

Report on the

# Shelby County Board of Education

Shelby County, Alabama

October 1, 2011 through September 30, 2012

Filed: August 16, 2013



## Department of Examiners of Public Accounts

50 North Ripley Street, Room 3201

P.O. Box 302251

Montgomery, Alabama 36130-2251

Website: [www.examiners.alabama.gov](http://www.examiners.alabama.gov)

*Ronald L. Jones, Chief Examiner*





Ronald L. Jones  
Chief Examiner

State of Alabama  
Department of  
**Examiners of Public Accounts**

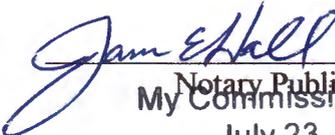
P.O. Box 302251, Montgomery, AL 36130-2251  
50 North Ripley Street, Room 3201  
Montgomery, Alabama 36104-3833  
Telephone (334) 242-9200  
FAX (334) 242-1775

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

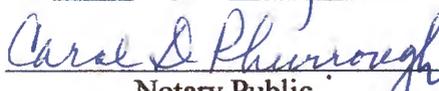
Dear Sir:

Under the authority of the *Code of Alabama 1975*, Section 41-5-21, we submit this report on the results of the audit of the Shelby County Board of Education, Shelby County, Alabama, for the period October 1, 2011 through September 30, 2012.

Sworn to and subscribed before me this  
the 7<sup>th</sup> day of August, 2013.

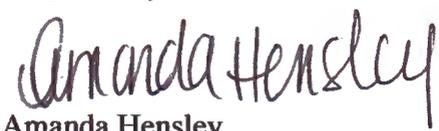
  
\_\_\_\_\_  
Notary Public  
My Commission Expires  
July 23, 2014

Sworn to and subscribed before me this  
the 6 day of August, 2013.

  
\_\_\_\_\_  
Notary Public  
My Commission Expires  
November 2, 2015

rb

Respectfully submitted,

  
Amanda Hensley  
Examiner of Public Accounts

  
BriAnna Upchurch  
Examiner of Public Accounts



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Department of  
**Examiners of Public Accounts**

**SUMMARY**

**Shelby County Board of Education  
October 1, 2011 through September 30, 2012**

The Shelby County Board of Education (the "Board") is governed by a five-member body elected by the citizens of Shelby County. The members and administrative personnel in charge of governance of the Board are listed in Exhibit 12. The Board is the governmental agency that provides general administration and supervision for Shelby County public schools, preschool through high school, with the exception of schools administered by the Hoover 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, 2012.

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

The following officials and administrative personnel were invited to an exit conference to discuss the results of the audit: Superintendent: Randy Fuller; Chief School Financial Officer: Gary McCombs; and Board Members: Lee Doeblar, Steve Martin, Peg Hill, Aubrey Miller, and Jane Hampton. The following individuals attended the exit conference, held at the Board's offices: Superintendent: Randy Fuller; Chief School Financial Officer: Gary McCombs; and representatives of the Department of Examiners of Public Accounts: Brian Wheeler, Audit Manager; Amanda Hensley, Examiner of Public Accounts; and BriAnna Upchurch, 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 Shelby County Board of Education, as of and for the year ended September 30, 2012, which collectively comprise the Shelby 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 Shelby County Board of Education's management. Our responsibility is to express opinions on these financial statements based on our audit.

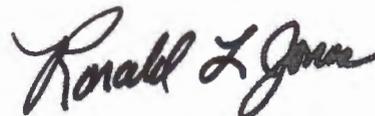
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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 Shelby County Board of Education, as of September 30, 2012, 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 July 31, 2013 on our consideration of the Shelby 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.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Shelby County Board of Education's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 11) is presented for the 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



Ronald L. Jones  
Chief Examiner

Department of Examiners of Public Accounts

July 31, 2013

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

Shelby County Board of Education  
Management's Discussion and Analysis (MD&A)  
September 30, 2012

**Introduction**

This section of the Shelby County Board of Education's comprehensive annual financial report presents Management's Discussion and Analysis (MD & A) of the Board of Education's overall financial position and operating results of the fiscal year ended on September 30, 2012. Please read it in conjunction with the Board's financial statements and notes, which follow this analysis.

The MD & A is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement 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 model contained in GASB Statement No. 34, and these comparisons are included.

The Board and its Superintendent have the responsibility for operating, maintaining and servicing the needs of 39 school sites including 20 Elementary/Intermediate Schools, 9 Middle Schools, 8 High Schools, a School of Technology and 1 Special Needs Schools. All K-12 schools are accredited by the Southern Association of Colleges and Schools. In addition, the Board operates a Central Office, a Professional Development Center, an Operations Department and a Student Transportation Facility.

At the beginning of the 2012-2013 school term the Board employed 2116 teachers, counselors, librarians and other professionals; and 1465 support workers serving a student population of 28,745.35. The Shelby County School System is the 4<sup>th</sup> largest system in the State and continues to be acknowledged as one of the fastest growing.

