect Costs	93,112.99	
Other Financing Sources	117,351.11	
Transfers In	44,361.86	661,145.79
Transfers Out	(661,145.79)	
Total Other Financing Sources (Uses)	(406,319.83)	661,145.79
Net Changes in Fund Balances	(488,217.10)	(36,404.34)
Fund Balances - Beginning of Year	(616,125.31)	515,658.15
Fund Balances - End of Year	\$ (1,104,342.41)	\$ 479,253.81

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

QZAB Debt Service Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$
	1,104,679.00	18,144,135.17
	4,102,310.18	5,511,787.90
73,429.76	1,365,598.54	4,472,291.50
		120,864.08
<u>73,429.76</u>	<u>6,572,587.72</u>	<u>28,249,078.65</u>
	2,806,607.38	15,614,413.91
	1,219,604.40	3,887,301.72
	1,121,060.63	1,904,938.84
	204,917.99	2,089,607.32
	2,524.09	2,047,210.79
	270,517.63	1,131,819.37
	365,165.73	752,254.41
	367,862.14	1,313,222.20
	290,527.74	290,527.74
	59,715.30	59,715.30
	<u>6,708,503.03</u>	<u>29,091,011.60</u>
<u>73,429.76</u>	<u>(135,915.31)</u>	<u>(841,932.95)</u>
		93,112.99
		117,351.11
141,673.80	7,945.02	855,126.47
	(193,980.68)	(855,126.47)
<u>141,673.80</u>	<u>(186,035.66)</u>	<u>210,464.10</u>
215,103.56	(321,950.97)	(631,468.85)
<u>1,118,560.67</u>	<u>1,811,864.47</u>	<u>2,829,957.98</u>
<u>\$ 1,333,664.23</u>	<u>\$ 1,489,913.50</u>	<u>\$ 2,198,489.13</u>

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

Net Change in Fund Balances - Total Governmental Funds (Exhibit 5) \$ (631,468.85)

Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) are different because:

Governmental funds report capital outlay as an expenditure. 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 outlay exceeded depreciation in the current period.

Capital Outlay Expenditures	\$ 1,313,222.20	
Depreciation Expense	(595,748.04)	
Total		717,474.16

Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities. 290,527.74

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Net Decrease in Accrued Interest Payable	\$ 2,713.34	
Net Increase in Compensated Absences	(20,223.55)	
Amortization of Deferred Charges - Issuance Costs	(2,393.11)	
Total		(19,903.32)

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 356,629.73

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

Statement of Fiduciary Net Assets
September 30, 2010

	Private-Purpose Trust Funds	Agency Funds
<u>Assets</u>		
Cash and Cash Equivalents	\$	\$ 105,071.47
Investments	12,100.87	
Total Assets	<u>12,100.87</u>	<u>105,071.47</u>
<u>Liabilities</u>		
Due to External Organizations		105,071.47
Total Liabilities		<u>\$ 105,071.47</u>
<u>Net Assets</u>		
Held in Trust for Other Purposes	<u>\$ 12,100.87</u>	

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

***Statement of Changes in Fiduciary Net Assets
For the Year Ended September 30, 2010***

	Private-Purpose Trust Funds
<u>Additions</u>	
Other	\$ 180.06
Total Additions	<u>180.06</u>
<u>Deductions</u>	
Miscellaneous	
Changes in Net Assets	<u>180.06</u>
Net Assets - Beginning of Year	<u>11,920.81</u>
Net Assets - End of Year	<u><u>\$ 12,100.87</u></u>

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

Notes to the Financial Statements

For the Year Ended September 30, 2010

Note 1 – Summary of Significant Accounting Policies

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

A. Reporting Entity

The Board is governed by a separately elected board composed of five members elected by the qualified electors of the County. The Board is responsible for the general administration and supervision of the public schools for the educational interests of the County.

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

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

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

Notes to the Financial Statements

For the Year Ended September 30, 2010

Fund Financial Statements

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

The Board reports the following major governmental funds:

- ◆ **General Fund** – The general fund is the primary operating fund of the Board. It is used to account for all financial resources except those required to be accounted for in another fund. The Board primarily receives revenues from the Education Trust Fund (ETF) and local taxes. Amounts appropriated from the ETF were allocated to the school board on a formula basis.
- ◆ **Child Nutrition Program Fund** – This fund is used to account for the revenues and expenditures of the Child Nutrition Program including accounting for reimbursement for meals provided by the National School Lunch Program.
- ◆ **OZAB Debt Service Fund** – This fund is used to account for the accumulation of resources for the payment of principal on Qualified Zone Academy Bonds.

