

SARALAND BOARD OF EDUCATION

FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

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FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

Members of the Board
Saraland Board of Education
Saraland, Alabama

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate fund information of the Saraland Board of Education, Saraland, Alabama as of and for the year ended September 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Saraland Board of Education management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 opinion.

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

In accordance with Government Auditing Standards, we have also issued our report dated January 20, 2012, on our consideration of the Saraland Board of Education's internal control over financial reporting and 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 reporting on compliance. The 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.

Management Discussion and Analysis on pages 3-10 is not a required part of the basic statements but are supplementary information required by the Governmental Accounting Standards Board. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information 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.


Certified Public Accountants

January 20, 2012
Brewton, Alabama

**SARALAND BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION & ANALYSIS
REQUIRED SUPPLEMENTAL INFORMATION
SEPTEMBER 30, 2011**

Our discussion and analysis of the Saraland 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, 2011 (FY 2011). Please read it in conjunction with the Board's financial statements and notes to the financial statements, which immediately follow this analysis.

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

Financial Highlights: Significant Items to Note

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

- ✓ The Board's financial status increased for FY 2011. The board's total net assets increased by approximately \$411,316, over the course of the fiscal year. This increase is attributable to an increase in ad valorem taxes (real and personal) and district sales taxes. The assets of the Board exceeded its liabilities at the close of FY 2011 by \$17.4 million (net assets). Of this amount, \$1.2 million (unrestricted net assets) may be used to meet the Board's future costs of operations.
- ✓ The total cost of the Board's programs for the year was \$18 million. After taking away a portion of these costs paid for with charges or fees, intergovernmental aid, interest earnings and other miscellaneous sources, the net cost that required funding from city and county taxpayers was \$6.52 million. This includes the required 10-mill local system contribution into the State Foundation Program of \$1.42 million. The Foundation Program (the state funding mechanism for K-12 education systems in Alabama) provided \$7.33 million toward the cost of these programs.
- ✓ For the General Fund, expenditures exceeded total the revenues by \$635,002. This is mainly attributable to having to meet mandates by the State Department of Education (maintenance of effort, benefits and proration). The additional cost of hiring new teachers, textbooks, and maintenance not yet funded by the state attributed to expenditures being greater than revenues.
- ✓ At the end of the current fiscal year, fund balance for the General Fund was \$1.33 million.
- ✓ The Board had \$35.97 million in long-term liabilities at year end.

Using the Financial Statements - An Overview for the User

As a result of the implementation of the GASB 34 reporting model, the financial section consists of five parts - *management's discussion and analysis* (this section), the *independent auditors' report*, the *basic financial statements*, *required supplemental information*, and *other supplemental information*.

The Board's basic financial statements are comprised of three components: 1) *government-wide financial statements*, 2) *fund financial statements*, and 3) *notes to the basic financial statements*.

Government-wide financial statements - Perhaps the most notable feature of the GASB 34 model is the requirement for *government-wide financial statements*. The focus of these statements is to provide readers with a broad overview of the Board's finances as a whole instead of on an individual fund basis, in a manner similar to a private-sector business, indicating both long-term and short-term information about the Board's overall financial status. It is important to note that all of the activities of the board reported in the *government-wide financial statements* are classified as governmental activities. These activities include, but are not limited to, student transportation, school food services, facility maintenance, local school organizations, interest and fiscal charges on long-term debt, and student instruction. *Government-wide statements* report the capitalization of capital assets and depreciation of all exhaustible capital assets and the outstanding balances of long-term debt and other obligations. These statements report all assets and liabilities perpetuated by these activities using the accrual basis of accounting. The accrual basis takes into account all of the Board's current year revenues and expenses regardless of when received or paid. This approach moves the financial reporting method for governmental entities closer to the financial reporting methods used in the private sector. The following *government-wide financial statements* report on all of the governmental activities of the Board as a whole.

The *statement of net assets* (on page 11) is most closely related to a balance sheet. It presents information on all of the board's assets (what it owns) and liabilities (what it owes), with the difference between the two reported as net assets. The net assets reported in this statement represent the accumulation of changes in net assets for the current fiscal year and all fiscal years in the past combined. Over time, the increases or decreases in net assets reported in this statement may serve as a useful indicator of whether the financial position of the school board is improving or deteriorating.

The *statement of activities* (on page 12) is most closely related to an income statement. It presents information showing how the Board's net assets changed during the current fiscal year only. All of the current year's revenues and expenses are accounted for in the *statement of activities* regardless of when cash is received or paid. This statement shows gross expenses and offsetting program revenues to arrive at net cost information for each major expense function or activity of the Board. By showing the change in net assets for the year, the reader may be able to determine whether the Board's financial position has improved or deteriorated over the course of the current fiscal year. The change in net assets may be financial or non-financial in nature. Non-financial factors which may have an impact on the Board's financial condition include: age and condition of facilities and mandated educational programs for which little or no funding is provided.

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

Governmental Funds - Governmental *fund financial statements* begin on page 13. These statements account for basically the same governmental activities reported in the *government-wide financial statements*. Historically, fund information was reported in the aggregate by type of fund. As required under the GASB 34 reporting model, the *fund financial statements* presented herein display information on each of the Board's most important governmental funds or *major funds*. This is required in order to better assess the Board's accountability for significant governmental programs or certain dedicated revenue. The Board's *major funds* are the General Fund, Special Revenue Fund, and Capital Projects Fund.

The *fund financial statements* are measured on the modified-accrual basis of accounting as reported in prior fiscal years, where revenues and expenditures are recorded when they become measurable and available. As a result, the *fund financial statements* focus more on the near term use and availability of expendable resources. The information provided in these statements is useful in determining the Board's immediate financial needs. This is in contrast to the accrual-based *government-wide financial statements*, which focus more on overall long-term availability of expendable resources. The relationship between governmental activities reported in the *government-wide financial statements* and the governmental funds reported in the *fund financial statements* are reconciled on pages 14 and 16 of these financial statements.

The reconciliation is useful to readers in understanding the long-term impact of the Board's short-term financing decisions.

Fiduciary Funds - The Board is the trustee, or fiduciary, for some of its booster and parent organization activity funds, which are under the control and administration of its schools. Fiduciary funds also include agency funds, such as accounts payable clearing and payroll clearing funds. All of the Board's fiduciary activities are reported in a separate *Statement of Fiduciary Net Assets* on page 32 of this section. These funds are not available to the Board to finance its operations, and therefore 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 purposes.

Notes to the Basic Financial Statements - The *notes to the basic financial statements* provide additional information that is essential for the statements to fairly represent the Board's financial position and its operations. The notes contain important information that is not part of the basic financial statements. However, the notes are an integral part of the statements, not an appendage to them. The *notes to the basic financial statements* begin on page 17 in this section.