**Financial highlights** - Significant Items to Note

- Major Local tax revenues declined 1.00% when compared to the previous year. State funds increased compared to the last year. When comparing the current year state funds to the prior year we had a total 2.00% increase. The general fund and capital purchase state funds were not prorated which contributed to the increase in State funds. Management communicated with department leaders and stakeholders to continue monitoring budgets.
- Management increased outstanding long-term debt by \$79.85 million dollars compared to the previous year in order to construct two new schools, classroom additions, and building renovations throughout Shelby County.
- The Board's General Fund Balance increased during the year by \$16.92 million, indicating that the Board's financial position improved and continues to remain stable during our recovery from an economic recession. (See Exhibit 5 and Exhibit 9.)

## **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 supplementary information*, and *other supplementary information*.

***Government-wide financial statements.*** The focus of these statements is to provide readers with a broad overview of the Board's finances as a whole instead of on an individual fund basis, in a manner similar to a private-sector business, indicating both long-term and short-term information about the Board's overall financial status. It is important to note that all of the activities of the Board reported in the *government-wide financial statements* are classified as governmental activities. These *activities* include the following:

Instruction includes teacher salaries and benefits, teacher aides, substitute teachers, textbooks, depreciation of instructional buildings, professional development, and classroom instructional materials, supplies and equipment.

Instructional support includes salaries and benefits for school principals, assistant principals librarians, counselors, school secretaries, school bookkeepers, speech therapists, and school nurses, and professional development expenses.

Operation and maintenance includes utilities, security services, janitorial services, maintenance services, and depreciation of maintenance vehicles.

Auxiliary services includes student transportation expenses, such as bus driver salaries and benefits, mechanics, bus aides, vehicle maintenance and repair expenses, vehicle fuel, depreciation of buses and bus shops, and fleet insurance, and food service expenses such as lunchroom managers, cooks cashiers and servers' salaries and benefits as well as donated and purchased food, food preparation and service supplies, kitchen and lunchroom equipment and depreciation of food service equipment and facilities.

General administration and central support includes salaries and benefits for the superintendent, assistants, clerical and financial staff, and other personnel that provide system-wide support for the schools. Also included are legal expenses, liability insurance, training for board members and general administrative staff, printing costs, and depreciation of central office equipment and facilities.

Interest and Fiscal Charges includes interest, but not principal payments, on long-term debt issues and other expenses related to the issuance and continuance of debt issues.

Other includes the salaries and benefits for adult and continuing education teachers, preschool teachers and aides, extended day personnel, and community education instructors. Also included are the materials, supplies, equipment, related depreciation, and other expenses for operating programs outside of those for educating students in the kindergarten through 12<sup>th</sup> grade instructional programs.

***Government-wide statements*** report the capitalization of capital assets and depreciation of all exhaustible capital assets and the outstanding balances of long-term debt and other obligations, which has not been the case in the past. These statements report all assets and liabilities perpetuated by these activities using the accrual basis of accounting. The accrual basis takes into account all of the Board's current year revenues and expenses regardless of when received or paid. This approach moves the financial reporting method for governmental entities closer to the financial reporting methods used in the private sector. The following *government-wide financial statements* report on all of the governmental activities of the Board as a whole.

The *statement of net assets* (on page 2) 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 3) 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, mandated educational programs for which little or no funding is provided, and increases or decreases in funding from state and federal governments, to name a few.

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

***Governmental Funds*** Governmental *fund financial statements* begin on page 5. These statements account for basically the same governmental activities reported in the *government-wide financial statements*. Until now, fund information has been reported in the aggregate by type of fund. As required under the reporting model, the *fund financial statements* presented herein displayed information on each of the Board's most important governmental funds or *major funds*. This is required in order to better assess the School 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 still measured on the modified-accrual basis of accounting as reported in previous fiscal years, where revenues, expenditures are recorded when they become measurable and available. As a result, the *fund financial statements* focus more on the near term use and availability of spendable resources. The information provided in these statements is useful in determining the Board's immediate financial needs. This is in contrast to the accrual-based *government-wide financial statements*, which focus more on overall long-term availability of spendable resources. The relationship between governmental activities reported in the *government-wide financial statements* and the governmental funds reported in the *fund financial statements* are reconciled on pages 7 and 10 of these financial statements. These reconciliations are 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 the balances of 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 12 of this section. 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 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 14 in this section.

After the presentation of the *basic financial statements*, the reporting model requires additional *required supplemental information* to be presented following the notes to the basic financial statements. The required supplementary information beginning on page 42 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**

Over time, net assets may serve as a useful indicator of a government’s financial position. Refer to Table 1 when reading the following analysis of net assets. The Board’s assets exceeded liabilities by \$219.59 million at September 30, 2012 reflecting an increase in net assets of \$19.80 million over the previous year.

