

Report on the

Marion County Board of Education

Marion County, Alabama

October 1, 2009 through September 30, 2010

Filed: November 4, 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 Marion County Board of Education, Marion County, Alabama, for the period October 1, 2009 through September 30, 2010.

Sworn to and subscribed before me this
the 18th day of October, 2011.

Cheryl S. Malister
Notary Public

Respectfully submitted,

Gregory M. Terry
Examiner of Public Accounts

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Department of
Examiners of Public Accounts

SUMMARY

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

The Marion County Board of Education (the "Board") is a five-member body elected by the citizens of Marion County. The members and administrative personnel in charge of governance of the Board are listed on Exhibit 12. The Board is the governmental agency that provides general administration and supervision for the Marion County Public Schools, preschool through high school, with the exception of schools administered by the Winfield City Board of Education.

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

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

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

The following officials/employees were invited to an exit conference to discuss the report: Superintendent: Ryan Hollingsworth; Chief School Financial Officer: Clint Green; and Board Members: Jim Atkinson, Belinda McRae, L. C. Fowler, Glendon Gibbs and Rodney Fleming. The following individuals attended the exit conference held at the Board's offices: Ryan Hollingsworth, Superintendent; Clint Green, Chief School Financial Officer; and representatives of the Department of Examiners of Public Accounts: Suzy Berryman, Audit Manager; and Greg Terry, Examiner of Public Accounts.

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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 Marion County Board of Education, as of and for the year ended September 30, 2010, which collectively comprise the Marion 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 Marion 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 Marion 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 October 17, 2011 on our consideration of the Marion 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 Marion 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

October 17, 2011

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Management's Discussion and Analysis
(Required Supplementary Information)

**Marion County Board of Education
Management's Discussion and Analysis (MD&A)
September 30, 2010
(Required Supplementary Information)**

Introduction

The Management's Discussion and Analysis (MD&A) of the Marion County Board of Education's (the "Board's") financial performance provides an overview of the Board's financial activities for the fiscal year ended September 30, 2010. The MD&A is intended to further clarify and enhance the user's understanding of the Board's financial performance as a whole. Please use it in conjunction with the Board's financial statements and notes to the financial statements, which immediately follow this analysis.

The MD&A is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999. This MD&A will include prior year comparative information as required by GASB Statement No.34.

User's Overview of the Financial Statements

As a result of the implementation of the new GASB 34 reporting model, the financial section of this year's annual report will look slightly different from the Board's previous annual reports published prior to the Fiscal Year 2003 report. The financial section now consists of the Management's Discussion and Analysis (MD&A), the Independent Auditor's Report, the Basic Financial Statements, Required Supplementary Information, and Other Supplementary Information.

This discussion and analysis serves as an introduction to the Board's basic financial statements which are comprised of three components including, *government-wide financial statements, fund financial statements, and notes to the basic financial statements.*

The first two statements are *government-wide financial statements.* The *Statement of Net Assets* and the *Statement of Activities* provide both long-term and short-term information about the Board's overall financial status. These statements report all assets and liabilities using the accrual basis of accounting. The accrual basis takes into account all of the Board's current year revenues and expenses regardless of when received or paid. This approach moves the financial reporting of the Board closer to the financial reporting methods used in the private sector.

The **Statement of Net Assets** (Exhibit 1) presents information on all of the Board's assets (what it owns) less liabilities (what it owes), which results 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. Over time, the increases and decreases in net assets reported in this statement may serve as a useful indicator of whether the Board's financial position is improving or deteriorating.

The **Statement of Activities** (Exhibit 2) is most clearly related to an income statement. The statement uses the accrual basis of accounting where revenues and expenses are reported regardless of the timing of when cash is received or paid. The statement identifies the extent to which each expenditure function draws from general revenues of the Board, primarily local taxes, or is financed through charges for services, such as meals sold, and intergovernmental aid, such as federal, state, and municipal appropriations. By showing the change in net assets for the year, the reader may be able to determine whether the Board's financial position has improved or deteriorated over the course of the current fiscal year.

The fund financial statements provide more detailed information about the Marion County Board of Education's most significant funds, not the Board as a whole. A fund is a grouping of related accounts that is used to keep track of specific sources of funding and spending for particular purposes. The Board uses fund accounting to ensure and demonstrate fiscal accountability. All of the funds of the Board can be classified into two categories: governmental funds and fiduciary funds.

Governmental funds statements report most of the Board's activities and focus on how money flows into and out of those funds and the expendable balances left at the end of the year. The governmental funds statements include the **Balance Sheet – Governmental Funds** (Exhibit 3) and the **Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds** (Exhibit 5). These statements are reported using the modified accrual method which measures cash and all other financial assets that can readily be converted into cash. The governmental fund statements provide a detailed short-term view that helps the user determine whether there are more or less financial resources that can be spent in the near future to finance the Board's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information that reconciles them (Exhibit 4 and Exhibit 6).

The fiduciary funds statements include the **Statement of Fiduciary Net Assets** (Exhibit 7) and the **Statement of Changes in Fiduciary Net Assets** (Exhibit 8). These statements report on the activities of those funds in which the Marion County Board of Education serves only as a trustee or fiduciary. These funds are not available to the Board to finance its operations, and therefore, are not included in the government-wide financial statements. The Board is responsible for ensuring that the assets reported by these funds are used for their intended purpose. As exhibits 7 and 8 demonstrate, the activity is extremely small and attributed to the *Edward L. Pearce Scholarship Fund for Marion County High School* and the *Ann Ruble Needy Children Fund*.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements follow the basic financial statements and should be considered an integral part of the statements, not an appendage to them.

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

Financial Analysis of the Board as a Whole

The Marion County Board of Education has no business-type activities; therefore, all of the Board's net assets are reported as Governmental Activities.

Marion County Board of Education Net Assets

	Governmental Activities	
	FY 2009	FY 2010
Current and other assets	\$ 6,795,868.63	\$ 7,245,950.33
Capital Assets	<u>\$16,150,229.12</u>	<u>\$16,185,736.95</u>
Total assets	\$22,946,097.75	\$23,431,687.28
Current and other liabilities	\$ 4,471,283.35	\$ 4,694,847.59
Long-term liabilities	<u>\$ 3,193,871.98</u>	<u>\$ 2,853,222.20</u>
Total liabilities	\$ 7,665,155.33	\$ 7,548,069.79
Net assets:		
Invested in capital assets, net of related debt	\$12,629,866.07	\$12,991,955.23
Restricted	\$ 1,282,397.45	\$ 1,450,295.07
Non-restricted	<u>\$ 1,368,678.90</u>	<u>\$ 1,441,367.19</u>
Total Net Assets	\$15,280,942.42	\$15,883,617.49

The Marion County Board of Education's assets exceeded liabilities by \$15,883,617.49 at the close of the fiscal year. The majority of the Board's net assets are invested in capital assets (land, buildings, buses, and equipment) owned by the Board. These assets are not available for future expenditures since they will not be sold in the foreseeable future. Unrestricted net assets are the part of net assets that can be used to finance day-to-day operations without constraints established by enabling legislation, debt covenants, or other legal requirements. There was an increase in non-restricted net-assets during the fiscal year partially due to the Board's early anticipation of the State declaring pro-ration coupled with the desire to maintain the State mandated one month's operating balance. Unrestricted net assets were \$1,441,367.19 at the end of the fiscal year.