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

The Board reports the following fiduciary fund types:

Fiduciary Fund Types

- ◆ **Private-Purpose Trust Funds** – These funds are used to report all trust agreements under which principal and income benefit individuals, private organizations, or other governments.
- ◆ **Agency Funds** – These funds are used to report assets held by the Board in a purely custodial capacity. The Board collects these assets and transfers them to the proper individual, private organizations, or other government.

Notes to the Financial Statements

For the Year Ended September 30, 2010

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

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

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

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

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

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

D. Assets, Liabilities and Net Assets/Fund Balances

1. Deposits and Investments

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

Notes to the Financial Statements

For the Year Ended September 30, 2010

Statutes authorize the Board to invest in obligations of the U. S. Treasury, obligations of any state of the United States, general obligations of any Alabama county or city board of education secured by the pledged of the three-mill school tax and certificates of deposit. The Board's investments consisted of certificates of deposit that are reported at cost. Amounts held and invested by fiscal agents are reported at fair value.

2. Receivables

Sales tax receivables are based on the amounts collected within 60 days after year-end.

Millage rates for property taxes are levied at the first regular meeting of the County Commission in February of each year. Property taxes are assessed for property as of October 1 of the preceding year based on the millage rates established by the County Commission. Property taxes are due and payable the following October 1 and are delinquent after December 31. Amounts receivable, net of estimated refunds and estimated uncollectible amounts, are recorded for the property taxes levied in the current year. However, since the amounts are not available to fund current year operations, the revenue is deferred and recognized in the subsequent fiscal year when the taxes are both due and collectible and available to fund operations.

Receivables due from other governments include amounts due from grantors for grants issued for specific programs and capital projects.

3. Inventories

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

4. Capital Assets

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

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

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

	Capitalization Threshold	Estimated Useful Life
Land	\$ 1	
Land Improvements (Exhaustible)	\$50,000	20 years
Buildings	\$50,000	25 – 50 years
Building Improvements	\$50,000	5 – 30 years
Equipment and Furniture	\$ 5,000	5 – 20 years
Vehicles	\$ 5,000	8 – 15 years
Equipment Under Capital Lease	\$ 5,000	5 – 20 years

5. Long-Term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Debt issuance costs are deferred and amortized over the life of the debt.

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

6. Compensated Absences

The Board has a standard leave policy for its full-time employees as to vacation leave.

The vacation leave policy of the Board consists of the following: Vacation leave is available to twelve-month employees only. Vacation time is posted at the end of each year for the previous year and must be taken within the following year. After the first full year's employment, time is computed as follows:

- ◆ Non-teaching professional employees after 5 years' employment – three weeks (15 days) annual vacation.
- ◆ Non-professional employees with fewer than five years' employment – two weeks (10 days) annual vacation, non-professional employees after five years' employment – three weeks (15 days) annual vacation.
- ◆ Twelve-month teaching personnel – three weeks annual vacation.

Notes to the Financial Statements

For the Year Ended September 30, 2010

If employment is terminated during the contract year, the employee is entitled to a pro-rata share of vacation time to the date of termination.

As of September 30, 2010, the liability for accrued vacation leave is expected to be liquidated within one year.

7. Net Assets/Fund Equity

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

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

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

Note 2 – Stewardship, Compliance, and Accountability

A. Budgets

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

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

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

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

B. Deficit Fund Balances/Net Assets of Individual Funds

At September 30, 2010, the following major fund had a deficit fund balance:

General Fund	\$1,104,342.41
--------------	----------------

The deficit in the General Fund is due to the accruals for salaries and benefits. The liability will be paid with funds that will be legally available on October 1.

Note 3 – Deposits, Investments and Cash with Fiscal Agent

A. Deposits and Investments

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

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

B. Cash with Fiscal Agent

As of September 30, 2010, the Board's cash with fiscal agent was invested as follows:

Investments	Maturities	Rating	Fair Value
U. S. Department of Housing and Urban Development	08/01/2015	Unknown	\$ 945,347.15
U. S. Department of Housing and Urban Development	08/01/2014	Unknown	92,832.18
Qualified Zone Academy Bonds Pooled Deposits	Unknown	Unknown	295,484.90
Total			\$1,333,664.23

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increased interest rates.