- Of this figure, \$138.81 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.
- Restricted net Assets account for \$56.52 million of total net assets. Restricted net assets are reported separately to show the external legal constraints from debt covenants and enabling legislation that limit the Board’s ability to use those net assets for day-to-day operations.
- The balance of unrestricted net assets was \$24.26 million primarily due to a reduction in proration and controlling expenditures.

**Table 1: Summary of Net Assets**

September 30, 2012 (in Millions)			
	9/30/12 Governmental Activities	9/30/11 Governmental Activities	Increase (decrease)
<b>Assets</b>			
Current and other assets	\$ 168.59	\$ 107.87	\$ 60.72
Capital assets	362.40	326.24	36.16
Total Assets	<u>\$ 530.99</u>	<u>\$ 434.11</u>	<u>\$ 96.88</u>
<b>Liabilities</b>			
Current and other liabilities	\$ 82.34	\$ 85.11	\$ (2.77)
Non-current (Long-Term) liabilities	229.06	149.21	79.85
Total Liabilities	<u>\$ 311.40</u>	<u>\$ 234.32</u>	<u>\$ 77.08</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	\$ 138.81	\$ 186.37	\$ (47.56)
Restricted	56.52	6.18	50.34
Unrestricted	24.26	7.24	17.02
Total Net Assets	<u>\$ 219.59</u>	<u>\$ 199.79</u>	<u>\$ 19.80</u>

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

Considering all GAAP accruals, the Board’s financial position has improved due to a net increase of \$19.80 million in net assets.

The results of this fiscal year's operations as a whole are reported in detail in the *Statement of Activities* on page 3. *Table 2* condenses the results of operations for the fiscal year into a format where the reader can easily see the total revenues of the School Board for the year. It also shows the impact the operations had on changes in net assets as of September 30, 2012.

Table 2: Summary of Changes in Net Assets From Operating Results

Fiscal Year Ended September 30, 2012 (in millions)		
	9/30/12 Governmental Activities	9/30/11 Governmental Activities
<b>Revenues</b>		
Program Revenues:		
Charges for services	\$ 22.97	\$ 22.65
Operating grants and contributions	144.71	152.21
Capital Grants and Contributions	8.64	12.60
General Revenues:		
Local property taxes	73.15	74.77
Local sales taxes	11.12	10.63
Other taxes including the Alcoholic Beverage Tax	1.01	0.98
Other	8.94	8.16
<b>Total Revenues</b>	<b>\$ 270.54</b>	<b>\$ 282.00</b>
<b>Expenses</b>		
Instructional services	\$ 138.51	\$ 145.77
Instructional support services	40.24	41.28
Operation and maintenance services	20.19	20.53
Auxiliary services	32.50	32.67
General administration and central support	4.14	4.48
Interest and fiscal charges	9.73	6.22
Other	5.43	5.76
<b>Total Expenses</b>	<b>\$ 250.74</b>	<b>\$ 256.71</b>
Excess	\$ 19.80	\$ 25.29
<b>Increase in Net Assets</b>	<b>\$ 19.80</b>	<b>\$ 25.29</b>
<b>Net Assets Beginning</b>	<b>199.79</b>	<b>174.50</b>
<b>Net Assets Ending</b>	<b>\$ 219.59</b>	<b>\$ 199.79</b>

The Board's net assets increased \$19.80 million during the current fiscal year. Again, this is mainly attributed to:

- an increase in charges for services and local sales taxes,
- decrease in overall expenses

Governmental Activities - As shown in *Table 2*, the cost of services rendered from the Board's governmental activities for the year ended September 30, 2012 was \$250.74 million. It is important to note that not all of these costs were borne by the taxpayers of Shelby County:

- Some of the cost, \$22.97 million, was paid by users who benefited from services provided during the year, such as school lunches, summer school, local school fees and charges and drivers education instruction.
- State and federal governments subsidized certain programs with grants and contributions totaling \$153.35 million.
- Other general revenue sources, such as interest earnings, sale of surplus property, etc., provided for \$8.94 million in revenues.
- \$65.48 million of the Board's total costs of \$250.74 million was financed by district taxpayers.

Table 3 is a condensed statement taken from the *Statement of Activities* on page 3 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 School Board used to offset the program's total cost. In other words, the net cost shows the financial burden that was placed on Shelby County 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**  
(in millions)

	9/30/2012		9/30/2011	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instructional services	\$ 138.51	\$ 26.22	\$ 145.77	\$ 25.97
Instructional support services	40.24	16.58	41.28	12.94
Operation and maintenance services	20.19	13.71	20.53	16.50
Auxiliary services	32.50	4.17	32.67	4.82
General administration and central support	4.14	3.90	4.48	2.53
Interest and fiscal charges	9.73	9.73	6.22	6.22
Other	5.43	0.11	5.76	0.27
<b>Total</b>	<b>\$ 250.74</b>	<b>\$ 74.42</b>	<b>\$ 256.71</b>	<b>\$ 69.25</b>

## **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*, which begins on page 2.

**Governmental Funds** - The focus of the Board's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Board's financial requirements. (Note that the relationship between the *fund financial statements* and the *government-wide financial statements* are reconciled on pages 7 and 10.) 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 \$85.45 million.