The Marion County Board of Education's total revenues and expenditures are reflected in the following chart:

Marion County Board of Education Changes in Net Assets

	Governmental Activities	
	FY 2009	FY 2010
Revenues		
Program Revenues:		
Charges for services	\$ 3,151,095.92	\$ 3,155,127.92
Operating grants and contributions	\$22,649,808.85	\$24,095,613.29
Capital grants and contributions	\$ 3,258,336.76	\$ 2,331,464.61
General Revenues:		
Property taxes	\$ 1,736,050.24	\$ 1,892,111.85
Sales tax	\$ 1,289,637.17	\$ 1,255,248.24
Miscellaneous taxes	\$ 131,059.10	\$ 128,377.41
Non-restricted grants and contributions	\$ 182,044.98	\$ 125,199.66
Interest	\$ 36,617.63	\$ 36,130.29
Gain on Capital Asset Disposition	\$ 0.00	\$ 5,563.34
Miscellaneous	<u>\$ 1,059,299.54</u>	<u>\$ 1,207,453.21</u>
Total Revenues and Extraordinary items	\$33,493,950.19	\$34,232,289.82
 Expenses		
Instructional services	\$19,309,517.18	\$20,374,167.63
Instructional support services	\$ 4,526,866.08	\$ 4,631,414.69
Operations & maintenance services	\$ 2,223,659.13	\$ 2,015,049.34
Student transportation services	\$ 2,163,126.25	\$ 2,062,992.40
Food services	\$ 2,102,895.85	\$ 2,145,683.94
General administrative services	\$ 1,077,778.29	\$ 1,320,708.69
Other expenses	\$ 899,217.43	\$ 932,101.47
Interest and fiscal charges	<u>\$ 108,845.26</u>	<u>\$ 147,496.59</u>
Total expenses	\$32,411,905.47	\$33,629,614.75
 Change in net assets	 \$ 1,082,044.72	 \$ 602,675.07
Net assets, beginning	\$14,198,897.70	\$15,280,942.42
Net assets, ending	\$15,280,942.42	\$15,883,617.49

Program revenues are the largest component of total revenues (87%).

- Charges for services include USDA reimbursements for meals served; lunch, breakfast and À la carte sales; and local school revenues.
- Operating grants and contributions contribute 82% of program revenues and 71% of total revenues. The major sources of revenues in this category are State Foundation Program funds, State Transportation Operations funds, and State and Federal funds restricted for specific programs.
- Capital grants and contributions include State Capital Outlay funds, and State Fleet Renewal funds.

General revenues of \$4,650,084.00 consist mainly of local property taxes and sales taxes and are used to cover expenses not covered by program revenues.

Instructional services, primarily salaries and benefits for classroom teachers, are the largest expenditure function of the Board representing 61% of total expenditures.

- In addition to teacher salaries and benefits, instructional services include teacher aides, substitute teachers, textbooks, depreciation of instructional buildings, professional development, and classroom instructional materials, supplies, and equipment.
- Instructional support services include salaries and benefits for school principals, assistant principals, librarians, counselors, school secretaries, school bookkeepers, speech therapists, nurses, and professional development expenses.
- Operation and maintenance services include utilities, security services, janitorial services, maintenance services, and depreciation of maintenance vehicles.
- In addition to bus driver salaries and benefits, student transportation services include mechanics, bus aides, vehicle maintenance and repair expenses, tires, vehicle fuel, depreciation of buses and bus shops, and fleet insurance.
- Food services include salaries and benefits for cooks, servers, lunchroom assistant managers, and managers, as well as USDA donated and purchased food, food preparation and service supplies, kitchen and lunchroom equipment, and depreciation of equipment and facilities.
- General administrative services include salaries and benefits for the superintendent, supervisory staff, clerical and financial staff, and other personnel that provide system-wide support for the schools. Also included are legal expenses, liability insurance, training for board members and general administrative staff, printing costs, and depreciation of central office equipment and facilities.
- Debt service includes interest but not principal payments on long-term debt issues and other expenses related to the issuance and continuance of debt issues.
- Other expenses include the salaries and benefits for adult and continuing education programs, preschool teachers and aides, extended day personnel, and community education programs. Also included are the materials, supplies, equipment, related depreciation, and other expenses for operating programs outside of those for educating students in kindergarten through the twelfth grade.

Financial Analysis of School Board Funds

As noted earlier, the Board uses fund accounting to control and manage resources in order to ensure compliance with finance-related legal requirements. Using funds to account for resources for particular purposes helps the reader to determine whether the Board is being accountable for the resources provided by taxpayers and other entities, and it may also help to provide more insight into the Board's overall financial health. The following analysis of the Board's funds should be read in reference to the fund financial statements contained in exhibits 3 through 8.

Governmental Funds – The focus of the Board's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Board's financial requirements. The financial performance of the Board as a whole is reflected in its governmental funds as well. At the end of the fiscal year, the Marion County Board of Education's governmental funds reported combined ending fund balances of \$2,969,598.58.

General Fund – The General Fund is the primary operating fund of the Board. During Fiscal Year 2010, revenues in the General Fund exceeded expenditures by \$242,369.97. The excess of revenues over expenditures was in part due to the early anticipation of State declared pro-ration and the Board's return to the fiscally conservative spending practices as outlined in its "Fiscal Accountability Plan". The net effect of Other Financing Sources on the General Fund was a reduction of fund balance in the amount of \$167,103.31 due in part to the mandatory transfer to the Child Nutrition Program Fund. When Other Financing Sources were netted against the results of normal operations, the General Fund balance increased by \$75,266.66 over the previous fiscal year.

Child Nutrition Program Fund - This fund accounts for all transactions related to student meal services with the exception of lunchroom building repairs and construction. FY2010 expenditures, including all payroll expenditures, exceeded program revenues, primarily meal sales and USDA reimbursements, by \$414,241.00. This deficiency was offset by the General Fund transfer of \$549,892.21 to cover CNP payroll fringe benefits and raises as mandated by the State. The net effect of operations and the transfer in from the General Fund was to increase the CNP fund balance by \$135,651.21.

Capital Asset and Debt Administration

Capital Assets – As of September 30, 2010 the Marion County Board of Education had invested \$16,185,736.95 in a broad range of capital assets. Capital Assets are any land, buildings, school furniture or fixtures, buses, instructional equipment, computer equipment, vehicles, custodial equipment, lunchroom equipment and athletic equipment with an acquisition cost of \$5,000.00 or more and a life expectancy exceeding one year. The following table provides additional information of the Board's capital assets.

Marion County Board of Education
 Capital Assets
 Fiscal Year Ended September 30, 2010

	FY2009	FY2010
Land	\$ 223,160.50	\$ 223,160.50
Land Improvements	\$ 338,544.61	\$ 455,931.90
Construction in Progress	\$ 1,778,718.06	\$ 618,937.25
Buildings and Building Improvements	\$23,397,239.64	\$25,359,176.02
Equipment and Furniture	\$ 5,209,507.60	\$ 5,307,971.15
Less: Accumulated Depreciation	(\$14,796,941.29)	(\$15,779,439.87)
Total Capital Assets, Net of Depreciation	\$16,150,229.12	\$16,185,736.95

FY2010 saw the start of several new capital projects and the closing of several projects started in previous years. Through the Public School and College Authority the Board was able to complete several capital projects that were started in FY2009. FY2010 highlights include the following projects:

- Classroom renovations, HVAC, and electrical upgrades to the main building along with a metal roof retrofit of the Vocational Education building at Brilliant High School were completed during FY2010. Total project cost at the end of the year amounted to \$323,372.33.
- Distance Learning Labs were installed at Hackleburg High School and Phillips High School through a State grant financed through PSCA at a cost of \$83,977.00 each.
- Baseball field lighting projects completed at Brilliant High and Phillips High. The two projects were very similar in scope and construction with the Brilliant field closing at \$59,743.50 and the Phillips field coming in at \$57,643.79.
- A major renovation of the Hamilton Middle School Annex was begun during the summer of 2009 and completed during the first quarter of FY2010. The project included window replacement with brick enclosures, HVAC replacement, ceilings, flooring, doors, and classroom upgrades. The completed project cost was \$439,695.40.
- The classrooms on the west end of Hamilton High School were renovated at the same time as the Hamilton Middle School Annex. Window replacement with brick enclosures along with HVAC and electrical upgrades amounted to \$87,429.28 upon completion.
- Phillips Elementary and High School were heavily renovated during the summer of 2009 and the project was finalized during the early part of FY2010. The project which included HVAC upgrades, window replacements with brick enclosures, ceiling replacement, bathroom renovations, and electrical upgrades totaled \$1,099,743.50.