Credit Risk – Credit risk is the risk that the issuer or other counter party to an investment will not fulfill its obligation. The Board does not have a formal investment policy that addresses its investment choices. However, the Board's Qualified Zone Academy Bonds require that payments to escrow be invested only in securities that are direct obligations of the U. S. Treasury; obligations of any federal agencies listed in the bond indenture, which obligations represent the full faith and credit of the United States of America, and interests however evidenced, in any common trust fund or other collective investment fund maintained by any national or state chartered bank, trust company or savings and loan association having trust powers, or securities of or other interests in any open-end or closed-end management type investment company or investment trust registered under the Investment Company Act of 1940, as from time to time amended, so long as certain requirements are met at the time of the purchase and during the term of investment.

Custodial Credit Risk – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to cover the value of its investments or collateral securities that are in the possession of an outside party. The Board does not have an investment policy that limits the amount of securities that can be held by counterparties.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Board does not have a formal policy which places limits on the amount the Board may invest in any one issuer. However, the Board's Qualified Zone Academy Bond indenture does limit the amount that the portfolio may be invested in certain securities. At least 65% of the portfolio must be invested in direct obligations of the U. S. Treasury or federal agencies that represent the full faith and credit of the United States of America. The remainder of the portfolio, but not more than 35% may consist of various other agencies.

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

Note 4 – Receivables

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

	General Fund	Child Nutrition Program Fund	Other Governmental Funds	Total
<u>Receivables:</u>				
Accounts	\$ 81,959.49	\$	\$	\$ 81,959.49
Intergovernmental	20,623.00	153,213.78	345,023.90	518,860.68
Total Receivables	<u>\$102,582.49</u>	<u>\$153,213.78</u>	<u>\$345,023.90</u>	<u>\$600,820.17</u>

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

	Unavailable	Unearned
Ad Valorem Property Taxes	\$1,272,833.31	\$
Ad Valorem Motor Vehicle Taxes		82,991.39
Grant Drawdowns Prior to Meeting All Eligibility Requirements		86,155.88
Prepaid Child Nutrition Program Lunches		157,848.33
Total Deferred/Unearned Revenue for Governmental Funds	<u>\$1,272,833.31</u>	<u>\$326,995.60</u>

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

Note 5 – Capital Assets

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

	Beginning Balance 10/01/2009	Additions/ Reclassifications (*)	Deletions/ Reclassifications (*)	Ending Balance 09/30/2010
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 383,096.25	\$	\$	\$ 383,096.25
Construction in Progress	312,954.59	1,057,350.79	(17,225.19)	1,353,080.19
Total Capital Assets Not Being Depreciated	696,050.84	1,057,350.79	(17,225.19)	1,736,176.44
Capital Assets Being Depreciated:				
Buildings and Building Improvements	15,785,323.92	130,980.71	(620,000.00)	15,296,304.63
Equipment	5,204,524.55	142,115.89	(252,280.98)	5,094,359.46
Total Capital Assets Being Depreciated	20,989,848.47	273,096.60	(872,280.98)	20,390,664.09
Less Accumulated Depreciation for:				
Buildings and Building Improvements	(8,195,096.66)	(257,879.87)	620,000.00	(7,832,976.53)
Equipment	(3,171,378.71)	(337,868.17)	252,280.98	(3,256,965.90)
Total Accumulated Depreciation	(11,366,475.37)	(595,748.04)	872,280.98	(11,089,942.43)
Total Capital Assets Being Depreciated, Net	9,623,373.10	(322,651.44)		9,300,721.66
Governmental Activities Capital Assets, Net	\$ 10,319,423.94	\$ 734,699.35	\$ (17,225.19)	\$ 11,036,898.10
(*) Construction in Progress of \$17,225.19 was reclassified to Buildings and Building Improvements.				