**General Fund** - The general fund is the primary operating fund of the Board. The general fund unassigned fund balance amount is \$16.76 million that's available as of the end of the fiscal year for spending on future operations. An additional \$0.15 million was designated as non-spendable for inventories. The general fund had \$1.8 million in assigned fund balance. General accepted accounting principles (GAAP) requires fund financial statements to be presented using the modified accrual basis of accounting. Daily financial transactions are recorded using the modified cash or budgetary basis of accounting. In order for the Board's financial transactions to be presented in accordance with GAAP, certain adjustments were necessary. Exhibit # 9 shows the Board's general fund balance in the amount \$35.05 million using the budgetary basis, but using the GAAP basis the general fund balance is only \$18.74 million (See Exhibit #5.) The reasons for the difference are due to the accrual of \$12.25 million for salaries and fringe benefit expenditures to be paid out in the subsequent fiscal year and the deferral of \$4.05 million in motor vehicle tax revenue received but unrecognizable until the subsequent fiscal year. Both of these adjustments had a negative impact on the Board's fund balance that would not have been present using the budgetary basis of accounting. Taking all GAAP adjustments into consideration, the general fund balance reflected a net increase of \$16.92 million. This increase in the General Fund balance was primarily due to a decrease in operating transfers by 45% compared to the previous year. Operational and maintenance costs decreased by approximately \$0.27 million compared to the fiscal year ending September 30, 2011.

**Special Revenue Fund** – The special revenue fund ended the year with a \$12.01 million fund balance presented in the following categories: \$0.51 million nonspendable fund balance for inventories, \$4.08 million restricted for child nutrition program, and \$7.39 million fund balance assigned to local schools and \$0.03 million for other purposes (E-rate).

**Capital Project Fund** – The Capital projects fund ended the year with a restricted fund balance of \$53 million.

**Fiduciary Funds** – The Fiduciary Fund or Agency-Type financial statements appear on pages 12. The Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets are presented, as the Board serves as the custodian of these funds, which are held in school accounts.

**Budgetary Highlights of Major Funds**

The Board is mandated by state law to prepare and submit to the State Superintendent of Education the annual budget. The annual budget for FY2012 was due on or before October 1, 2011. The Board passed the FY2012 Budget on September 15, 2011. Over the course of the year, the Board revised the annual operating budget twice: January 26, 2012 and June 21, 2012. For purposes of this budgetary analysis, only the General Fund is discussed in accordance with the reporting model.

**General Fund** - The comparison of general fund original budget to the final amended budget is on page 42. The differences between the original and the amended budget were due to changes that are briefly summarized as follows:

Amendment #1 was necessary to budget federal program carryovers. Budgeted beginning balances were also amended to reflect actual ending fund balances from FY 2011.

Amendment #2 accounted for the inclusion of State grants including the National Board Teachers and ARI, Federal grants such as ROTC, local ad-valorem tax increases, and reclassifications for instructional expenditures.

**Capital Assets and Debt Administration**

**Capital Assets** – The Board’s investment in capital assets for its governmental activities for the year ended September 30, 2012, amounted to an increase of \$36.24 million, net of accumulated depreciation. 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)**  
(in millions)

	Governmental Activities		Increase (decrease)
	2012	2011	
Land and land improvements	\$ 23.14	\$ 21.88	\$ 1.26
Construction in progress	43.90	19.94	23.96
Buildings and Improvements	276.56	268.39	8.17
Vehicles	9.72	4.73	4.99
Equipment	5.37	5.20	0.17
Assets Under Capital Lease	3.71	6.10	(2.39)
	<u>\$ 362.40</u>	<u>\$ 326.24</u>	<u>\$ 36.16</u>

**Long-Term Debt** – At year-end, the Board had \$229.05 million in Warrants Payable, PSCA Capital Improvement Bonds, Capital Leases, and Compensated Absences which included Buses, HVAC Improvements and Local Schools. Table 5 provides a synopsis of the board’s activities related to long-term debt.

**Table 5: Long-Term Debt**  
(in millions)

	Beginning Balance	Additions	Reductions	Ending Balance
<b>Governmental Activities</b>				
Bonds and Warrants payable	144.08	123.03	(41.64)	225.47
<b>Other liabilities</b>				
Capital leases	3.44	0.11	(1.55)	2.00
Compensated absences	1.68	0.00	(0.10)	1.58
<b>Total Governmental Activities</b>	<b>\$ 149.20</b>	<b>\$ 123.14</b>	<b>\$ (43.29)</b>	<b>\$ 229.05</b>

*Bonds and Warrants* – The Board issued Capital Outlay School Warrant Series 2011 in the amount of \$350,000.00 for athletic facilities and renovations. This debt service is paid from local school funds. The Board issued Capital Outlay Refunding Warrant Series 2011 in the amount of \$117,070.00 and partially refunded Series 2009. The proceeds were used for Helena High, Forest Oaks Elementary, and classroom construction throughout Shelby County.