After the presentation of the basic financial statements, the new reporting model requires additional required supplemental information to be presented following the notes to the basic financial statements. The required supplemental information beginning on page 30 provides a comparison of the original adopted budget to the final amended budget of the Board's General Fund, which is then further compared to the actual operating results for the fiscal year. The comparison of this data allows users to assess management's ability to project and plan for its operations throughout the year.

Analysis of the School Board's Overall Financial Position

As indicated earlier, net assets may serve over time as a useful indicator of a government's financial position. Refer to *Table 1* when reading the following analysis of net assets. The Board's assets exceeded liabilities by \$17.4 million at September 30, 2011.

- ✓ Of this figure, 92.77% or \$16.16 million reflects the Board's investment in capital assets (e.g., land, buildings, improvements other than buildings, furniture and equipment, and transportation equipment), less accumulated depreciation and debt related to the acquisition of the assets. Since these capital assets are used in governmental activities, this portion of net assets is not available for future spending or funding of operations.
- ✓ A balance of unrestricted net assets of \$1.26 million may be used at the Board's discretion to meet ongoing obligations to citizens and creditors and for future operations.

Table 1: Summary of Net Assets
As of September 30, 2011
(In millions)

	2011 Governmental Activities	2011 Percent of Total
Current and other assets	\$3.14	5.7%
Capital assets	51.96	94.3%
Total Assets	\$57.34	100%
Current and other liabilities	1.71	4.55%
Long-term liability	35.9	95.45%
Total Liabilities	\$37.6	100%
Net Assets:		
Invested in Capital Assets, Net of Related Debt	\$16.15	92.76%
Unrestricted	1.26	7.24%
Total Net Assets	\$17.41	100%

At September 30, 2011, the Board is able to report zero or positive balances in all three categories of net assets: invested in capital assets-net of related debt, restricted and unrestricted. This means that the Board has enough available resources to cover all outstanding obligations, including non-capital liabilities (such as compensated absences) as of September 30, 2011, with resources left over to use for next year's operations.

The results of this fiscal year's operations as a whole are reported in detail in the *Statement of Activities* on page 12. *Table 2* below condenses the results of operations for the fiscal year into a format where the reader can easily see the total revenues of the Board for the year. It also shows the impact the operations had on changes in net assets as of September 30, 2011.

Table 2: Summary of Changes in Net Assets from Operating Results
Fiscal Year Ended September 30, 2011
(In millions)

	2011 Governmental Activities	2011 Percent of Total
Revenues		
Program Revenues:		
Charges for services	\$1.57	8%
Operating grants and contributions	10.21	54%
Capital grants and contributions	.75	4%
General Revenues:		
Local property taxes	2.97	16%
Local sales taxes	2.53	14%
Other taxes	.13	1%
Other	.57	3%
Total Revenues	\$18.73	100%
Expenses		
Instructional services	\$8.88	48%
Instructional support services	2.74	15%
Operation and maintenance services	1.68	9%
Auxiliary services	1.93	11%
General administrative services	1.14	6%
Interest and fiscal charges	1.64	9%
Other expenses	.31	2%
Total Expenses	\$18.32	100%
Increase in Net Assets	.41	
Net Assets – Beginning	17.00	
Net Assets – Ending	\$17.41	

The Board's net assets increased by \$411 thousand during the current fiscal year. This is mainly attributable to the increase in ad valorem taxes and district sales taxes.

Governmental Activities - As shown in *Table 2*, the cost of services rendered from the Board's governmental activities for the year ended September 30, 2011 was \$18.3 million. It is important to note that not all of these costs were borne by the taxpayers of Saraland:

- ✓ Some of the cost, \$1.57 million, was paid by users who benefited from services provided during the year, such as school lunches, local school fundraisers, and admissions from local school events.
- ✓ State and federal governments subsidized certain programs with grants and contributions totaling \$10.21 million.
- ✓ \$5.63 million of the Board's total costs of \$18.32 million was financed by district and state taxpayers, as follows: \$2.97 million in property taxes, \$2.53 million in sales taxes, and \$.13 million in other taxes (alcohol beverage tax, business privilege tax and tobacco tax).

Table 3 is a condensed statement taken from the Statement of Activities on page 12 showing the total cost for providing identified services for seven major Board activities. Total cost of services is compared to the net cost of providing these services. The net cost of services is the remaining cost of services after subtracting grants and charges for services that the Board used to offset the program's total cost. In other words, the net cost shows the financial burden that was placed on all taxpayers for each of these activities. This information allows citizens to consider the cost of each program in comparison to the benefits they believe are provided.

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

	2011 Total Cost Of Services	2011 Net Cost Of Services
Expenses		
Instructional services	\$8.88	1.09
Instructional support services	2.74	.65
Operation and maintenance services	1.68	1.31
Auxiliary services	1.93	.44
General administrative services	1.14	.64
Interest and fiscal charges	1.64	1.64
Other expenses	.31	.03
Total Expenses	\$18.32	\$5.80

Performance 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, which begin on page 13.

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 (Note that the relationship between the *fund financial statements* and the *government-wide financial statements* are reconciled on pages 14 and 16). 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 Board's governmental funds reported combined ending fund balances of \$2.18 million.

General Fund – During the year, the net change in the general fund balance was a decrease of \$50 thousand. The reduction leaves the general fund with a balance of \$1.38 million.

Special Revenue Fund - These funds consist of three different fund sources. The child nutrition program, federal grants and awards and local public school funds are accounted for in Special Revenues. The child nutrition fund consists of USDA Reimbursements and local funds and provides breakfast and lunches for the Saraland students. Federal grants and awards are Title I, Special Education, Title II and other grants that are awarded through applications from the State Department. Local school funds are accounted for at each individual school.

Capital Projects Fund – The Capital Projects Fund served in two capacities this past year with the Local Payments on Behalf serving as a balancing fund to record the construction costs of the new Saraland High School and the new athletic fields. Expenditures are made from the AMFund Series 2008 Bond and Series 2010 Bond proceeds held by the City of Saraland and recognized by the Board of Education at year end. The balance in the Capital Project at year end from the Public Education Building Authority of the City of Saraland, Alabama Series 2010 has been depleted due to completion of project. These bonds were used to fund the new athletic complex at Saraland High School. The complex will encompass baseball, softball, football field, restrooms and concessions. The Bonds and Warrants were used to record the activity for the Board's long-term debt financing. This project was completed in FY 2011. The Public School Capital Outlay Fund is also accounted for in the Capital projects account in which all is used to pay for debt service.