- A major HVAC renovation was done to Hackleburg High School, Hackleburg Elementary School and Hamilton Elementary School in the summer of 2010. The project included replacing widow and hotel units with split system central units and building air handler closets in each classroom. The final payment for the project had not been made at the close of the fiscal year, FY2010 expenditures and final estimates are as follows: Hackleburg Elementary \$99,399.96 of an estimated \$110,000.00; Hackleburg High \$160,969.46 of an estimated \$180,000.00; and Hamilton Elementary \$358,567.83 of an estimated \$375,000.00.

Long Term Debt – At year end, the Marion County Board of Education had \$3,262,644.54 in long-term debt. The Board’s long term debt consists of a 2007 ten-year local bus loan, two leveraged pooled bond issues, and a leveraged refunding pooled bond issue made through the State in 2001, 2002 and 2009 respectively. The leveraged refunding bonds issued by the State in 2009 were for a partial refinance of the 2001-A leveraged pool bonds. All leveraged bonds are managed by the State of Alabama and payments are made through an annual retaining of State Capital Outlay funding computed and withheld by the State Department of Education.

Marion County Board of Education
Long-Term Debt
Fiscal Year Ended September 30, 2010

<u>Description</u>	<u>FY 2009 Debt outstanding</u>	<u>FY 2010 Debt outstanding</u>	<u>Due within within one year</u>
2001A Leveraged Pool Bonds	\$ 131,222.67	\$ 68,190.00	\$ 8,600.00
2002A Leveraged Pool Bonds	\$ 955,407.29	\$ 901,852.76	\$ 56,260.19
2009B Refunding Pool Bonds	\$ 0.00	\$ 54,908.09*	\$ 407.91**
Long-Term Notes ***	\$2,433,733.09	\$2,168,830.87	\$ 275,291.42
Compensated Absences	<u>\$ 60,584.18</u>	<u>\$ 68,862.82</u>	<u>\$ 68,862.82</u>
Total	\$3,580,947.23	\$3,262,644.54	\$ 409,422.34

* Issued amount net of all premiums and deferred losses
 ** Premium on 2009B Refunding Pool Bond less deferred loss amount due within one year
 *** Long-Term Notes includes a 10 year 3.89% fixed rate loan issued by First National Bank of Hamilton, AL, for school bus fleet replacement.

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 original 2010 fiscal year budget was adopted by the Marion County Board of Education on September 24, 2009 and the amended budget was approved by the Board on March 23, 2010. Generally, a conservative approach is taken toward planning operating revenues. Local tax trends are studied and the state of the local economy is used in the budgeting of local revenues. Expenses are conservatively budgeted based on minimum program requirements and the availability of federal, state, and local revenues.

The General Fund original budget was amended during the fiscal year. State revenues were revised downward a total of 7% from the original budget. This reduction was due to several program allocations not being ready at the time the original budget was submitted, but was most impacted by the initial declaration of 7.5% proration by the Governor. Actual State revenues fell short of budgeted State revenues due to the second proration declaration of 2% coming too late in the year for the budget to be amended for a second time. A total of 9.5% proration was called during the fiscal year. Actual total revenues came a little less than 1% higher than the budgeted amount due to local revenue being slightly higher than expected. Actual total expenditures in the General Fund came in less than 1% under the final amended budget. Operations and Maintenance came in 22% under budget as expenditures for utilities were aggressively budgeted to allow the Board more flexibility in utilizing State funds during proration. During the fiscal year the Child Nutrition Program budget was amended only slightly to reflect both increased revenues and expenditures. Actual Child Nutrition Program expenditures ended up just over 1% above the amended budget and only 3% over the original budget. Actual CNP revenues were 12% above expected revenues with most of the difference being in higher than expected Federal meal reimbursements.

Economic Factors and Next Year's Budget

The following economic factors are of importance when looking forward to the Board's financial operations in Fiscal Year 2011.

- Employer matching retirement costs will remain the same at 12.51% of gross payroll next year.
- Employer paid health insurance costs will remain the same at \$9,024 per employee for FY2011.
- Average Daily Membership (ADM) is the main factor in determining State allocations for the following fiscal year. Preliminary information from the State Department of Education indicates allocated teacher units will decrease for Marion County in FY2011.

<u>Fiscal Year</u>	<u>Funded Student ADM</u>	<u>Change from Prior Year</u>
1999	3,968.71	
2000	3,952.61	(16.10)
2001	3,868.17	(84.44)
2002	3,838.63	(29.54)
2003	3,831.99	(6.64)
2004	3,777.28	(54.71)
2005	3,668.98	(108.30)
2006	3,657.15	(11.83)
2007	3,717.45	+60.30
2008	3,707.30	(10.15)
2009	3,692.30	(15.00)
2010	3,747.00	+54.70
2011(preliminary)	3,645.40	(101.60)

- The largest single source of local funds, county sales tax, decreased for the second year in a row. Sales tax collections decreased by \$49,417.23 from the previous year due to the state-wide economic slow-down that began in 2008. While the decrease was not as drastic as the previous year, it was the lowest annual collection in five years. The Board's financial condition is heavily affected by both the local and State economies.

<u>Fiscal Year</u>	<u>Total Sales Tax Revenue *</u>
1999	\$1,370,380.45
2000	\$1,341,337.67
2001	\$1,250,505.52
2002	\$1,170,061.22
2003	\$1,010,132.21
2004	\$1,141,541.10
2005	\$1,280,184.95
2006	\$1,380,895.84
2007	\$1,391,390.87
2008	\$1,439,755.52
2009	\$1,301,356.14
2010	\$1,251,938.91

(* Sales tax figures from Alabama Dept. of Education Supplemental Report 2)

Contacting the School Board's Financial Management

This financial report is designated to provide citizens, taxpayers, investors, and creditors with a general overview of the Board's finances and to show the Board's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Clint Green, Chief Financial Officer, Marion County Schools, 188 Winchester Drive, Hamilton, Alabama, 35570 or call (205) 921-3191 during regular office hours, Monday through Friday, from 8:00 a.m. to 4:00 p.m., central time.