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

	Current Year Depreciation Expense
Governmental Activities:	
Instruction	\$208,501.27
Operations and Maintenance	19,863.34
Auxiliary Services:	
Food Service	54,041.42
Transportation	271,512.61
General Administration and Central Support	13,898.72
Other	27,930.68
Total Depreciation Expense - Governmental Activities	\$595,748.04

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

Note 6 – Defined Benefit Pension Plan

A. Plan Description

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

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

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

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

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

B. Funding Policy

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

Fiscal Year Ended September 30,	2010	2009	2008
Total Percentage of Covered Payroll	17.51%	17.07%	16.75%
Contributions:			
Percentage Contributed by the Board	12.51%	12.07%	11.75%
Percentage Contributed by the Employees	5.00%	5.00%	5.00%
Contributed by the Board	\$1,677,722.18	\$1,655,664.64	\$1,630,548.99
Contributed by the Employees	670,566.55	685,886.29	694,106.03
Total Contributions	<u>\$2,348,288.73</u>	<u>\$2,341,550.93</u>	<u>\$2,324,655.02</u>

Note 7 – Other Postemployment Benefits (OPEB)

A. Plan Description

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

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

B. Funding Policy

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

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

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

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

Fiscal Year Ended September 30,	Active Health Insurance Premiums Paid by Board	Amount of Premium Attributable to Retirees	Percentage of Active Employee Premiums Attributable to Retirees	Total Amount Paid Attributable to Retirees	Percentage of Required Amount Contributed
2010	\$752.00	\$241.27	32.08%	\$1,103,439.08	100%
2009	\$752.00	\$205.45	27.32%	\$1,092,432.85	100%
2008	\$775.00	\$212.35	27.40%	\$1,041,632.56	100%

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

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

Note 8 – Construction and Other Significant Commitments

As of September 30, 2010, the Board was obligated under the following significant construction contracts:

Aliceville High School Cafeteria	\$1,200,000.00
Aliceville High School Classroom Building	2,548,927.80
Total	\$3,748,927.80

Note 9 – Short-Term Debt

In August 2009, the Athletic Boosters (an agency fund) at Aliceville High School were approved by the Board to obtain a short-term note payable for purchasing a public address system. The proceeds were repaid August 2010.

In December 2009, the Board approved to obtain a short-term note payable for covering operational needs of the Board. The proceeds were repaid January 2010.

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

	Beginning Balance	Proceeds	Repaid	Ending Balance
<u>Governmental Activities:</u>				
General Fund	\$	\$1,500,000.00	\$(1,500,000.00)	\$
<u>Fiduciary Funds:</u>				
<u>Agency Funds:</u>				
External Organizations	\$3,000.00	\$	\$ (3,000.00)	\$

Note 10 – Long-Term Debt

Notes Payable

The Board has four outstanding long-term notes for the payment of costs related to the purchase of buses. Repayment of these notes is being made with Fleet Renewal funds.

Notes to the Financial Statements

For the Year Ended September 30, 2010

Qualified Zone Academy Bonds

In June 2005, the Board issued Qualified Zone Academy Bonds, called 2005 Certificates of Participation on the financial statements, for the purpose of making improvements to local schools through equipment purchases and renovations. The Board is required to make annual payments of \$59,096.98 for ten years to an escrow fund. The principal amount of \$783,000 is to be paid by the escrow agent from the proceeds and earnings of the annual payments when the bonds become due in 2021.

In September 2001, the Board also issued Qualified Zone Academy bonds, called 2001 Certificates of Participation on the financial statements, for the purpose of making improvements to local schools. The Board is required to make annual payments of \$82,576.82 for 10 years to an escrow fund. The principal amount of \$1,236,000 is to be paid by the escrow agent from the proceeds and earnings of the annual payments when the bonds become due in 2015.

Both of these Qualified Zone Academy Bonds are general obligations of the Board and are paid from the Capital Projects Fund.

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

	Debt Outstanding 10/01/2009	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 09/30/2010	Amounts Due Within One Year
<u>Governmental Activities:</u>					
<u>Notes Payable:</u>					
2004 School Buses	\$ 38,517.32	\$	\$ (38,517.32)	\$	\$
2005 School Buses	100,766.57		(50,290.03)	50,476.54	50,476.54
2006 School Buses	61,370.55		(19,518.92)	41,851.63	19,846.81
2007 School Buses	837,405.50		(127,185.11)	710,220.39	128,424.90
2008 School Buses	350,736.26		(55,016.36)	295,719.90	55,396.21
Total Notes Payable	1,388,796.20		(290,527.74)	1,098,268.46	254,144.46
<u>Certificates of Participation Payable:</u>					
2001 Certificates of Participation Payable QZAB	1,236,000.00			1,236,000.00	
2005 Certificates of Participation Payable QZAB	783,000.00			783,000.00	
Total Certificates of Participation Payable	2,019,000.00			2,019,000.00	
Governmental Activities Long-Term Liabilities	\$3,407,796.20	\$	\$(290,527.74)	\$3,117,268.46	\$254,144.46