During the year, the Board, as part of a pooled warrant issuance with other school systems within the State of Alabama, issued a Capital Outlay Pool Warrant, Series 2012-A4. The 2012-A bond proceeds were used to refund the 2002-A Series bond.

*Compensated Absences* – Employee vacations and compensatory time decreased by \$97,288.37 for the fiscal year ended September 30, 2012.

**Economic Factors and Future Years’ Budgets**

*The following are currently known economic factors for Shelby County going into the 2012-2013 fiscal year.*

**Economic Conditions** - As of September 2012, Shelby County continues to lead the State with the lowest unemployment rate of 5.2%. The State average is 8.3% compared to a national figure of 7.8%. Large retailer and grocery chains continue to locate within the county. Both Pelham and Alabaster have major shopping centers along the I-65 corridor.

**Growth of Sales Taxes** - Sales Tax increased by approximately 5.00% compared to the previous year.

**Population Growth/Housing/Income** - Based on U.S. Bureau of the Census, 2010 and Shelby County Planning Commission data, Shelby County is the fastest growing area in Alabama. Population was 200,941 in the 2010 Census. The homeownership rate is calculated at approximately 79.8% and the median value of a home in the county is \$198,900. Median household income is estimated at \$68,883.

*At the time these financial statements were prepared and audited, the School Board was aware of the following circumstances that could significantly affect the School Board’s financial health in the future.*

**Student Enrollment** - Average Daily Membership (ADM) as of the forty-day report for the 2012-2013 school year, of 28,745.35, indicates there will be an increase in enrollment of approximately 313 students for the 2013 fiscal year. The budget adopted by the Board in September 2012 took into account this expected increase. A decrease is expected for the 2014 fiscal year due to six schools becoming part of the Alabaster City School System. The ten-year figures of growth based on 40 Day ADM are indicated below.

<b>Fiscal Year</b>	<b>40 Day ADM</b>	<b>ADM Increase</b>
2013	28,745.35	313
2012	28,432.20	260
2011	28,171.95	394
2010	27,778.20	656
2009	27,122.00	646
2008	26,476.00	610
2007	25,866.00	974
2006	24,891.70	1,246
2005	23,645.40	949
2004	22,697.28	937

This continued growth has a major impact on the Board’s ability to maintain current facilities and programs.

**Estimated Capital Needs:** As of September 30, 2012 the Board’s capital plans for the next three years included \$14,880,000.00 in estimated needs, including three additional schools.

**Establishment of Independent City School Districts:** At the present, in addition to the Shelby County School System, there are five municipal school systems partially within Shelby County. They are Birmingham City Schools, Hoover City Schools, Vestavia Hills City Schools, and Leeds City Schools. Alabama law allows a city with a population of 5,000 or more to form a separate school system within its jurisdiction. County wide property and sales taxes are apportioned based on students served. This percentage is calculated by the State Department of Education. Only two other municipalities meet the criteria of forming their own school system: Alabaster and Pelham. The City of Alabaster has established a Board for the Alabaster City Schools. The formal separation agreement has been submitted to the State Department of Education with plans to separate on July 1, 2013.

**Proration of State Funds:** Provisions of the Alabama State Constitution prohibit the State from engaging in deficit financing (spending more than actual revenues). Upon a declaration by the Governor of a shortfall in anticipated revenue, he/she may declare a state of “proration” for the State budgets affected. 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. Subsequently, any reductions of State funds to the Board may result in reductions of expenditures for budget items other than salaries and benefits. The following are the most recent years and percentages of declared proration.

<b>Fiscal Year</b>	<b>Proration Percentage</b>
2010-11	3.00%
2009-10	9.50%
2008-09	11.0%
2002-03	4.40%
2000-01	6.20%

**State Funding:**

**Medical and Retirement Costs:** Employee health insurance is provided through the Public Education Employees' Health Insurance Program (PEEHIP). The past five years of retirement and PEEHIP costs are listed below.

<b>Fiscal Year</b>	<b>Employer Retirement Contribution Percentage</b>	<b>Employer Monthly PEEHIP Premium Cost</b>
2013	10.08%	714.00
2012	10.00%	714.00
2011	12.51%	752.00
2010	12.51%	752.00
2009	12.07%	752.00

**Foundation Program Allocations:**

Final FY2013 State funds are \$139,256,459.

**Contacting the School Board's Financial Management**

This financial report is designed to provide citizens, taxpayers, investors and creditors with a general overview of the School Board's finances and to show the School Board's accountability for the money it receives. If you have any questions about this report or need additional financial information contact one of the financial managers listed below during regular work hours Monday – Friday; 8:00 a.m. to 4:00 p.m. central time.