Fiduciary Funds - The Fiduciary Fund or Agency-Type financial statements appear on page 32. Only additions and deletions of the fund are presented, as the Board serves as the custodian of these funds, and is responsible for ensuring that the assets reported by these funds are used for their intended purposes.

Budgetary Highlights of Major Funds

On or before October 1 of each year, the Board is mandated by state law to prepare and submit to the State Superintendent of Education the annual budget adopted by the Board. The State Department of Education required such budget to be submitted by October 1, 2010. The original 2011 fiscal year budget, adopted on September 4, 2010, was based on a conservative approach that reflected only allocated revenues and essential expenditures. The Board revised the annual operating budgets twice during the year on April 13th, 2011 and June 16th, 2011.

For purposes of this budgetary analysis, only the General Fund of the board is discussed in accordance with the GASB 34 reporting model.

General Fund - The comparison of general fund original budget to the final amended budget is on page 30. The differences between the original budget and the final amended budget of the Board were adjustments made due to additional allocations and grants awarded by the state and proration declared at 3% for FY2011.

Capital Assets and Debt Administration

Capital Assets - The Board's investment in capital assets for its governmental activities for the year ended September 30, 2011, amounted to \$16.15 million, net of accumulated depreciation and debt related to the acquisition of the assets. The Board's investment in capital assets includes, land at estimated historical cost, buildings and improvements at estimated historical cost, equipment and furniture at estimated historical cost, buildings under capital lease, equipment under capital lease, and construction in progress, and is shown in *Table 4*.

**Table 4: Capital Assets (net of accumulated depreciation)
As of September 30, 2010
(In millions)**

	<u>2011</u>
Land and Land Improvements	\$3.30
Buildings & Improvements	47.80
Vehicles, Equipment and Furniture	.66
	<u><u>\$51.96</u></u>

Long-term Debt

At year-end the Board had \$36.73 million in capital leases and other long term debt outstanding. Of this amount \$760,750 is due within one year. Note 4 Long Term Debt in the Notes to the Financial Statements provides a detailed summary of the general long-term debt transactions for the Board for the year ended September 30, 2011.

- ✓ The Board has in place a line of credit of \$750,000 to fund any timing differences between the distribution of payroll and the receipt of state education funding. The Board has yet to draw from this line of credit that has been in place since November 2008.

Economic Factors and Next Year's Budget

The following are currently known City of Saraland economic factors considered going into FY 2011.

- ✓ The population for the City of Saraland as of the year 2000 census was 12,288. The estimated 2010 population for the City of Saraland is 13,405. An increase of 9.09%
- ✓ Median age for the City of Saraland is 37.3 with as estimated per capita income in 2009 of \$23,819 and the median family income of \$57,571.
- ✓ Since 2004, thirteen new residential subdivisions have been developed and a total of 455 new houses have been built. There are two new Phases going into existing subdivision to date.
- ✓ Estimated median house or condo value in Saraland for 2010 was \$176,596 compared to statewide of \$121,500.

Circumstances that could significantly affect the Board's financial health in the future are listed as follows:

Proration of State Appropriations - Applicable provisions of the Constitution of Alabama effectively prohibit the State from engaging in deficit financing—that is to say, state expenditures during any fiscal year may not exceed available revenues. State law provides procedures for delaying or, if necessary, reducing (or "prorating") appropriations of state revenues in order to maintain and enforce the constitutional ban on deficit financing. The Board's General Fund receives the largest share of its annual revenue from the State. Although the State revenues provided for the payment of employee salaries and benefits are prorated, State law prohibits the Board from reducing salaries and benefits paid to employees. The postponement or reduction of State appropriations to the Board as a consequence of proration may therefore result in reductions of expenditures by the Board for certain budget items other than salaries (e.g. instructional materials, certain academic programs, maintenance projects, and supplies).

Proration of 7.5% was declared in October 2009 another 2% was declared in July for the 2010 fiscal year and 3% for FY2011. The Board has considered possible proration in developing its budget for 2012.

Estimated Capital Needs – The Board’s five year capital plan submitted for fiscal year 2012 is based on facility assessments and enrollment needs, and includes \$54.4 million in estimated capital needs throughout the system. Approximately \$22 million will be funded with local bond proceeds and interest earned and the remaining \$32 million is unfunded at this time.

Student Enrollment – The Board’s current enrollment based on the Average Daily Membership (ADM) as of the twenty-day report for the 2010 - 2011 scholastic year was 2,224, an increase of 229 over the previous year. The Board’s enrolment will continue to see substantial growth the next year with the addition of the twelfth grade.

Medical and Retirement Costs – Employee health insurance is provided through the Public Education Employees Health Insurance Program (PEEHIP). The premiums for health insurance for teachers and support personnel under PEEHIP remained the same for fiscal year 2011 from \$714 per month per employee and will remain unchanged for fiscal year 2012. Also, employer contributions to the Teachers Retirement System (TRS) increased from 12.07 percent to 12.51 percent for fiscal year 2011. Retirement costs and Medical cost will be ongoing issues for fiscal year 2013.

11
Saraland Board of Education
Statement of Net Assets
September 30, 2011

	<u>Governmental Activities</u>
Assets	
Cash and Cash Equivalents	\$ 1,791,946.52
Investments	803,397.91
Receivables, Net	460,216.03
Inventories	35,565.88
Deferred Charges	26,012.11
Other Assets	29,332.54
Capital Assets:	
Nondepreciable	3,383,089.95
Depreciable, Net	48,581,515.70
Total Assets	<u><u>\$ 55,111,076.64</u></u>
Liabilities	
Accounts Payable	\$ 123,733.23
Deferred Revenue	13,347.00
Salaries and Benefits Payable	831,722.18
Long-Term Liabilities:	
Portion Due or Payable Within One Year	760,750.28
Portion Due or Payable After One Year	35,964,999.66
Total Liabilities	<u><u>37,694,552.35</u></u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	16,157,938.99
Unrestricted	1,258,585.30
Total Net Assets	<u><u>17,416,524.29</u></u>
Total Liabilities and Net Assets	<u><u>\$ 55,111,076.64</u></u>

The accompanying notes are an integral part of these financial statements.