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

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

Fiscal Year Ending	Notes Payable - 2005 School Buses		Notes Payable - 2006 School Buses		Notes Payable - 2007 School Buses	
	Principal	Interest	Principal	Interest	Principal	Interest
September 30, 2011	\$50,476.54	\$2,288.01	\$19,846.81	\$1,985.58	\$128,424.90	\$ 39,066.36
2012			22,004.82	1,263.24	135,488.27	32,002.99
2013					142,940.12	24,551.14
2014					150,801.83	16,689.43
2015					152,565.27	8,395.33
2016-2020						
2021						
Total	\$50,476.54	\$2,288.01	\$41,851.63	\$3,248.82	\$710,220.39	\$120,705.25

(*) Interest-free obligation.

Bond Issuance Costs

The Board had issuance costs in connection with the issuance of its 2005 Qualified Zone Academy Bonds (Certificates of Participation Payable). The issuance costs are being amortized using the straight-line method over a period of sixteen years.

	Issuance Costs
Issuance Costs	
2005 Qualified Zone Academy Bonds	\$ 39,160.00
Amount Amortized in Prior Years	(12,835.77)
Balance	26,324.23
Current Amount Amortized	(2,393.11)
Balance Issuance Costs	<u>\$ 23,931.12</u>

Pledged Revenues

The Board has four outstanding long-term notes payable which are pledged to be repaid from their allocation of fleet renewal funds received from the State of Alabama. The proceeds are to be used for the acquisition of new buses. Future revenues in the amount of \$1,256,896.79 are pledged to repay the principal and interest on the notes at September 30, 2010. Proceeds of fleet renewal funds in the amount of \$245,523.00 were received by the Board during the fiscal year ended September 30, 2010. The principal and interest payments in the amount of \$350,243.04 were made from the current fleet renewal allocation and fleet renewal funds received in prior years. The various notes will mature in fiscal years 2011 through 2015.

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

Notes Payable - 2008 School Buses		2001 Certificates of Participation Payable		2005 Certificates of Participation Payable		Total Principal and Interest Requirements to Maturity
Principal	Interest	Principal	Interest	Principal	Interest	
\$ 55,396.21	\$10,576.28	\$		\$		\$ 308,060.69
57,373.85	8,598.64					256,731.81
59,422.10	6,550.39					233,463.75
61,543.47	4,429.02					233,463.75
61,984.27	2,231.92	1,236,000.00				1,461,176.79
				783,000.00		783,000.00
\$295,719.90	\$32,386.25	\$1,236,000.00	(*)	\$783,000.00	(*)	\$3,275,896.79

Note 11 – Risk Management

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

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

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

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

Note 12 – Interfund Transactions

Interfund Receivables and Payables

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

	<u>Interfund Receivables</u>		Total
	General Fund	Other Governmental Funds	
<u>Interfund Payables</u>			
General Fund	\$	\$66,550.08	\$ 66,550.08
Other Governmental Funds	286,872.98		286,872.98
Totals	<u>\$286,872.98</u>	<u>\$66,550.08</u>	<u>\$353,423.06</u>

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

Interfund Transfers

The interfund transfers during the fiscal year ended September 30, 2010, were as follows:

	Transfers Out		Totals
	General Fund	Other Governmental Funds	
<u>Transfers In</u>			
General Fund	\$	\$ 44,361.86	\$ 44,361.86
Child Nutrition Program Fund	661,145.79		661,145.79
QZAB Debt Service Fund		141,673.80	141,673.80
Other Governmental Funds		7,945.02	7,945.02
Totals	<u>\$661,145.79</u>	<u>\$193,980.68</u>	<u>\$855,126.47</u>

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

Note 13 – Contingent Liability

The Board is a defendant in litigation in which it anticipates a consent degree to be entered into. The Board anticipates exposure only of the plaintiff's attorney fees and costs. These are expected to be between \$50,000.00 and \$100,000.00.