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Basic Financial Statements

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Statement of Net Assets
September 30, 2010

	Governmental Activities
Assets	
Cash	\$ 5,059,737.99
Investments	12,734.48
Ad Valorem Taxes Receivable	1,635,211.02
Receivables (Note 4)	466,524.09
Accrued Interest Receivable	10.56
Inventories	71,732.19
Capital Assets (Note 5):	
Nondepreciable	842,097.75
Depreciable, Net	15,343,639.20
Total Assets	<u>23,431,687.28</u>
Liabilities	
Deferred Revenue	1,915,676.74
Salaries and Benefits Payable	2,360,675.01
Accrued Interest Payable	9,073.50
Long-Term Liabilities:	
Portion Due and Payable Within One Year:	
Notes Payable	275,291.42
Warrants Payable	64,860.19
Premium on Refunding	990.75
Less: Deferred Loss on Refunding	(582.84)
Compensated Absences	68,862.82
Portion Due and Payable After One Year:	
Notes Payable	1,893,539.45
Warrants Payable	957,065.27
Premium on Refunding	6,357.29
Less: Deferred Loss on Refunding	(3,739.81)
Total Liabilities	<u>7,548,069.79</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	12,991,955.23
Restricted for:	
Capital Projects	575,492.97
Other Purposes	883,875.60
Unrestricted	<u>1,432,293.69</u>
Total Net Assets	<u>\$ 15,883,617.49</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	\$ 20,374,167.63	\$ 696,184.49	\$ 16,863,618.59
Instructional Support	4,631,414.69	115,299.69	3,486,347.03
Operation and Maintenance	2,015,049.34	222,829.08	1,011,486.56
Auxiliary Services:			
Student Transportation	2,062,992.40	60,671.19	1,346,537.32
Food Service	2,145,683.94	1,720,408.47	103,484.08
General Administration and Central Support	1,320,708.69		901,291.24
Other Expenses	932,101.47	339,735.00	382,848.47
Interest and Fiscal Charges	147,496.59		
Total Governmental Activities	<u>\$ 33,629,614.75</u>	<u>\$ 3,155,127.92</u>	<u>\$ 24,095,613.29</u>

General Revenues:

Taxes:
Property Taxes for General Purposes
Sales Tax
Other Taxes
Grants and Contributions Not Restricted for Specific Programs
Investment Earnings
Gain on Sale of Fixed Assets
Miscellaneous
Total General Revenues
Changes in Net Assets
Net Assets - Beginning of Year
Net Assets - End of Year

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

		Net (Expenses) Revenues and Changes in Net Assets	
Capital Grants and Contributions		Total Governmental Activities	
\$	1,163,359.27	\$	(1,651,005.28)
	198,516.43		(831,251.54)
	718,440.42		(62,293.28)
	222,789.00		(432,994.89)
			(321,791.39)
	28,359.49		(391,057.96)
			(209,518.00)
			(147,496.59)
<u>\$</u>	<u>2,331,464.61</u>		<u>(4,047,408.93)</u>

1,892,111.85
1,255,248.24
128,377.41
125,199.66
36,130.29
5,563.34
1,207,453.21
<u>4,650,084.00</u>
602,675.07
<u>15,280,942.42</u>
<u>\$ 15,883,617.49</u>

Balance Sheet
Governmental Funds
September 30, 2010

	General Fund	Child Nutrition Program Fund
<u>Assets</u>		
Cash	\$ 2,819,436.70	\$ 632,923.40
Investments		
Ad Valorem Taxes Receivable	1,635,211.02	
Receivables (Note 4)	179,787.14	254,447.90
Due from Other Funds	11,461.22	
Accrued Interest Receivable		
Inventories		71,732.19
Total Assets	<u>4,645,896.08</u>	<u>959,103.49</u>
<u>Liabilities and Fund Balances</u>		
<u>Liabilities</u>		
Due to Other Funds		
Deferred Revenues	1,727,042.34	
Salaries and Benefits Payable	2,285,447.12	75,227.89
Total Liabilities	<u>4,012,489.46</u>	<u>75,227.89</u>
<u>Fund Balances</u>		
Reserved for:		
Encumbrances	8,902.78	13,718.00
Inventories		71,732.19
Capital Projects		
Unreserved, Reported in:		
General Fund	624,503.84	
Special Revenue Funds		798,425.41
Total Fund Balances	<u>633,406.62</u>	<u>883,875.60</u>
Total Liabilities and Fund Balances	<u>\$ 4,645,896.08</u>	<u>\$ 959,103.49</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 1,607,377.89	\$ 5,059,737.99
12,734.48	12,734.48
	1,635,211.02
32,289.05	466,524.09
	11,461.22
10.56	10.56
	71,732.19
<u>1,652,411.98</u>	<u>7,257,411.55</u>
11,461.22	11,461.22
188,634.40	1,915,676.74
	2,360,675.01
<u>200,095.62</u>	<u>4,287,812.97</u>
79,878.50	102,499.28
	71,732.19
575,492.97	575,492.97
	624,503.84
796,944.89	1,595,370.30
<u>1,452,316.36</u>	<u>2,969,598.58</u>
<u>\$ 1,652,411.98</u>	<u>\$ 7,257,411.55</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) \$ 2,969,598.58

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	\$ 31,965,176.82	
Accumulated Depreciation	<u>(15,779,439.87)</u>	
Total		16,185,736.95

Long-term liabilities, including warrants payable, are not due and payable in the
current period and therefore are not reported as liabilities in the funds. These
liabilities at year-end consist of:

Current Portion of Long-Term Debt	409,422.34	
Noncurrent Portion of Long-Term Debt	<u>\$ 2,853,222.20</u>	
Total		(3,262,644.54)

Interest on long-term debt is not accrued in the funds but rather recognized as an
expenditure when due.

Accrued Interest Payable		<u>(9,073.50)</u>
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Total Net Assets - Governmental Activities (Exhibit 1)		<u><u>\$ 15,883,617.49</u></u>
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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	\$ 19,183,486.34	\$
Federal	212,157.38	1,211,405.81
Local	3,247,234.92	625,094.10
Other	56,303.22	65,387.91
Total Revenues	<u>22,699,181.86</u>	<u>1,901,887.82</u>
<u>Expenditures</u>		
Current:		
Instruction	15,856,496.33	
Instructional Support	3,156,250.57	
Operation and Maintenance	756,299.55	103,718.07
Auxiliary Services:		
Student Transportation	1,682,553.63	
Food Service		2,175,607.20
General Administration and Central Support	769,903.98	
Other	207,086.33	
Capital Outlay	28,221.50	36,803.55
Debt Service:		
Principal Retirement		
Interest and Fiscal Charges		
Total Expenditures	<u>22,456,811.89</u>	<u>2,316,128.82</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>242,369.97</u>	<u>(414,241.00)</u>
<u>Other Financing Sources (Uses)</u>		
Indirect Cost	100,099.71	
Long-Term Debt Issued		
Payments to Refunding Escrow Agent		
Premiums on Long-Term Debt Issued		
Transfers In	311,713.58	549,892.21
Other Financing Sources	49,682.63	
Sale of Capital Assets	1,068.00	
Transfers Out	(629,667.23)	
Total Other Financing Sources (Uses)	<u>(167,103.31)</u>	<u>549,892.21</u>
Net Changes in Fund Balances	75,266.66	135,651.21
Fund Balances - Beginning of Year	<u>558,139.96</u>	<u>748,224.39</u>
Fund Balances - End of Year	<u>\$ 633,406.62</u>	<u>\$ 883,875.60</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 2,328,858.61	\$ 21,512,344.95
4,602,722.79	6,026,285.98
2,644,332.77	6,516,661.79
	121,691.13
<u>9,575,914.17</u>	<u>34,176,983.85</u>
3,992,068.28	19,848,564.61
1,472,069.45	4,628,320.02
1,078,573.75	1,938,591.37
38,562.29	1,721,115.92
	2,175,607.20
562,581.74	1,332,485.72
725,015.14	932,101.47
967,650.36	1,032,675.41
326,646.75	326,646.75
147,666.61	147,666.61
<u>9,310,834.37</u>	<u>34,083,775.08</u>
<u>265,079.80</u>	<u>93,208.77</u>
	100,099.71
51,882.70	51,882.70
(59,505.31)	(59,505.31)
7,925.98	7,925.98
407,884.19	1,269,489.98
60.00	49,742.63
4,510.00	5,578.00
(639,822.75)	(1,269,489.98)
<u>(227,065.19)</u>	<u>155,723.71</u>
38,014.61	248,932.48
<u>1,414,301.75</u>	<u>2,720,666.10</u>
<u>\$ 1,452,316.36</u>	<u>\$ 2,969,598.58</u>

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

Net Changes in Fund Balances - Total Governmental Funds (Exhibit 5) \$ 248,932.48

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

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

Capital Outlays	\$ 1,032,675.41	
Depreciation Expense	(997,152.92)	
Total		35,522.49

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.