Saraland Board of Education
Statement of Activities
For the Year Ended September 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Instructional	\$ 8,877,302.65	\$ 206,654.72	\$ 6,862,908.93	\$ 715,662.51	\$ (1,092,076.49)
Instructional Support	2,745,473.78	251,696.12	1,840,296.02	-	(653,481.64)
Operation and Maintenance	1,682,260.85	19,412.57	348,080.56	1,405.00	(1,313,362.72)
Student Transportation	837,610.99	38,321.05	483,757.61	32,529.00	(283,003.33)
Food Service	1,093,957.69	875,874.11	62,712.84	-	(155,370.74)
General Administrative	1,146,259.23	2,492.40	499,957.77	-	(643,809.06)
Interest and Fiscal Charges	1,636,026.86	-	-	-	(1,636,026.86)
Other Expenses	309,517.59	171,775.87	114,843.03	-	(22,898.69)
Total Governmental Activities	<u>\$ 18,328,409.64</u>	<u>\$ 1,566,226.84</u>	<u>\$ 10,212,556.76</u>	<u>\$ 749,596.51</u>	<u>(5,800,029.53)</u>

General revenues:

Taxes:

Property Taxes for General Purposes	1,929,591.30
Property Taxes for Specific Purposes	1,040,228.75
Sales Tax	2,535,699.56
Alcohol Beverage Tax	83,576.97
Other Taxes	47,611.87
Grants and Contributions Not Restricted for Specific Programs	21,914.00
Investment Earnings	12,965.45
Miscellaneous	539,758.02
Total General Revenues	<u>6,211,345.92</u>
Changes in Net Assets	411,316.39
Net Assets - Beginning of Year	17,005,207.90
Net Assets - End of Year	<u>\$ 17,416,524.29</u>

The accompanying notes are an integral part of these financial statements.

**Saraland Board of Education
Balance Sheet
Governmental Funds
September 30, 2011**

	(11) - General Fund	(12) - Special Revenue Fund	(14) - Capital Projects Fund	Total Governmental Funds
Assets				
Cash and Cash Equivalents	\$ 880,469.26	\$ 499,308.39	\$ 412,168.87	\$ 1,791,946.52
Investments	803,397.91	-	-	803,397.91
Receivables, Net	358,026.29	89,957.16	12,232.58	460,216.03
Due from Other Funds	177,788.56	-	-	177,788.56
Inventories	-	35,565.88	-	35,565.88
Other Assets	29,332.54	26,012.11	-	55,344.65
Total Assets	<u>\$ 2,249,014.56</u>	<u>\$ 650,843.54</u>	<u>\$ 424,401.45</u>	<u>\$ 3,324,259.55</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts Payable	\$ 118,045.52	\$ 5,687.71	\$ -	\$ 123,733.23
Due to Other Funds	-	177,788.56	-	177,788.56
Deferred Revenues	-	13,347.00	-	13,347.00
Salaries and Benefits Payable	798,568.39	33,153.79	-	831,722.18
Total Liabilities	<u>916,613.91</u>	<u>229,977.06</u>	<u>-</u>	<u>1,146,590.97</u>
Fund Balances				
Nonspendable	-	35,565.88	-	35,565.88
Unassigned	1,332,400.65	385,300.60	424,401.45	2,142,102.70
Total Fund Balances	<u>1,332,400.65</u>	<u>420,866.48</u>	<u>424,401.45</u>	<u>2,177,668.58</u>
Total Liabilities and Fund Balances	<u>\$ 2,249,014.56</u>	<u>\$ 650,843.54</u>	<u>\$ 424,401.45</u>	<u>\$ 3,324,259.55</u>

The accompanying notes are an integral part of these financial statements.

Saraland Board of Education
Reconciliation of the Governmental Funds Balance Sheet with the Statement of Net Assets
September 30, 2011

Total Fund Balances - Governmental Funds		\$ 2,177,668.58
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
The Cost of Capital Assets is	\$ 53,690,367.97	
Accumulated Depreciation is	<u>(1,725,762.32)</u>	51,964,605.65
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Current Portion of Long-Term Debt	760,750.28	
Noncurrent Portion of Long-Term Debt	<u>35,964,999.66</u>	<u>(36,725,749.94)</u>
Total Net Assets - Governmental Activities		<u><u>\$ 17,416,524.29</u></u>

The accompanying notes are an integral part of these financial statements.

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

	(11) - General Fund	(12) - Special Revenue Fund	(14) - Capital Projects Fund	Total Governmental Funds
Revenues				
State	\$ 8,185,662.50	\$ -	\$ 748,191.51	\$ 8,933,854.01
Federal	414.00	2,499,538.72	-	2,499,952.72
Local	4,710,163.65	1,163,923.22	1,040,228.75	6,914,315.62
Other	364,377.42	15,724.45	-	380,101.87
Total Revenues	<u>13,260,617.57</u>	<u>3,679,186.39</u>	<u>1,788,420.26</u>	<u>18,728,224.22</u>
Expenditures				
Current:				
Instructional	7,015,405.80	1,122,754.27	24,910.35	8,163,070.42
Instructional Support	1,973,132.54	654,840.33	-	2,627,972.87
Operation and Maintenance	1,650,363.59	29,106.27	-	1,679,469.86
Auxiliary Services:				
Student Transportation	775,401.41	39,610.01	-	815,011.42
Food Service	-	1,113,736.95	-	1,113,736.95
General Administrative	961,180.61	142,139.56	-	1,103,320.17
Other	89,655.57	215,558.89	-	305,214.46
Capital Outlay	1,067,628.09	1,130.00	4,457,813.04	5,526,571.13
Debt Service:				
Principal Retirement	61,073.36	123,699.00	380,227.66	565,000.02
Interest and Fiscal Charges	249,708.27	255,159.00	934,043.12	1,438,910.39
Debt Issuance Costs/Other Debt Service	52,070.08	43,119.00	101,927.39	197,116.47
Total Expenditures	<u>13,895,619.32</u>	<u>3,740,853.28</u>	<u>5,898,921.56</u>	<u>23,535,394.16</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(635,001.75)</u>	<u>(61,666.89)</u>	<u>(4,110,501.30)</u>	<u>(4,807,169.94)</u>
Other Financing Sources (Uses)				
Indirect Cost	107,569.35	-	-	107,569.35
Long-Term Debt Issued	750,000.00	-	-	750,000.00
Transfers In	17,729.01	372,687.82	-	390,416.83
Other Financing Sources	5,846.41	-	-	5,846.41
Transfers Out	(296,561.19)	(93,855.64)	-	(390,416.83)
Total Other Financing Sources (Uses)	<u>584,583.58</u>	<u>278,832.18</u>	<u>-</u>	<u>863,415.76</u>
Net Changes in Fund Balances	(50,418.17)	217,165.29	(4,110,501.30)	(3,943,754.18)
Fund Balances - Beginning of Year	1,382,818.82	203,701.19	4,534,902.75	6,121,422.76
Fund Balances - End of Year	<u>\$ 1,332,400.65</u>	<u>\$ 420,866.48</u>	<u>\$ 424,401.45</u>	<u>\$ 2,177,668.58</u>

The accompanying notes are an integral part of these financial statements.