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Required Supplementary Information

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

	Budgeted Amounts		Actual Amounts
	Original	Final	Budgetary Basis
<u>Revenues</u>			
State	\$ 17,142,899.00	\$ 16,169,567.00	\$ 17,039,456.17
Federal	745,974.00	1,400.00	169,131.36
Local	2,336,247.00	2,432,687.00	2,667,848.86
Other	61,660.00	100,000.00	120,422.38
Total Revenues	<u>20,286,780.00</u>	<u>18,703,654.00</u>	<u>19,996,858.77</u>
<u>Expenditures</u>			
Current:			
Instruction	12,373,461.00	12,496,233.34	12,820,330.98
Instructional Support	2,953,299.00	2,592,130.21	2,652,203.78
Operation and Maintenance	1,351,125.00	434,323.79	662,256.13
Auxiliary Services:			
Student Transportation	1,890,255.00	1,801,897.43	1,890,145.44
General Administration and Central Support	785,793.00	713,176.00	863,364.88
Other	210,876.00	261,009.01	386,996.48
Capital Outlay			815,173.06
Total Expenditures	<u>19,564,809.00</u>	<u>18,298,769.78</u>	<u>20,090,470.75</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>721,971.00</u>	<u>404,884.22</u>	<u>(93,611.98)</u>
<u>Other Financing Sources (Uses)</u>			
Indirect Cost	98,266.57	99,395.13	93,112.99
Other Financing Sources			117,351.11
Transfers In	8,600.00	72,887.81	44,361.86
Transfers Out	(661,145.79)	(725,433.60)	(661,145.79)
Total Other Financing Sources (Uses)	<u>(554,279.22)</u>	<u>(553,150.66)</u>	<u>(406,319.83)</u>
Net Change in Fund Balances	167,691.78	(148,266.44)	(499,931.81)
Fund Balances - Beginning of Year	<u>900,000.00</u>	<u>1,108,854.63</u>	<u>1,219,937.84</u>
Fund Balances - End of Year	<u>\$ 1,067,691.78</u>	<u>\$ 960,588.19</u>	<u>\$ 720,006.03</u>

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	\$	\$ 17,039,456.17
		169,131.36
(1)	8,152.10	2,676,000.96
		120,422.38
	<u>8,152.10</u>	<u>20,005,010.87</u>
(2)	12,524.45	12,807,806.53
(2)	(15,493.54)	2,667,697.32
(2)	(895.35)	663,151.48
(2)	5,456.11	1,884,689.33
(2)	2,063.14	861,301.74
(2)	(92.20)	387,088.68
		815,173.06
	<u>3,562.61</u>	<u>20,086,908.14</u>
	<u>11,714.71</u>	<u>(81,897.27)</u>
		93,112.99
		117,351.11
		44,361.86
		<u>(661,145.79)</u>
		<u>(406,319.83)</u>
	11,714.71	(488,217.10)
(3)	<u>(1,836,063.15)</u>	<u>(616,125.31)</u>
	<u>\$ (1,824,348.44)</u>	<u>\$ (1,104,342.41)</u>

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

Explanation of differences:

- (1) The Board budgets motor vehicle ad valorem and sales taxes when they are received, rather than on the modified accrual basis (GAAP).
- (2) The Board budgets for salaries only to the extent they are expected to be paid in the current fiscal period, rather than on the modified accrual basis (GAAP).

Net Increase in Fund Balance - Budget to GAAP

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

\$ 8,152.10

3,562.61

\$ 11,714.71

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

	Budgeted Amounts		Actual Amounts
	Original	Final	Budgetary Basis
Revenues			
Federal	\$ 1,336,395.00	\$ 1,336,395.00	\$ 1,240,346.36
Local	413,062.00	413,062.00	357,262.24
Other	30,000.00	30,000.00	441.70
Total Revenues	<u>1,779,457.00</u>	<u>1,779,457.00</u>	<u>1,598,050.30</u>
Expenditures			
Current:			
Operation and Maintenance	126,100.00	126,100.00	120,726.73
Auxiliary Services:			
Food Service	2,129,681.00	2,129,681.00	2,045,384.35
Capital Outlay			130,187.00
Total Expenditures	<u>2,255,781.00</u>	<u>2,255,781.00</u>	<u>2,296,298.08</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(476,324.00)</u>	<u>(476,324.00)</u>	<u>(698,247.78)</u>
Other Financing Sources (Uses)			
Transfers In	661,145.79	661,145.79	661,145.79
Total Other Financing Sources (Uses)	<u>661,145.79</u>	<u>661,145.79</u>	<u>661,145.79</u>
Net Change in Fund Balances	184,821.79	184,821.79	(37,101.99)
Fund Balances - Beginning of Year	<u>481,428.57</u>	<u>481,428.57</u>	<u>589,756.40</u>
Fund Balances - End of Year	<u>\$ 666,250.36</u>	<u>\$ 666,250.36</u>	<u>\$ 552,654.41</u>

Explanation of differences:

- (1) The Board budgets for salaries only to the extent they are expected to be paid in the current fiscal period, rather than on the modified accrual basis (GAAP).