Repayment of Principal	326,646.75
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Payments to refunding escrow agent are recorded as expenditures or other financing uses in the governmental funds, but reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities.	59,505.31
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Proceeds from the issuance of debt are reported as financing sources in governmental funds and thus contribute to the change in fund balance. Issuing long-term debt increases liabilities in the Statement of Net Assets but does not affect the Statement of Activities.	(51,882.70)
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Premiums on debt issuance are reported as other financing sources in the governmental funds, but are amortized in the Statement of Activities.	(7,925.98)
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In the Statement of Activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. The change in net assets differ from the change in fund balances this amount.

Proceeds from Sale of Capital Assets	\$ (5,578.00)	
Gain on Disposition of Capital Assets	5,563.34	
Total		(14.66)

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

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

Accrued Interest Expense (Net Increase)	\$	(67.93)	
Compensated Absences (Net Increase)		(8,278.64)	
Amortization of Bond Premiums/ Deferred Loss on Refunding		<u>237.95</u>	
Total			<u>(8,108.62)</u>
Change in Net Assets of Governmental Activities (Exhibit 2)			<u>\$ 602,675.07</u>

Statement of Fiduciary Net Assets
September 30, 2010

	Private-Purpose Trust Funds
<u>Assets</u>	
Investments	\$ 16,842.25
Total Assets	<u>16,842.25</u>
<u>Net Assets</u>	
Held in Trust for Other Purposes	16,842.25
Total Net Assets	<u>\$ 16,842.25</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>	
Interest	\$ 198.77
Total Additions	<u>198.77</u>
Changes in Net Assets	198.77
Net Assets - Beginning of Year	<u>16,643.48</u>
Net Assets - End of Year	<u><u>\$ 16,842.25</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 Marion 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 (with the exception of cities having a city board of education).

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

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

Notes to the Financial Statements

For the Year Ended September 30, 2010

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

Fund Financial Statements

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

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 expenditures of local and federal monies restricted to lunchroom operations.

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

Governmental Fund Types

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

Notes to the Financial Statements

For the Year Ended September 30, 2010

The Board reports the following fiduciary fund type:

Fiduciary Fund Type

- ◆ **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.

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.

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

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

D. Assets, Liabilities and Net Assets/Fund Balances

1. Deposits and Investments

Cash includes cash on hand and demand deposits.

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, which consist only of certificates of deposit, are reported at cost.

2. Receivables

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

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

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

3. Inventories

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

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

4. Capital Assets

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

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

	Capitalization Threshold	Estimated Useful Life
Land Improvements	\$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. Warrant premiums as well as issuance costs, are deferred and amortized over the life of the bonds. Warrants payable are reported gross with a separate line item for the applicable bond/warrant premium.

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

Notes to the Financial Statements

For the Year Ended September 30, 2010

6. Compensated Absences

The Board's vacation leave policy consists of the following: All administrative and supervisory personnel who are employed for twelve months are entitled to earn ten days vacation leave per year. Unused leave days may be carried over to the next 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

Budgets

Budgets are adopted on a basis of accounting consistent with accounting principles generally accepted in the United States of America (GAAP) for the General Fund with the exception of salaries and benefits, which are budgeted only to the extent expected to be paid rather than on the modified accrual basis of accounting. Also, ad valorem taxes and sales taxes are budgeted only to the extent expected to be received rather than on the modified accrual basis of accounting. The Child Nutrition Program Fund budgets on a basis of accounting consistent with GAAP with the exception of salaries and benefits, which are budgeted only to the extent expected to be paid rather than on the modified accrual basis of accounting. All other governmental funds adopt budgets on the modified accrual basis of accounting. Capital 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 board of education shall prepare and submit to the State Superintendent of Education the annual budget to be adopted by the County Board of Education. The Superintendent or County Board of Education shall not approve any budget for operations of the school for any fiscal year which shall show expenditures in excess of income estimated to be available plus any balances on hand.

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

Note 3 – Deposits and Investments

Deposits

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

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

Notes to the Financial Statements
For the Year Ended September 30, 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>				
Taxes	\$101,099.44	\$	\$	\$101,099.44
Due From Other Governments	78,687.70	254,447.90	32,289.05	365,424.65
Total Receivables	<u>\$179,787.14</u>	<u>\$254,447.90</u>	<u>\$32,289.05</u>	<u>\$466,524.09</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	\$1,616,508.88	\$
Ad Valorem Motor Vehicle Taxes		110,533.46
Grant Drawdowns Prior to Meeting All Eligibility Requirements		188,634.40
Total Deferred/Unearned Revenue for Governmental Funds	<u>\$1,616,508.88</u>	<u>\$299,167.86</u>

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

Note 5 – Capital Assets

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

	Balance 10/01/2009	Additions/ Reclassifications (*)	Deletions/ Reclassifications (*)	Balance 09/30/2010
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 223,160.50	\$	\$	\$ 223,160.50
Construction in Progress	1,778,718.06	618,937.25	(1,778,718.06)	618,937.25
Total Capital Assets, Not Being Depreciated	<u>2,001,878.56</u>	<u>618,937.25</u>	<u>(1,778,718.06)</u>	<u>842,097.75</u>
Capital Assets Being Depreciated:				
Building and Building Improvements	23,397,239.64	1,961,936.38		25,359,176.02
Land Improvements – Exhaustible	338,544.61	117,387.29		455,931.90
Equipment and Furniture	5,209,507.60	113,132.55	(14,669.00)	5,307,971.15
Total Capital Assets Being Depreciated	<u>28,945,291.85</u>	<u>2,192,456.22</u>	<u>(14,669.00)</u>	<u>31,123,079.07</u>
Less Accumulated Depreciation for:				
Building and Building Improvements	(12,413,490.06)	(566,023.94)		(12,979,514.00)
Land Improvements – Exhaustible	(71,370.12)	(16,607.54)		(87,977.66)
Equipment and Furniture	(2,312,081.11)	(414,521.44)	14,654.34	(2,711,948.21)
Total Accumulated Depreciation	<u>(14,796,941.29)</u>	<u>(997,152.92)</u>	<u>14,654.34</u>	<u>(15,779,439.87)</u>
Total Capital Assets Being Depreciated, Net	<u>14,148,350.56</u>	<u>1,195,303.30</u>	<u>(14.66)</u>	<u>15,343,639.20</u>
Governmental Activities Capital Assets, Net	<u>\$ 16,150,229.12</u>	<u>\$ 1,814,240.55</u>	<u>\$(1,778,732.72)</u>	<u>\$ 16,185,736.95</u>
(*) Additions/Reclassifications and Deletions/Reclassifications include reclassifications in the amount of \$1,778,718.06. This amount was for Construction in Progress reclassified to Building and Building Improvements.				