Saraland Board of Education

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

Net Changes in Fund Balances - Total Governmental Funds		\$ (3,943,754.18)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the period.		
Capital Outlays	\$ 5,526,571.13	
Depreciation Expense	<u>(938,346.36)</u>	4,588,224.77
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.		565,000.02
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.		(750,000.00)
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.		
Compensated Absences, Current Year Increase/(Decrease) in Noncurrent Portion		(53,809.62)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
Miscellaneous		<u>5,655.40</u>
Change in Net Assets of Governmental Activities		<u><u>\$ 411,316.39</u></u>

The accompanying notes are an integral part of these financial statements.

Saraland Board of Education
Notes to the Financial Statements
September 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The financial statements of the Saraland Board of Education (the Board) have been prepared in conformity with the accounting principles generally accepted in the United States as specified by the Governmental Accounting Standards Board (GASB). In June 1999, GASB issued Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*. This statement, known as the “Reporting Model” statement, affects the way the Board prepares and presents financial information. The Statement was developed to make annual reports easier to understand and more useful to the people who use government financial information to make decisions.

For financial reporting purposes and in conformance with the criteria set forth by Governmental Accounting Standard 14, the Board includes those funds, account groups, agencies, boards, commissions and authorities for which the Board has the ability to exercise its oversight responsibility and provides financial and managerial assistance.

B. BASIS OF PRESENTATION—GOVERNMENT-WIDE AND FUND LEVEL

Government-wide

The basic financial statements include government-wide fund financial statements. The previous reporting model emphasized fund types, while the new model focuses on the Board as a whole and major funds. Government-wide and fund financial statements categorize primary activities as governmental or business type. In the Statement of Net Assets, governmental and business-type activities (a) are presented on a consolidated basis, and (b) reflect, full accrual accounting, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The Statement of Activities reflects both the gross and net cost per functional category (general, instructional, operations and maintenance, etc.) which are otherwise being supported by general government revenues (taxes, fees, and dues, etc.). The Statement of Activities reduces gross expenses, including depreciation, by related program revenues. The program revenues must be directly associated with a function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

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Saraland Board of Education
Notes to the Financial Statements
September 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Level

The government fund level financial statements are presented on a current financial resource and modified accrual basis of accounting. Since governmental fund level financial statements are presented on a different basis of accounting and measurement focus than governmental activities in the government-wide presentation, a summary is presented to explain adjustments necessary to reconcile fund level statements to the government-wide presentation.

The accounts of the Board are organized on the basis of funds which are each considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped into broad fund categories as follows:

Governmental Funds:

General Fund—The General Fund is used to account for all revenues and expenditures applicable to the general operations of the Board which are not properly accounted for in another fund. All general operating revenues which are not restricted or designated as to use by outside sources are recorded in the General Fund.

Special Revenue Fund—Special revenue funds are operating funds for which the use of revenues is restricted or designated by outside sources.

Capital Project Fund—Capital project funds are used to account for the financial resources used to construct or acquire major capital items.

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Saraland Board of Education
Notes to the Financial Statements
September 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. CAPITAL ASSETS

The accounting treatment over fixed assets depends on whether the assets are used by fund level or government-wide reporting.

In government-wide reporting, all fixed assets are reported as capital assets for both governmental-type and business-type activities. The Board has established a minimum capitalization threshold of \$5,000 for personal property and \$50,000 for real property. Depreciation is provided on all capital assets at the government-wide level.

In fund level reporting, fixed assets are reported as expenditures by governmental funds. Depreciation is not provided at the fund level.

Fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at estimated fair value on the date donated.

Depreciation is allocated as an expense in the Statement of Activities (government-wide level) and accumulated depreciation is reflected in the Statement of Net Assets (government-wide level). Depreciation has been provided over the estimated useful lives using the straight-line rates as follows:

Buildings	25-50 years
Vehicles and equipment	5-20 years

D. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized when they become susceptible to accrual, that is when they become both "measurable" and "available" to finance expenditures of the current period. Ad valorem and other taxes collected by an intermediary are considered "measurable" when in the hand of the intermediary collecting governments and may be recognized as revenue at that time. Expenditures, generally, are recorded at the time liabilities are incurred. Revenues susceptible to accrual are: property taxes and federal financial assistance programs, which are measurable and available to finance expenditures of the current period.

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Saraland Board of Education
Notes to the Financial Statements
September 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. CASH AND INVESTMENTS

Cash includes amounts in demand deposits as well as short-term investments. The State Attorney General has issued a legal opinion that boards of education may not put public funds at risk by investing in companies not insured by the federal government.

F. INVENTORIES

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

G. USE OF ESTIMATES

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

H. NET ASSET AND EQUITY CLASSIFICATIONS

Government-wide Financial Statements

Equity is classified as net assets and displayed in three components:

- Invested in capital assets—Consists of capital assets including restricted capital assets, net of accumulated depreciation.
- Restricted net assets—Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) the Board's own laws through its enabling legislation and other provisions of its laws and regulations.
- Unrestricted net assets—All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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Saraland Board of Education
Notes to the Financial Statements
September 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements

The fund equity of the governmental fund financial statements is classified as fund balance. In March 2009, GASB adopted a standard that establishes a hierarchy based on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds.

Fund balance is classified into one of the following five components:

- Nonspendable fund balance—Consists of amounts that are not in a spendable form or are required to be maintained intact.
- Restricted fund balance—Consists of fund balances with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) the Board's own laws through its enabling legislation and other provisions of its laws and regulations.
- Committed fund balance—Consists of fund balances that are useable only for specific purposes by formal action of the government's highest level of decision making authority.
- Assigned fund balance—Consists of fund balances that are intended to be used for specific purposes but are neither restricted nor committed. Intent should be expressed by (1) the governing body itself, or (2) a subordinate high-level body or official which the governing body has delegated the authority to assign amounts to be used for specific purposes.
- Unassigned fund balance—All other fund balances that do not meet the definition of "restricted, committed or assigned fund balances."

I. ENCUMBRANCES

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

**Saraland Board of Education
Notes to the Financial Statements
September 30, 2011**

NOTE 2 DEPOSITS AND INVESTMENTS

Interest Rate Risk

The Board does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

State statutes authorize the Board's investments. The Board is authorized to invest in U.S. Government obligations and its agencies or instrumentalities. The Board has no investment policy that further limits investment choices.