Net Increase in Fund Balance - Budget to GAAP

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



Budget to GAAP Differences	Actual Amounts GAAP Basis
\$	\$ 1,240,346.36
	357,262.24
	441.70
	<u>1,598,050.30</u>
	120,726.73
(1) 697.65	2,044,686.70
	130,187.00
	<u>2,295,600.43</u>
<u>697.65</u>	<u>(697,550.13)</u>
	661,145.79
	<u>661,145.79</u>
697.65	(36,404.34)
(2) (74,098.25)	515,658.15
<u>\$ (73,400.60)</u>	<u>\$ 479,253.81</u>
<u>\$ 697.65</u>	
<u>\$ 697.65</u>	

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Supplementary Information

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

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

Passed Through Alabama Department of Education

Child Nutrition Cluster:

School Breakfast Program - Cash Assistance	10.553	N/A
National School Lunch Program		
Cash Assistance	10.555	N/A
Non-Cash Assistance (Commodities)	10.555	N/A
National School Lunch Program Sub-Total		
Sub-Total Child Nutrition Cluster (M)		
ARRA - Child Nutrition Discretionary Grants, Limited Availability	10.579	N/A
Total U. S. Department of Agriculture		

U. S. Department of Education

Passed Through Alabama Department of Education

Title I, Part A Cluster:

Title I Grants to Local Educational Agencies	84.010	N/A
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	N/A
Sub-Total Title I, Part A Cluster (M)		

Special Education Cluster:

Special Education - Grants to States	84.027	N/A
ARRA - Special Education - Grants to States, Recovery Act	84.391	N/A
Special Education - Preschool Grants	84.173	N/A
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	N/A
Sub-Total Special Education Cluster (M)		

Career and Technical Education - Basic Grants to States	84.048	N/A
Safe and Drug-Free Schools and Communities - State Grants	84.186	N/A
Tech-Prep Education	84.243	N/A

Education Technology State Grants Cluster:

Education Technology State Grants	84.318	N/A
ARRA - Education Technology State Grants, Recovery Act	84.386	N/A
Sub-Total Education Technology State Grants Cluster		

Reading First State Grants
 84.357 | N/A |

Rural Education
 84.358 | N/A |

Improving Teacher Quality State Grants (M)
 84.367 | N/A |

ARRA - State Fiscal Stabilization Fund - Education		
State Grants, Recovery Act (M)	84.394	N/A

 Total U. S. Department of Education

U. S. Department of Social Security Administration

Passed Through Alabama Department of Education

Social Security - Disability Insurance	96.001	N/A
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 Total Expenditures of Federal Awards