*Chief School Financial Officer*  
Gary E. McCombs  
[gmccombs@shelbyed.k12.al.us](mailto:gmccombs@shelbyed.k12.al.us)

*Chief Accountant*  
Ollie E. Bulger  
[obulger@shelbyed.k12.al.us](mailto:obulger@shelbyed.k12.al.us)

The Shelby County Board of Education Central Office  
410 East College Street (PO Box 1910)  
Columbiana, AL 35051  
Phone: (205) 682-7000  
Fax: (205) 682-7030

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# *Basic Financial Statements*

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***Statement of Net Assets***  
***September 30, 2012***

	<b>Governmental Activities</b>
<b><u>Assets</u></b>	
Cash and Cash Equivalents	\$ 96,121,197.93
Investments	916,840.11
Property Taxes Receivable	62,950,000.00
Receivables (Note 4)	5,287,325.47
Inventories	661,027.24
Deferred Charges - Issuance Costs	2,654,590.32
Other Assets	383.04
Capital Assets (Note 5):	
Nondepreciable	57,445,028.93
Depreciable, Net	<u>304,950,938.15</u>
Total Assets	<u>530,987,331.19</u>
<b><u>Liabilities</u></b>	
Payables	211,384.47
Deferred Revenue	67,441,100.87
Salaries and Benefits Payable	12,832,570.71
Accrued Interest Payable	1,857,665.20
Long-Term Liabilities:	
Portion Due or Payable Within One Year	9,001,535.58
Portion Due or Payable After One Year	<u>220,054,275.59</u>
Total Liabilities	<u>311,398,532.42</u>
<b><u>Net Assets</u></b>	
Invested in Capital Assets, Net of Related Debt	138,809,080.64
Restricted for:	
Capital Projects	51,935,978.00
Child Nutrition Program	4,582,055.42
Unrestricted	<u>24,261,684.71</u>
Total Net Assets	<u>\$ 219,588,798.77</u>

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

***Statement of Activities***  
***For the Year Ended September 30, 2012***

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b><u>Governmental Activities</u></b>			
Instruction	\$ 138,506,014.04	\$ 3,957,713.64	\$ 103,580,391.00
Instructional Support	40,243,745.46	1,175,414.13	21,695,856.15
Operation and Maintenance	20,191,253.15	809,403.75	5,052,321.13
Auxiliary Services:			
Student Transportation	16,313,759.59	591,077.18	11,782,161.31
Food Services	16,187,347.11	12,660,164.83	819,721.11
General Administrative and Central Support	4,137,052.06	66,498.21	178,056.72
Interest and Fiscal Charges	9,734,351.26		
Other	5,432,433.45	3,713,687.37	1,604,766.14
Total Governmental Activities	<u>\$ 250,745,956.12</u>	<u>\$ 22,973,959.11</u>	<u>\$ 144,713,273.56</u>

**General Revenues:**

Taxes:

Property Taxes for General Purposes

Property Taxes for Specific Purposes

Local Sales Tax

Alcohol Beverage Tax

Other Taxes

Grants and Contributions Not Restricted for  
Specific Programs

Investment Earnings

Miscellaneous

Total General Revenues

Changes in Net Assets

Net Assets - Beginning of Year

Net Assets - End of Year

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

		<b>Net (Expenses) Revenues and Changes in Net Assets</b>	
<b>Capital Grants and Contributions</b>		<b>Total Governmental Activities</b>	
\$	4,746,194.20	\$	(26,221,715.20)
	796,822.63		(16,575,652.55)
	620,365.98		(13,709,162.29)
	1,679,876.00		(2,260,645.10)
	796,822.62		(1,910,638.55)
			(3,892,497.13)
			(9,734,351.26)
			(113,979.94)
<b>\$</b>	<b>8,640,081.43</b>		<b>(74,418,642.02)</b>

63,828,934.89
9,325,488.23
11,115,047.04
337,445.10
673,983.27
241,667.00
553,863.55
8,138,989.79
<u>94,215,418.87</u>
19,796,776.85
199,792,021.92
<u>\$ 219,588,798.77</u>

***Balance Sheet***  
***Governmental Funds***  
***September 30, 2012***

	<b>General Fund</b>	<b>Special Revenue Fund</b>
<b><u>Assets</u></b>		
Cash and Cash Equivalents	\$ 31,462,597.47	\$ 10,063,479.41
Investments		916,840.11
Property Taxes Receivable	62,950,000.00	
Receivables (Note 4)	3,600,146.68	1,582,970.84
Interfund Receivables	20,000.00	
Inventories	153,520.60	507,506.64
Other Assets		383.04
Total Assets	<u>98,186,264.75</u>	<u>13,071,180.04</u>
<b><u>Liabilities and Fund Balances</u></b>		
<b><u>Liabilities</u></b>		
Payables	185,622.63	25,761.84
Interfund Payables		20,000.00
Deferred Revenues	67,004,327.28	436,773.59
Salaries and Benefits Payable	12,254,987.44	577,583.27
Total Liabilities	<u>79,444,937.35</u>	<u>1,060,118.70</u>
<b><u>Fund Balances</u></b>		
Nonspendable:		
Inventories	153,520.60	507,506.64
Restricted for:		
Debt Service		
Capital Projects		
Child Nutrition Program		4,079,588.78
Assigned to:		
Capital Projects	1,000,000.00	
Local Schools	821,332.71	7,391,836.16
Other Purposes		32,129.76
Unassigned	16,766,474.09	
Total Fund Balances	<u>18,741,327.40</u>	<u>12,011,061.34</u>
Total Liabilities and Fund Balances	<u>\$ 98,186,264.75</u>	<u>\$ 13,071,180.04</u>