Custodial Credit Risk

The Board is a participant in the Security for Alabama Funds Enhancement (SAFE) Program, a multiple financial institution collateral pool, administered by the State of Alabama. The program, by law, provides administration of pledged collateral coverage for all governments and agencies in the state and requires qualified financial institutions to provide collateral to the administrator adequate to secure all deposits of public funds in that financial institution. The State guarantees deposits identified as "public funds" will be adequately secured by insurance or collateral. Any collateral shortages of one financial institution are assessed to other member financial institutions.

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Saraland Board of Education
Notes to the Financial Statements
September 30, 2011

NOTE 3 - CAPITAL ASSETS

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

	Beginning Balance	Additions	Retirements/ reclassifications	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land and Land Improvements	\$ 2,498,942.13	\$ 884,147.82	\$ -	\$ 3,383,089.95
Construction in Progress	182,739.56	-	182,739.56	-
Total Capital Assets, Not Being Depreciated	<u>2,681,681.69</u>	<u>884,147.82</u>	<u>182,739.56</u>	<u>3,383,089.95</u>
Capital Assets Being Depreciated:				
Buildings	44,559,810.54	4,028,775.72	-	48,588,586.26
Building Improvements	164,674.00	627,144.20	-	791,818.20
Equipment and Furniture	591,664.61	39,432.40	-	631,097.01
Vehicles	165,966.00	129,810.55	-	295,776.55
Total Capital Assets Being Depreciated	<u>45,482,115.15</u>	<u>4,825,162.87</u>	<u>-</u>	<u>50,307,278.02</u>
Less Accumulated Depreciation for:				
Buildings	712,107.69	843,867.26	-	1,555,974.95
Building Improvements	11,115.50	7,691.85	-	18,807.35
Equipment and Furniture	39,263.49	63,218.93	-	102,482.42
Vehicles	24,929.28	23,568.32	-	48,497.60
Total Accumulated Depreciation	<u>787,415.96</u>	<u>938,346.36</u>	<u>-</u>	<u>1,725,762.32</u>
Total Capital Assets Being Depreciated, Net	<u>44,694,699.19</u>	<u>3,886,816.51</u>	<u>-</u>	<u>48,581,515.70</u>
Total Governmental Activities Capital Assets, Net	<u>\$ 47,376,380.88</u>	<u>\$ 4,770,964.33</u>	<u>\$ 182,739.56</u>	<u>\$ 51,964,605.65</u>

Depreciation expense was charged to governmental functions/programs as follows:

Instructional	\$ 714,232.23
Instructional Support	82,058.09
Operation and Maintenance	2,688.29
Student Transportation	22,599.57
Food Service	78,787.51
General Administrative	37,980.67
Total Depreciation Expense - Governmental Activities	<u>\$ 938,346.36</u>

Saraland Board of Education
Notes to the Financial Statements
September 30, 2011

NOTE 4 LONG-TERM DEBT

The following is a summary of changes in long-term liabilities for the year ended September 30, 2011:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Bonds and Warrants Payable	\$ -	\$ 750,000.00	\$ -	\$ 750,000.00	\$ -
Total Bonds and Notes Payable	-	750,000.00	-	750,000.00	-
Other Liabilities:					
Capital Leases	36,371,666.68	-	565,000.02	35,806,666.66	591,667.00
Compensated Absences	120,929.06	53,809.62	5,655.40	169,083.28	169,083.28
Total Other Liabilities	36,492,595.74	53,809.62	570,655.42	35,975,749.94	760,750.28
Governmental Activities Long-Term Liabilities	<u>\$ 36,492,595.74</u>	<u>\$ 803,809.62</u>	<u>\$ 570,655.42</u>	<u>\$ 36,725,749.94</u>	<u>\$ 760,750.28</u>

Bonds and warrants payable at September 30, 2011, were comprised of the following:

2011 Warrant Anticipation Note, payable on October 1, 2012, including interest at 5.25%	<u>\$ 750,000.00</u>
Total bonds and warrants	<u>\$ 750,000.00</u>

Annual debt service requirements to maturity for bonds and warrants payable are as follows:

Year Ending September 30,	Governmental Activities	
	Principal	Interest
2012	\$ -	\$ 39,547.52
2013	750,000.00	9,886.88
	<u>\$ 750,000.00</u>	<u>\$ 49,434.40</u>

Saraland Board of Education
Notes to the Financial Statements
September 30, 2011

NOTE 4 LONG-TERM DEBT (CONTINUED)**Capital Leases**

The Board has entered into a lease agreement as lessee for financing the construction of the new public high school facility. The lease qualifies as a capital lease for accounting purposes since there is a bargain purchase element at the end of the initial lease term and the present value of the minimum lease payments are greater than 90 percent of the asset purchase prices. Each asset has, therefore, been recorded at the present value of the future minimum lease payments as of the inception date in the capital assets.

The capital assets acquired through capital lease obligations are as follows:

	<u>Governmental Activities</u>
Land	\$ 874,147.00
Buildings (net of \$772,769.80 accumulated depreciation)	<u>30,534,184.46</u>
Total	<u><u>\$ 28,089,561.49</u></u>

The future minimum lease obligation and the net present value of the minimum lease payments as of September 30, 2011, were as follows:

	<u>Governmental Activities</u>
Year ending September 30,	
2012	\$ 2,013,059.50
2013	2,017,698.50
2014	2,182,849.50
2015	2,183,678.50
2016	2,192,625.50
2017-2021	11,001,199.50
2022-2026	11,121,903.50
2027-2031	11,274,249.00
2032-2036	11,466,645.00
2037-2040	<u>3,985,154.00</u>
Total minimum lease payments	59,439,062.50
Less amount representing interest	<u>(23,632,395.84)</u>
Present value of minimum lease payments	<u><u>\$ 35,806,666.66</u></u>

Line of Credit

The Board has an unused line of credit (\$750,000 limit) from a bank. The line of credit was established to provide additional operating capital if necessary.

**Saraland Board of Education
Notes to the Financial Statements
September 30, 2011**

NOTE 5 COMPENSATED ABSENCES

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

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

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

Professional and support personnel are provided two days of personal leave per year with pay. The State provides partial funding (\$60.00 per day), at the substitute rate, for up to two days of personal leave per employee per year. Professional employees are paid, at the Board's substitute rate, for up to two days of unused personal leave. Certain unused personal leave can be converted to sick leave days at the end of the school year.

Certain employees are allowed two weeks of vacation per year with pay. Certain unused vacation leave cannot be converted to sick leave days at the end of the school year.

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

Saraland Board of Education
Notes to the Financial Statements
September 30, 2011

NOTE 6 RISK MANAGEMENT

Rather than finance various risks through self-insurance, the Board has elected to carry traditional insurance coverage.