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

	Current Year Depreciation Expense
Governmental Activities:	
Instruction	\$525,603.02
Instructional Support	3,094.67
Operation and Maintenance	76,457.97
Auxiliary Services:	
Food Service	47,472.84
Transportation	341,876.48
General Administration and Central Support	2,647.94
Total Depreciation Expense – Governmental Activities	<u>\$997,152.92</u>

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%
<u>Contributions:</u>			
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	\$2,212,630.78	\$2,128,380.38	\$2,070,739.16
Contributed by the Employees	884,352.14	881,679.92	881,166.15
Total Contributions	<u>\$3,096,982.92</u>	<u>\$3,010,060.30</u>	<u>\$2,951,905.31</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 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 2009
Individual Coverage – Non-Medicare Eligible	\$ 97.54
Individual Coverage – Medicare Eligible	\$ 1.14
Family Coverage – Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	\$284.94
Family Coverage – Non-Medicare Eligible Retired Member and Dependent Medicare Eligible	\$188.54
Family Coverage – Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	\$188.54
Family Coverage – Medicare Eligible Retired Member and Dependent Medicare Eligible	\$ 92.14
Surviving Spouse – Non-Medicare Eligible	\$598.00
Surviving Spouse – Non-Medicare Eligible and Dependent Non-Medicare Eligible	\$730.00
Surviving Spouse – Non-Medicare Eligible and Dependent Medicare Eligible	\$689.00
Surviving Spouse – Medicare Eligible	\$313.00
Surviving Spouse – Medicare Eligible and Dependent Non-Medicare Eligible	\$445.00
Surviving Spouse – Medicare Eligible and Dependent Medicare Eligible	\$404.00

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

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

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

Fiscal Year Ended September 30,	Active Health Insurance Premiums Paid by Board	Amount of Premium Attributable to Retirees	Percentage of Active Employee Premiums Attributable to Retirees	Total Amount Paid Attributable to Retirees	Percentage of Required Amount Contributed
2010	\$752.00	\$241.27	32.08%	\$1,276,397.24	100%
2009	\$752.00	\$205.45	27.32%	\$1,084,346.10	100%
2008	\$775.00	\$212.35	27.40%	\$1,120,552.32	100%

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

Note 8 – Lease Obligations

Operating Leases

The Board is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected as part of the Board's capital assets. During the fiscal year ended September 30, 2010, the Board paid a total of \$14,045.94 for operating leases.

The following is a schedule by fiscal years of future minimum rental payments required under operating leases for facilities and equipment that have initial or remaining noncancelable lease terms in excess of one year as of September 30, 2010:

Fiscal Years	Equipment	Total
2010-2011	\$18,149.50	\$18,149.50
2011-2012	17,696.40	17,696.40
2012-2013	5,644.10	5,644.10
Total Minimum Payments Required	<u>\$41,490.00</u>	<u>\$41,490.00</u>

Notes to the Financial Statements

For the Year Ended September 30, 2010

Note 9 – Long-Term Debt

During a prior fiscal year, the Board issued a long-term note payable in the amount of \$2,900,000.00 to provide funds for the acquisition of forty-one 2008 model school buses and to refinance a portion of the 2006 note in the amount of \$298,302.50.

During fiscal year 2002, the Board, as part of a pooled bond issuance with other school systems within the State of Alabama, issued Capital Improvement Pool Bonds, Series 2001A and Series 2002A in anticipation of their Public School Fund allocations, which are received from the Alabama Department of Education. The Alabama Department of Education withholds the required debt service payments from the Board's Public School Fund allocation. The proceeds from these bonds provided funds for the acquisition, construction and renovation of school facilities. The Board also, as part of a pooled bond issuance with other school systems within the State of Alabama, issued Capital Improvement Pool Refunding Warrants, Series 2009-B to provide funds for the refunding of a portion of the Capital Improvement Pool Warrants, Series 2001-A.

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

	Debt Outstanding October 1, 2009	Issued/ Increased	Repaid/ Decreased	Debt Outstanding September 30, 2010	Amounts Due Within One Year
<u>Governmental Activities:</u>					
Warrants:					
Series 2001-A Capital Improvement Pool Bonds	\$ 131,222.67	\$	\$ 63,032.67	\$ 68,190.00	\$ 8,600.00
Series 2002-A Capital Improvement Pool Bonds	955,407.29		53,554.53	901,852.76	56,260.19
Series 2009-B Refunding Capital Improvement Pool Bonds		51,882.70		51,882.70	
Premium on 2009-B Refunding		7,925.98	577.94	7,348.04	990.75
Deferred Loss on 2009-B Refunding		(4,662.64)	(339.99)	(4,322.65)	(582.84)
Total Warrants	1,086,629.96	55,146.04	116,825.15	1,024,950.85	65,268.10
Other Liabilities:					
Long-Term Notes Payable	2,433,733.09		264,902.22	2,168,830.87	275,291.42
Compensated Absences	60,584.18	8,278.64		68,862.82	68,862.82
Total Other Liabilities	2,494,317.27	8,278.64	264,902.22	2,237,693.69	344,154.24
Total Governmental Activities Long-Term Liabilities	\$3,580,947.23	\$63,424.68	\$381,727.37	\$3,262,644.54	\$409,422.34

Payments on the Capital Improvement Pool Bonds, Series 2001A, 2002A and 2009B are made by the bonds and warrants fund with Public School Funds withheld from the Board's allocation from the Alabama Department of Education. The long-term notes payable are paid by the Capital Projects Fund and Fleet Renewal Fund.

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

The compensated absences liability is being liquidated by the general fund.

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

Fiscal Year Ending	Long-Term Notes Payable		Capital Improvement Pool Bonds Series 2001-A	
	Principal	Interest	Principal	Interest
September 30, 2011	\$ 275,291.42	\$ 85,597.91	\$ 8,600.00	\$ 3,194.50
2012	285,944.22	74,945.11	9,030.00	2,753.75
2013	297,426.71	63,462.62	9,480.00	2,291.00
2014	309,157.30	51,732.03		2,054.00
2015	321,350.55	39,538.78		2,054.00
2016-2020	679,660.67	40,685.98	26,710.00	8,950.75
2021-2022			14,370.00	359.25
Totals	<u>\$2,168,830.87</u>	<u>\$355,962.43</u>	<u>\$68,190.00</u>	<u>\$21,657.25</u>

Deferred Loss on Refunding and Premium

The Board has a deferred loss on refunding, as well as a premium in connection with the issuance of its PSCA Series 2009B Refunding Capital Improvement Pool Bonds, which are being amortized using the straight-line method over a period of nine years.

	Deferred Loss on Refunding	Premium
Total Deferred Loss on Refunding and Premium Amount Amortized Prior Years	\$4,662.64	\$7,925.98
Balance Deferred Loss on Refunding and Premium	4,662.64	7,925.98
Current Amount Amortized	339.99	577.94
Balance Deferred Loss on Refunding and Premium	<u>\$4,322.65</u>	<u>\$7,348.04</u>

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

Capital Improvement Pool Bonds Series 2002-A		PSCA Refunding Capital Improvement Pool Bonds Series 2009B		Total Principal and Interest Requirements to Maturity
Principal	Interest	Principal	Interest	
\$ 56,260.19	\$ 43,700.50	\$	\$ 2,594.14	\$ 475,238.66
59,136.11	40,815.60		2,594.14	475,218.93
62,191.77	37,782.40		2,594.14	475,228.64
65,367.27	34,593.42	9,473.15	2,594.14	474,971.31
68,722.51	31,241.18	9,906.56	2,120.48	474,934.06
400,172.30	99,595.20	32,502.99	3,300.68	1,291,578.57
190,002.61	9,699.80			214,431.66
\$901,852.76	\$297,428.10	\$51,882.70	\$15,797.72	\$3,881,601.83

Defeased Debt

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

The Board had a 0.199% participation in the Series 2001-A. This resulted in the Board being obligated for \$51,882.70 of the total principal of \$174,960,000.00 for the Series 2009-B allocated \$51,882.70 to Series 2001-A. The Board’s portion of the net proceeds deposited in an irrevocable trust with an escrow agent was \$59,505.31 for the Series 2001-A. The liabilities removed were \$54,842.67 for the Series 2001-A.

Notes to the Financial Statements

For the Year Ended September 30, 2010

The Board's portion of the refunding resulted in a difference between the reacquisition price and the net carrying amount of the Series 2001-A of \$4,662.64. The difference for the Series 2001-A is being amortized over the remaining life of the old debt which is shorter than the life of the new debt issued. As a result of the refunding, the Board reduced its total debt service requirements by \$6,473.25 for the Series 2001-A, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$6,054.29 for the Series 2001-A.