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

Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ 53,059,942.99	\$ 1,535,178.06	\$ 96,121,197.93
		916,840.11
		62,950,000.00
104,207.95		5,287,325.47
		20,000.00
		661,027.24
		383.04
<u>53,164,150.94</u>	<u>1,535,178.06</u>	<u>165,956,773.79</u>

		211,384.47
		20,000.00
		67,441,100.87
		12,832,570.71
		<u>80,505,056.05</u>

		661,027.24
	1,535,178.06	1,535,178.06
53,164,150.94		53,164,150.94
		4,079,588.78
		1,000,000.00
		8,213,168.87
		32,129.76
		16,766,474.09
<u>53,164,150.94</u>	<u>1,535,178.06</u>	<u>85,451,717.74</u>
<u>\$ 53,164,150.94</u>	<u>\$ 1,535,178.06</u>	<u>\$ 165,956,773.79</u>

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***Reconciliation of the Balance Sheet of Governmental Funds to the  
Statement of Net Assets  
September 30, 2012***

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Total Fund Balances - Governmental Funds (Exhibit 3) \$ 85,451,717.74

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  
are not reported as assets in governmental funds (Note 5).

The Cost of Capital Assets is	\$ 498,485,965.00	
Accumulated Depreciation is	<u>(136,089,997.92)</u>	
		362,395,967.08

Other long-term assets are not available to pay for current-period expenditures and  
therefore, are deferred on the Statement of Net Assets. 2,654,590.32

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	\$ 9,001,535.58	
Noncurrent Portion of Long-Term Debt	<u>220,054,275.59</u>	
Total Long-Term Liabilities		(229,055,811.17)

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

Accrued Interest Payable		<u>(1,857,665.20)</u>
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Total Net Assets - Governmental Activities (Exhibit 1)		<u><u>\$ 219,588,798.77</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, 2012***

	General Fund	Special Revenue Fund
<b><u>Revenues</u></b>		
State	\$ 133,635,516.35	\$
Federal	189,064.28	16,042,187.20
Local	76,412,785.55	21,074,972.61
Other	566,751.96	662,814.23
Total Revenues	<u>210,804,118.14</u>	<u>37,779,974.04</u>
<b><u>Expenditures</u></b>		
Current:		
Instruction	118,296,823.50	14,947,260.50
Instructional Support	35,387,329.85	3,699,035.00
Operation and Maintenance	18,461,148.50	1,224,306.58
Auxiliary Services:		
Student Transportation	14,030,724.54	650,896.74
Food Services		15,877,322.57
General Administrative and Central Support	3,615,862.82	162,502.80
Other	3,433,450.39	2,095,721.68
Capital Outlay	761,647.57	1,296,337.20
Debt Service:		
Principal Retirement	69,778.04	95,273.10
Interest and Fiscal Charges	1,639.80	5,899.51
Debt Issuance Costs/Other Debt Service	210.39	11,293.29
Total Expenditures	<u>194,058,615.40</u>	<u>40,065,848.97</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>16,745,502.74</u>	<u>(2,285,874.93)</u>
<b><u>Other Financing Sources (Uses)</u></b>		
Indirect Cost	901,597.46	
Long-Term Debt Issued	7,006.00	456,061.00
Premiums on Long-Term Debt Issued		
Transfers In	2,683,360.91	3,494,241.09
Other Financing Sources	162.84	69,789.45
Sale of Capital Assets	79,770.00	
Transfers Out	(3,494,241.09)	(2,683,360.91)
Payments to Refunding Escrow Agent		
Total Other Financing Sources (Uses)	<u>177,656.12</u>	<u>1,336,730.63</u>
Net Changes in Fund Balances	16,923,158.86	(949,144.30)
Fund Balances - Beginning of Year	1,818,168.54	12,960,205.64
Fund Balances - End of Year	<u>\$ 18,741,327.40</u>	<u>\$ 12,011,061.34</u>