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and natural disasters. The Board has insurance for its building and contents through an insurance company. The insurance company provides coverage up to \$27,382,558. Errors and omissions insurance is purchased from the premiums and purchases commercial insurance for the amount of coverage requested by pool participants. The Board purchases commercial insurance for fidelity bonds and vehicle fleet. Settled claims in the past three years have not exceeded the amounts of commercial insurance coverage.

Employee health insurance is provided through the Public Education Employees' Health Insurance Fund (PEEHIF), a public entity risk pool, administered by the Public Education Employees' Health Insurance Board. 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 set annually by the Alabama Legislature based on the amounts necessary to fund coverage. The Board contributes the specified monthly amount to the PEEHIF for each employee.

The State Board of Adjustments is a state agency with which people can file against the Board to collect reimbursement for damages when all other means have been exhausted. The Board does not have insurance coverage for job-related injuries. Employees may, however, file claims for job-related injuries with the State Board of Adjustments. The Board of Adjustments determines if a claim is valid and determines the proper amount of compensation. Payments are made from state appropriated funds at no cost to the Board.

NOTE 7 PAYMENTS OR SERVICES FURNISHED BY OTHER AGENCIES

Certain payments or services are furnished by the State of Alabama and the City of Saraland, Alabama, on behalf of the Board. Included in these items are payments from bond issue proceeds and payments on City bond issues for school purpose. These payments or services are reflected as revenues and expenditures on the Board's financial statements in the applicable funds for which they apply.

NOTE 8 DONATED FOOD PROGRAM

The commodities received from the Federal government in connection with the donated food program are reflected in the accompanying financial statements. The total assigned value of commodities donated was \$62,713 for 2011. Commodities consumed were approximately \$56,200 for 2011.

**Saraland Board of Education
Notes to the Financial Statements
September 30, 2011**

NOTE 9 CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditure which may be disallowed by the grantor cannot be determined at this time although the Board expects such amounts, if any, to be immaterial.

NOTE 10 INTERFUND TRANSACTIONS

During the course of normal operations, the Board has numerous transactions between funds to provide services, construct assets, etc. These transactions are generally reflected as operating transfers or receivables and liabilities. Transactions reimbursing a fund for expenditures are recorded as expenditures in the disbursing fund and as revenues in the receiving fund. Remaining fund balances in discontinued funds and non-recurring, non-routine transfers are accounted for as residual equity transfers.

NOTE 11 DEFINED BENEFIT PENSION PLAN

Employees of the Board are covered under a defined benefit pension plan, the Teachers' Retirement System (TRS), which is administered by the Retirement Systems of Alabama (RSA). The plan is a cost-sharing, multiple-employer public employer retirement system (PERS). The payroll for employees covered by the TRS for the year ended September 30, 2011, was \$7,936,488.81; the Board's total payroll was \$7,936,513.20.

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

Retirement benefits are calculated using three methods with the retiree receiving payments under the method which yields the highest monthly benefit. The methods are (1) Minimum Guaranteed, (2) Money Purchase, and (3) 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.

**Saraland Board of Education
Notes to the Financial Statements
September 30, 2011**

NOTE 11 DEFINED BENEFIT PENSION PLAN (continued)

Covered employees are required by state statute to contribute 5 percent of their salary to the TRS. The Board is required to contribute the remaining amounts necessary to pay benefits when due. For the year ended September 30, 2011, the employee contribution requirement was \$396,825.66, and the Board contributed \$992,854.75 (12.51% of covered payroll). The "pension benefit obligation" of a standardized disclosure measures the present value of pension benefits estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess, on a going-concern basis, the funding status of the TRS, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is independent of the actuarial funding method used to determine contributions. The pension benefit obligation is an obligation of the TRS and not of the Board. The TRS does not make separate measurements of assets and pension benefit obligations for individual employers.

Trend information presenting the progress of TRS in accumulating sufficient assets to pay benefits when due is presented in the annual report of the Retirement Systems of Alabama for the year ended September 30, 2010.

The Retirement System 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.

NOTE 12 SUBSEQUENT EVENTS

The Board has evaluated subsequent events through January 20, 2012, the date which the financial statements were available to be issued. The Board is currently in the process of issuing \$21,435,000 of General Obligation Bonds to be used for the construction of a new elementary school, improvements to the middle school, and repayment of existing long-term debt. There were no other material subsequent events which require disclosure at September 30, 2011.

REQUIRED SUPPLEMENTARY INFORMATION

Saraland Board of Education
Statement of Revenues, Expenditures and Changes in Fund Balance--Budget and Actual
(11) - General Fund
For the Year Ended September 30, 2011

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget-- Positive
	Original	Final		(Negative)
Revenues				
State	\$ 7,941,130.00	\$ 8,105,918.00	\$ 8,185,662.50	\$ 79,744.50
Federal	-	375.00	414.00	39.00
Local	4,410,583.00	4,514,660.00	4,710,163.65	195,503.65
Other	-	-	364,377.42	364,377.42
Total Revenues	<u>12,351,713.00</u>	<u>12,620,953.00</u>	<u>13,260,617.57</u>	<u>639,664.57</u>
Expenditures				
Current:				
Instructional	6,501,906.00	6,768,602.00	7,015,405.80	(246,803.80)
Instructional Support	1,803,268.00	1,803,390.65	1,973,132.54	(169,741.89)
Operation and Maintenance	1,570,420.00	1,647,720.85	1,650,363.59	(2,642.74)
Auxiliary Services:				
Student Transportation	666,807.00	703,929.65	775,401.41	(71,471.76)
Food Service	-	-	(3,492.66)	3,492.66
General Administrative	889,939.00	918,197.00	961,180.61	(42,983.61)
Other	90,060.00	91,852.00	93,148.23	(1,296.23)
Capital Outlay	-	-	1,067,628.09	(1,067,628.09)
Debt Service:				
Principal Retirement	157,740.00	157,740.00	61,073.36	96,666.64
Interest and Fiscal Charges	440,411.00	440,411.00	249,708.27	190,702.73
Debt Issuance Costs/Other Debt Service	56,821.00	56,821.00	52,070.08	4,750.92
Total Expenditures	<u>12,177,372.00</u>	<u>12,588,664.15</u>	<u>13,895,619.32</u>	<u>(1,306,955.17)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>174,341.00</u>	<u>32,288.85</u>	<u>(635,001.75)</u>	<u>(667,290.60)</u>
Other Financing Sources (Uses):				
Indirect Cost	21,016.00	25,588.15	107,569.35	81,981.20
Long-Term Debt Issued	-	-	750,000.00	750,000.00
Transfers In	-	-	17,729.01	17,729.01
Other Financing Sources	-	-	5,846.41	5,846.41
Transfers Out	(299,434.00)	(299,434.00)	(296,561.19)	2,872.81
Total Other Financing Sources (Uses)	<u>(278,418.00)</u>	<u>(273,845.85)</u>	<u>584,583.58</u>	<u>858,429.43</u>
Net Change in Fund Balances	(104,077.00)	(241,557.00)	(50,418.17)	191,138.83
Fund Balances - Beginning of Year	2,000,000.00	2,087,939.26	1,382,818.82	110,907.06
Fund Balances - End of Year	<u>\$ 1,895,923.00</u>	<u>\$ 1,846,382.26</u>	<u>\$ 1,332,400.65</u>	<u>\$ 302,045.89</u>