Prior Year Defeasance of Debt

In prior years, the Board defeased the certificates of participation relating to the Qualified Zone Academy Bonds (QZAB), Series 2005. The Board deposited funds into an irrevocable trust with an escrow agent to provide for the future debt service payments on the QZAB certificates when they mature on July 12, 2021. Accordingly, the trust account assets and the liability for the defeased debt are not included on the Board's financial statements. At September 30, 2010, the total of \$1 million of the QZAB certificates outstanding is considered defeased.

Pledged Revenues

The Board issued Series 2001-A Capital Improvement Pool Bonds which are pledged to be repaid from their allocation of public school funds received from the State of Alabama. The proceeds were to be used for the acquisition, construction and renovation of school facilities. Future revenues in the amount of \$89,847.25 are pledged to repay the principal and interest on the bonds at September 30, 2010. Pledged funds in the amount of \$11,804.25 were used to pay principal and interest on the bonds during the fiscal year ended September 30, 2010. This represents approximately 1 percent of the Board's public school fund allocation. The Series 2001-A bonds will mature in fiscal year 2021.

The Board issued Series 2002-A Capital Improvement Pool Bonds which are pledged to be repaid from their allocation of public school funds received from the State of Alabama. The proceeds are to be used for the acquisition, construction and renovation of school facilities. Future revenues in the amount of \$1,199,280.86 are pledged to repay the principal and interest on the bonds at September 30, 2010. Pledged funds in the amount of \$100,000.00 were used to pay principal and interest on the bonds during the fiscal year ended September 30, 2010. This amount represents approximately 9 percent of the Board's public school fund allocation. The Series 2002-A bonds will mature in fiscal year 2022.

Notes to the Financial Statements

For the Year Ended September 30, 2010

The Board issued Series 2009-B Refunding Capital Improvement Pool Bonds which are pledged to be repaid from their allocation of public school funds received from the State of Alabama. The proceeds were used to refund a portion of the 2001-A Capital Improvement Pool Bonds. Future revenues in the amount of \$67,680.42 are pledged to repay the principal and interest on the bonds at September 30, 2010. Pledged funds in the amount of \$1,316.41 were used to pay interest on the bonds during the fiscal year ended September 30, 2010. This amount represents less than 1 percent of the Board's public school fund allocation. The Series 2009-B bonds will mature in fiscal year 2018.

Note 10 – Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board has insurance for its buildings and contents through the State Insurance Fund (SIF) part of the State of Alabama, Department of Finance, Division of Risk Management, which operates as a common risk management and insurance program for state owned properties and county boards of education. The Board pays an annual premium based on the amount of coverage requested. The SIF is self-insured up to \$3.5 million per occurrence and purchases commercial insurance for claims in excess of \$3.5 million. Automobile liability insurance 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.

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

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

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

Note 11 – Interfund Transactions

Interfund Receivables and Payables

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

	Interfund Receivables General Fund	Total
Interfund Payables:		
Other Governmental Funds	\$11,461.22	\$11,461.22
Totals	\$11,461.22	\$11,461.22

Interfund Transfers

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

	Transfers In			Total
	General Fund	Child Nutrition Program Fund	Other Governmental Funds	
Transfers Out:				
General Fund	\$	\$549,892.21	\$ 79,775.02	\$ 629,667.23
Other Governmental Funds	311,713.58		328,109.17	639,822.75
Totals	\$311,713.58	\$549,892.21	\$407,884.19	\$1,269,489.98

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

Note 12 – Subsequent Event(s)

On April 27, 2011, Hackleburg Elementary and Hackleburg High Schools were completely destroyed by a tornado. Although the buildings and their contents were insured, the projected cost of comparable structures is not known at this time.

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	\$ 21,020,759.19	\$ 19,531,675.19	\$ 19,183,486.34
Federal	13,000.00	13,000.00	212,157.38
Local	3,024,750.00	2,966,010.00	3,232,755.05
Other	26,500.00	26,500.00	56,303.22
Total Revenues	24,085,009.19	22,537,185.19	22,684,701.99
<u>Expenditures</u>			
Current:			
Instruction	15,968,108.66	15,908,319.88	15,859,104.77
Instructional Support	3,909,257.24	3,112,328.01	3,139,919.45
Operation and Maintenance	1,167,800.19	970,146.60	755,122.14
Auxiliary Services:			
Student Transportation	1,503,193.38	1,603,405.31	1,680,513.73
General Administration and Central Support	818,535.11	784,135.11	769,534.80
Other	186,277.65	208,373.22	204,261.30
Capital Outlay			28,221.50
Total Expenditures	23,553,172.23	22,586,708.13	22,436,677.69
Excess (Deficiency) of Revenues Over Expenditures	531,836.96	(49,522.94)	248,024.30
<u>Other Financing Sources (Uses)</u>			
Indirect Cost	102,903.59	147,100.55	100,099.71
Transfers In	9,551.58	12,379.58	311,713.58
Other Financing Sources			49,682.63
Sale of Capital Assets			1,068.00
Transfers Out	(2,026.00)	(552,926.21)	(629,667.23)
Total Other Financing Sources (Uses)	110,429.17	(393,446.08)	(167,103.31)
Net Change in Fund Balances	642,266.13	(442,969.02)	80,920.99
Fund Balances - Beginning of Year	279,205.33	2,828,664.63	2,828,664.63
Fund Balances - End of Year	\$ 921,471.46	\$ 2,385,695.61	\$ 2,909,585.62

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	\$	\$ 19,183,486.34
		212,157.38
(1) (2)	14,479.87	3,247,234.92
		56,303.22
	<u>14,479.87</u>	<u>22,699,181.86</u>
(3)	2,608.44	15,856,496.33
(3)	(16,331.12)	3,156,250.57
(3)	(1,177.41)	756,299.55
(3)	(2,039.90)	1,682,553.63
(3)	(369.18)	769,903.98
(3)	(2,825.03)	207,086.33
		28,221.50
	<u>(20,134.20)</u>	<u>22,456,811.89</u>
	<u>(5,654.33)</u>	<u>242,369.97</u>
		100,099.71
		311,713.58
		49,682.63
		1,068.00
		<u>(629,667.23)</u>
		<u>(167,103.31)</u>
	(5,654.33)	75,266.66
(4)	<u>(2,270,524.67)</u>	<u>558,139.96</u>
	<u>\$ (2,276,179.00)</u>	<u>\$ 633,406.62</u>

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

Explanation of differences:

The Board budgets on the modified accrual basis of accounting (GAAP) except as follows:

- (1) The Board budgets sales tax revenue as it was received, rather than on the modified accrual basis.
- (2) The Board budgets motor vehicle ad valorem tax revenue as it was received, rather than on the modified accrual basis.
- (3) The Board budgets for salaries and benefits only to the extent expected to be paid, rather than on the modified accrual basis.

Net Decrease in Fund Balance - Budget to GAAP

- (4) The amount reported as "fund balance" on the budgetary basis of accounting derives from the basis of accounting used in preparing the Board's budget. This amount differs from the fund balance reported in the Statement of Revenues, Expenditures and Changes in Fund Balances because of the cumulative effect of transactions such as those described above. Encumbrances outstanding at year-end are reported only as reservations of fund balances and do not constitute expenditures or liabilities.