(M) = Major Program

N/A = Not Available

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

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
10/01/2009 - 09/30/2010	\$ 380,960.36	\$ 380,960.36	\$ 380,960.36	\$ 380,960.36
10/01/2009 - 09/30/2010	773,493.26	773,493.26	773,493.26	773,493.26
10/01/2009 - 09/30/2010	77,685.74	77,685.74	77,685.74	77,685.74
	<u>851,179.00</u>	<u>851,179.00</u>	<u>851,179.00</u>	<u>851,179.00</u>
	1,232,139.36	1,232,139.36	1,232,139.36	1,232,139.36
10/01/2009 - 09/30/2010	8,207.00	8,207.00	8,207.00	8,207.00
	<u>1,240,346.36</u>	<u>1,240,346.36</u>	<u>1,240,346.36</u>	<u>1,240,346.36</u>
10/01/2009 - 09/30/2010	1,281,582.80	1,281,582.80	1,261,300.55	1,261,300.55
10/01/2009 - 09/30/2010	815,672.00	815,672.00	385,164.83	385,164.83
	<u>2,097,254.80</u>	<u>2,097,254.80</u>	<u>1,646,465.38</u>	<u>1,646,465.38</u>
10/01/2009 - 09/30/2010	781,038.10	781,038.10	758,533.34	758,533.34
10/01/2009 - 09/30/2010	781,133.00	781,133.00	528,357.75	528,357.75
10/01/2009 - 09/30/2010	12,491.50	12,491.50	11,748.20	11,748.20
10/01/2009 - 09/30/2010	26,056.00	26,056.00	21,339.92	21,339.92
	<u>1,600,718.60</u>	<u>1,600,718.60</u>	<u>1,319,979.21</u>	<u>1,319,979.21</u>
10/01/2009 - 09/30/2010	55,281.00	55,281.00	53,195.41	53,195.41
10/01/2009 - 09/30/2010	17,928.58	17,928.58	15,662.08	15,662.08
10/01/2009 - 09/30/2010	4,010.00	4,010.00	4,010.00	4,010.00
10/01/2009 - 09/30/2010	13,945.38	13,945.38	10,303.80	10,303.80
10/01/2009 - 09/30/2010	27,851.00	27,851.00	8,240.05	8,240.05
	<u>41,796.38</u>	<u>41,796.38</u>	<u>18,543.85</u>	<u>18,543.85</u>
10/01/2009 - 09/30/2010	45,434.33	45,434.33	45,434.33	45,434.33
10/01/2009 - 09/30/2010	120,674.33	120,674.33	120,069.54	120,069.54
10/01/2009 - 09/30/2010	321,901.96	321,901.96	302,247.74	302,247.74
10/01/2009 - 09/30/2010	744,574.00	744,574.00	744,574.00	744,574.00
	<u>5,049,573.98</u>	<u>5,049,573.98</u>	<u>4,270,181.54</u>	<u>4,270,181.54</u>
10/01/2009 - 09/30/2010			1,260.00	1,260.00
	<u>\$ 6,289,920.34</u>	<u>\$ 6,289,920.34</u>	<u>\$ 5,511,787.90</u>	<u>\$ 5,511,787.90</u>

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

Note 1 – Basis of Presentation

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

Additional Information

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

Board Members

Term Expires

Hon. Travis Bailey	Chairman	October 2012
Hon. Michael Hinton	Vice-Chairman	October 2012
Hon. Debbie Holley	Member	October 2012
Hon. Roger Minton	Member	October 2012
Hon. Nicholas Tolstick	Member	October 2012
Hon. Rodney Homan	Member	Resigned January 2010

Administrative Personnel

Hon. Leonard Duff, Ph.D.	Superintendent	December 2012
Mrs. Jennifer Shirley	Chief School Finance Officer	

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Pickens County Board of Education (the “Board”) as of and for the year ended September 30, 2010, which collectively comprise the Board’s basic financial statements and have issued our report thereon dated August 2, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purposes of expressing an opinion on the effectiveness of the Board’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board’s internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Board’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.

Compliance and Other Matters

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

***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***

This report is intended solely for the information and use of management, members of the Pickens County Board of Education, the Superintendent, the Chief School Finance Officer, others within the Board, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

August 2, 2011

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

Independent Auditor's Report

Compliance

We have audited the Pickens County Board of Education's compliance with the types of compliance requirements described in the ***OMB Circular A-133 Compliance Supplement*** that could have a direct and material effect on each of the Pickens County Board of Education's major federal programs for the year ended September 30, 2010. The Pickens County Board of Education's major federal programs are identified in the Summary of Examiner's Results Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Pickens County Board of Education's management. Our responsibility is to express an opinion on the Pickens County Board of Education's compliance based on our audit.

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

In our opinion, the Pickens County Board of Education complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010.

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

Internal Control Over Compliance

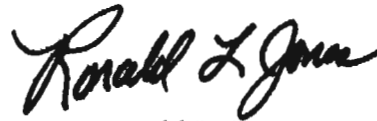
Management of the Pickens County Board of Education is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Pickens County Board of Education's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Pickens County Board of Education's internal control over compliance.

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

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

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

This report is intended solely for the information and use of management, members of the Pickens County Board of Education, the Superintendent, the Chief School Finance Officer, others within the Board, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

August 2, 2011

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

Section I – Summary of Examiner's Results

Financial Statements

Type of opinion issued: Unqualified

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

Significant deficiency(ies) identified? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:
 Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified? _____ Yes X None reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? _____ Yes X No

Identification of major programs:

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

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

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

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

Section II – Financial Statement Findings (GAGAS)

Ref. No.	Type of Finding	Finding/Noncompliance	Questioned Costs
		No matters were reportable.	

Section III – Federal Awards Findings and Questioned Costs

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