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Saraland Board of Education
Note to Required Supplementary Information
September 30, 2011

NOTE 1 BUDGETS AND BUDGETARY ACCOUNTING

On or before October 1 of each year, the Board is required to prepare and submit to the state superintendent of education the annual budget to be adopted by the Board. Neither the superintendent of education nor the Board can approve any budget for operations of the school system for a fiscal year which shows expenditures in excess of income estimated to be available plus any balances on hand. The superintendent, with the approval of the Board, has the authority to make changes within the approved budget provided that a deficit is not incurred by such changes.

Budgeted amounts are as originally adopted by the Board on September 2, 2010. Final budgeted amounts were adopted by the Board on June 16, 2011.

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general and special revenue funds. All annual appropriations lapse at fiscal year end. Project-length financial plans are adopted for all capital project funds.

OTHER SUPPLEMENTARY INFORMATION

**Saraland Board of Education
Agency Funds Booster Clubs
September 30, 2011**

	Balance October 1, 2010	Additions	Deletions	Balance September 30, 2011
Assets				
Cash and Cash Equivalents	\$ 12,729.86	\$ 202,655.01	\$ 159,996.91	\$ 55,387.96
Total Assets	<u>\$ 12,729.86</u>	<u>\$ 202,655.01</u>	<u>\$ 159,996.91</u>	<u>\$ 55,387.96</u>
Liabilities				
Salaries and Benefits Payable	\$ 1,081.71	\$ -	\$ 1,081.71	\$ -
Due to External Organizations	11,648.15	202,655.01	158,915.20	55,387.96
Total Liabilities	<u>\$ 12,729.86</u>	<u>\$ 202,655.01</u>	<u>\$ 159,996.91</u>	<u>\$ 55,387.96</u>

See independent auditors' report.

COMPLIANCE SECTION



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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Members of the Board
Saraland Board of Education
Saraland, Alabama

We have audited the basic financial statements of Saraland Board of Education as of and for the year ended September 30, 2011, and have issued our report thereon dated January 20, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Saraland Board of Education'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 purpose of expressing an opinion on the effectiveness of Saraland Board of Education's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Saraland Board of Education's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as described below. However, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and communicated them in writing to management and those charged with governance on January 20, 2012.

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.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, members of the board, others within the entity, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.


Certified Public Accountants

January 20, 2012
Brewton, Alabama



Hartmann, Blackmon & Kilgore, P.C.
Certified Public Accountants & Consultants

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH CIRCULAR A-133**

Members of the Board
Saraland Board of Education
Saraland, Alabama

Compliance

We have audited the compliance of the Saraland Board of Education with the types of compliance requirements described in the U.S. Office of Management and Budget Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2011. The Saraland Board of Education's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Saraland Board of Education's management. Our responsibility is to express an opinion on the Saraland Board of Education's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and 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 Saraland Board of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Saraland Board of Education's compliance with those requirements.

In our opinion, the Saraland Board of Education complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2011.

Internal Control over Compliance

The management of the Saraland Board of Education is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Saraland Board of Education's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Saraland Board of Education's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the entity's internal control that might be 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, state officials, applicable federal agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Certified Public Accountants

January 20, 2012
Brewton, Alabama

**SARALAND BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

Description	Federal CFDA Number	Expenditures
<u>U.S. Department of Agriculture</u>		
Passed Through State Department of Education:		
National School Lunch Program	10.555	\$ 415,525.90
National School Breakfast Program	10.553	118,426.56
Total U.S. Department of Agriculture		<u>533,952.46</u>
<u>U.S. Department of Education</u>		
Passed Through State Department of Education:		
Educationally Deprived Children -		
Title I Part A	84.010	570,050.00
Title II, Part A - Teacher Training	84.367	46,328.00
Title II, Part D - Education Technology	84.318	2,226.18
Title VI, Part B - School Program	84.027	295,969.00
IDEA, Preschool	84.173	5,076.00
Career and Technical Education-Basic Grant to States (Perkins IV)	84.048A	29,964.00
Career and Technical Education-Tech Prep	84.243	2,928.00
Immediate Aid to Restart School Operations	84.938	13,738.40
Education for Homeless Children & Youth, Recovery Act	84.387	1,563.43
Special Education Grants to States, Recovery Act	84.391	145,052.36
Special Education-Preschool Grants, Recovery Act	84.392	12,908.05
State Fiscal Stabilization Fund (SFSF)-Education State Grants, Recovery Act	84.394	421,977.00
Education Jobs Fund, Recovery Act	84.410	351,673.00
Total U.S. Department of Education		<u>1,899,453.42</u>
Total Expenditures of Federal Awards		<u><u>\$2,433,405.88</u></u>

**SARALAND BOARD OF EDUCATION
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
SEPTEMBER 30, 2011**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Schedule of Expenditures of Federal Awards is presented based on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A one-year availability period is used for revenue recognition for all governmental fund revenues. Expenditures are recorded when the related liability is incurred.

**SARALAND BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SEPTEMBER 30, 2011**

A) SUMMARY OF AUDITORS' RESULTS:

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the Saraland Board of Education.
2. No instances of noncompliance material to the financial statements of the Saraland Board of Education were disclosed during the audit.
3. The auditors' report on compliance for the major federal award programs for the Saraland Board of Education expresses an unqualified opinion.
4. The audit disclosed no findings which are required to be reported in accordance with OMB Circular A-133 Section.510(a).
5. The programs tested as major programs included:

	<u>CFDA</u>
State Fiscal Stabilization (SFSF)-Education State Grants, Recovery Act	84.394
Education Jobs Fund, Recover Act	84.410
6. The threshold for distinguishing Types A and B programs was \$300,000.
7. The Saraland Board of Education was determined to be a low-risk auditee.

B) FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS—NONE

C) FINDINGS AND QUESTIONS COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

There are no such findings or questioned costs in the current year. No reportable conditions were identified.