\$ 3,309.33

11,170.54

(20,134.20)

\$ (5,654.33)

***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	\$ 1,044,000.00	\$ 1,044,000.00	\$ 1,211,405.81
Local	597,275.00	609,275.00	625,094.10
Other	42,000.00	42,000.00	65,387.91
Total Revenues	<u>1,683,275.00</u>	<u>1,695,275.00</u>	<u>1,901,887.82</u>
Expenditures			
Current:			
Operation and Maintenance	152,020.00	152,020.00	103,718.07
Auxiliary Services:			
Food Service	2,088,266.81	2,132,506.06	2,169,848.67
Capital Outlay			36,803.55
Total Expenditures	<u>2,240,286.81</u>	<u>2,284,526.06</u>	<u>2,310,370.29</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(557,011.81)</u>	<u>(589,251.06)</u>	<u>(408,482.47)</u>
Other Financing Sources (Uses)			
Transfers In	572,671.07	549,892.21	549,892.21
Total Other Financing Sources (Uses)	<u>572,671.07</u>	<u>549,892.21</u>	<u>549,892.21</u>
Net Change in Fund Balances	15,659.26	(39,358.85)	141,409.74
Fund Balances - Beginning of Year		<u>772,345.88</u>	<u>817,693.75</u>
Fund Balances - End of Year	<u>\$ 15,659.26</u>	<u>\$ 732,987.03</u>	<u>\$ 959,103.49</u>

Explanation of differences:

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

Net Decrease in Fund Balance - Budget to GAAP

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



Budget to GAAP Differences	Actual Amounts GAAP Basis
\$	\$ 1,211,405.81
	625,094.10
	65,387.91
	<u>1,901,887.82</u>
	103,718.07
(1) (5,758.53)	2,175,607.20
	36,803.55
	<u>2,316,128.82</u>
<u>(5,758.53)</u>	<u>(414,241.00)</u>
	549,892.21
	<u>549,892.21</u>
(5,758.53)	135,651.21
(2) (69,469.36)	748,224.39
<u>\$ (75,227.89)</u>	<u>\$ 883,875.60</u>
<u>\$ (5,758.53)</u>	
<u>\$ (5,758.53)</u>	

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Supplementary Information

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

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
<u>U. S. Department of Education</u>		
<u>Direct Program</u>		
Impact Aid	84.041	
<u>Passed Through Alabama Department of Education</u>		
Career and Technical Education - Basic Grants to States	84.048	N/A
Tech-Prep Education	84.243	N/A
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)		
Rural Education	84.358	N/A
Improving Teacher Quality State Grants	84.367	N/A
Safe and Drug-Free Schools and Communities - State Grants	84.186	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		
ARRA - Education For Homeless Children - Recovery Act	84.387	N/A
ARRA - State Fiscal Stabilization Fund (SFSF) -		
Education State Grants - Recovery Act (M)	84.394	N/A
Total U. S. Department of Education		
<u>U. S. Department of Agriculture</u>		
<u>Passed Through Alabama Department of Education</u>		
Child Nutrition Cluster:		
National School Lunch Program		
Cash Assistance	10.555	N/A
Non-Cash Assistance (Commodities)	10.555	N/A
National School Lunch Program Sub-Total		
School Breakfast Program - Cash Assistance	10.553	N/A
Total U. S. Department of Agriculture		
Sub-Total Forward		

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
10/01/2009-09/30/2010	\$ 6,058.64	\$ 6,058.64	\$ 6,058.64	\$ 6,058.64
10/01/2009-09/30/2010	59,535.00	59,535.00	59,535.00	59,535.00
10/01/2009-09/30/2010	4,320.00	4,320.00	4,320.00	4,320.00
10/01/2009-09/30/2010	1,353,455.55	1,353,455.55	1,353,455.55	1,353,455.55
10/01/2009-09/30/2010	871,616.32	871,616.32	871,616.32	871,616.32
	<u>2,225,071.87</u>	<u>2,225,071.87</u>	<u>2,225,071.87</u>	<u>2,225,071.87</u>
10/01/2009-09/30/2010	699,845.39	699,845.39	699,845.39	699,845.39
10/01/2009-09/30/2010	439,569.41	439,569.41	439,569.41	439,569.41
10/01/2009-09/30/2010	11,167.00	11,167.00	11,167.00	11,167.00
10/01/2009-09/30/2010	31,500.00	31,500.00	31,500.00	31,500.00
	<u>1,182,081.80</u>	<u>1,182,081.80</u>	<u>1,182,081.80</u>	<u>1,182,081.80</u>
10/01/2009-09/30/2010	103,823.67	103,823.67	103,823.67	103,823.67
10/01/2009-09/30/2010	242,052.31	242,052.31	242,052.31	242,052.31
10/01/2009-09/30/2010	13,380.63	13,380.63	13,380.63	13,380.63
10/01/2009-09/30/2010	10,380.00	10,380.00	10,380.00	10,380.00
10/01/2009-09/30/2010	25,528.00	25,528.00	25,528.00	25,528.00
	<u>35,908.00</u>	<u>35,908.00</u>	<u>35,908.00</u>	<u>35,908.00</u>
10/01/2009-09/30/2010	1,290.30	1,290.30	1,290.30	1,290.30
10/01/2009-09/30/2010	927,002.00	927,002.00	927,002.00	927,002.00
	<u>4,800,524.22</u>	<u>4,800,524.22</u>	<u>4,800,524.22</u>	<u>4,800,524.22</u>
10/01/2009-09/30/2010	899,957.13	899,957.13	899,957.13	899,957.13
10/01/2009-09/30/2010	107,795.92	107,795.92	107,795.92	107,795.92
	<u>1,007,753.05</u>	<u>1,007,753.05</u>	<u>1,007,753.05</u>	<u>1,007,753.05</u>
10/01/2009-09/30/2010	203,652.76	203,652.76	203,652.76	203,652.76
	<u>1,211,405.81</u>	<u>1,211,405.81</u>	<u>1,211,405.81</u>	<u>1,211,405.81</u>
	\$ 6,011,930.03	\$ 6,011,930.03	\$ 6,011,930.03	\$ 6,011,930.03

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

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
Sub-Total Brought Forward		
<u>U. S. Department of Health and Human Services Passed Through Alabama Department of Education</u>		
Child Care and Development Block Grant	93.575	N/A
<u>U. S. Department of Social Security Administration Passed Through Alabama Department of Education</u>		
Social Security - Disability Insurance	96.001	N/A
Total Expenditures of Federal Awards		

(M) = Major Program

N/A = Not Applicable or 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		
	\$ 6,011,930.03	\$ 6,011,930.03	\$ 6,011,930.03	\$ 6,011,930.03
10/01/2009-09/30/2010	5,000.00	5,000.00	5,000.00	5,000.00
10/01/2009-09/30/2010	1,905.00	1,905.00	1,905.00	1,905.00
	<u>\$ 6,018,835.03</u>	<u>\$ 6,018,835.03</u>	<u>\$ 6,018,835.03</u>	<u>\$ 6,018,835.03</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 Marion 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
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Hon. Rodney Fleming	President	2014
Hon. L. C. Fowler	Vice-President	2010
Hon. Jim Atkinson	Member	2012
Hon. Belinda McRae	Member	2010
Hon. Glendon Gibbs	Member	2012

Administrative Personnel

Hon. Ryan Hollingsworth	Superintendent	2012
Mr. Clint Green	Chief School Financial 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 Marion 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 October 17, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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 Marion County Board of Education, the Superintendent, the Chief School Financial Officer, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

October 17, 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 Marion County Board of Education's (the "Board") compliance with the types of compliance requirements described in the ***OMB Circular A-133 Compliance Supplement*** that could have a direct and material effect on each of the Board's major federal programs for the year ended September 30, 2010. The Board's major federal programs are identified in the Summary of Examiner's Results Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Board's management. Our responsibility is to express an opinion on the Board's compliance based on our audit.

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

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

Internal Control Over Compliance

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

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

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

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

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



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

October 17, 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 Circular A-133? _____ Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010 and 84.389 84.027, 84.173, 84.391 and 84.392 84.394	Title I, Part A Cluster Special Education Cluster 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.	