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

Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ 8,306,466.22	\$ 123,341.21	\$ 142,065,323.78
		16,231,251.48
456,214.76	12,805,769.71	110,749,742.63
		1,229,566.19
<u>8,762,680.98</u>	<u>12,929,110.92</u>	<u>270,275,884.08</u>
		133,244,084.00
		39,086,364.85
384,784.81		20,070,239.89
		14,681,621.28
		15,877,322.57
		3,778,365.62
		5,529,172.07
43,509,598.22		45,567,582.99
4,121,859.75	5,712,209.63	9,999,120.52
1,783,716.73	7,071,442.93	8,862,698.97
15,867.18	1,269,201.67	1,296,572.53
<u>49,815,826.69</u>	<u>14,052,854.23</u>	<u>297,993,145.29</u>
<u>(41,053,145.71)</u>	<u>(1,123,743.31)</u>	<u>(27,717,261.21)</u>
		901,597.46
90,101,778.92	31,446,716.78	122,011,562.70
3,197,270.24	876,802.07	4,074,072.31
		6,177,602.00
7,056.60		77,008.89
480.00		80,250.00
		(6,177,602.00)
<u>(5,272,537.53)</u>	<u>(31,061,277.18)</u>	<u>(36,333,814.71)</u>
<u>88,034,048.23</u>	<u>1,262,241.67</u>	<u>90,810,676.65</u>
46,980,902.52	138,498.36	63,093,415.44
6,183,248.42	1,396,679.70	22,358,302.30
<u>\$ 53,164,150.94</u>	<u>\$ 1,535,178.06</u>	<u>\$ 85,451,717.74</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, 2012***

Net Changes in Fund Balances - Total Governmental Funds (Exhibit 5) \$ 63,093,415.44

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 outlays exceeds depreciation expense in the period.

Capital Outlays	\$ 45,567,582.99	
Depreciation Expense	<u>(9,391,136.34)</u>	36,176,446.65

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. 9,999,120.52

Issuance costs on debt issuance are recorded as financing uses/expenditures in the governmental funds, but are deferred and amortized in the Statement of Activities. 1,278,108.85

Payments to refunding escrow agent are recorded as expenditures or other financing uses in the governmental funds, but reduces long-term liabilities on the Statement of Activities. 36,333,814.71

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. (122,011,562.70)

Premiums on debt issuance are reported as other financing sources in the governmental funds, but are amortized in the Statement of Activities. (4,074,072.31)

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

Proceeds from Sale of Capital Assets	\$ (80,250.00)	
Loss on Disposition of Capital Assets	<u>(129,782.84)</u>	(210,032.84)

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

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

Accrued Interest Payable, Current Year Increase	\$ 625,424.62	
Compensated Absences, Current Year Decrease	(97,288.37)	
Amortization of Bond Premiums/Issuance Costs/Deferred Amounts on Refunding	<u>450,165.22</u>	(978,301.47)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Donated Assets		<u>189,840.00</u>
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Change in Net Assets of Governmental Activities (Exhibit 2)		<u><u>\$ 19,796,776.85</u></u>
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***Statement of Fiduciary Net Assets***  
***September 30, 2012***

	<b>Private-Purpose Trust Funds</b>	<b>Agency Funds</b>
<b><u>Assets</u></b>		
Cash and Cash Equivalents	\$ 15,067.25	\$ 1,203,427.76
Investments	125,136.72	
Total Assets	<u>140,203.97</u>	<u>1,203,427.76</u>
<b><u>Liabilities</u></b>		
Accounts Payable		1,567.20
Due to External Organizations		1,201,860.56
Total Liabilities		<u>\$ 1,203,427.76</u>
<b><u>Net Assets</u></b>		
Held in Trust for Other Purposes	<u>\$ 140,203.97</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, 2012***

	<b>Private-Purpose Trust Funds</b>
<b><u>Additions</u></b>	
Earnings on Investments	\$ 40,473.78
Other Sources	273.12
Total Additions	<u>40,746.90</u>
<b><u>Deductions</u></b>	
Instructional Support	573.82
Other	500.00
Other Uses	123.12
Total Deductions	<u>1,196.94</u>
Changes in Net Assets	39,549.96
Net Assets - Beginning of Year	<u>100,654.01</u>
Net Assets - End of Year	<u>\$ 140,203.97</u>

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

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2012*

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#### **Note 1 – Summary of Significant Accounting Policies**

The financial statements of the Shelby 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.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2012*

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

#### **Fund Financial Statements**

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

The Board reports the following major governmental funds:

- ◆ **General Fund** – The general fund is the primary operating fund of the Board. It is used to account for all financial resources except those required to be accounted for in another fund. The Board primarily receives revenues from the Education Trust Fund (ETF) and local taxes. Amounts appropriated from the ETF were allocated to the school board on a formula basis.
- ◆ **Special Revenue Fund** – This fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Various federal and local funding sources are included in this fund. Some of the significant federal funding sources include the federal funds that are received for Special Education, Title I, and the Child Nutrition Program in addition to various smaller grants, which are required to be spent for the purposes of the applicable federal grants. Also included in this fund are the public and non-public funds received by the local schools which are generally not considered restricted or committed.
- ◆ **Capital Projects Fund** – This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlay, including the acquisition or construction of capital facilities and other capital assets.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2012***

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

**Governmental Fund Type**

- ◆ **Debt Service Fund** – This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest and the accumulation of resources for principal and interest payments maturing in future years.

The Board reports the following fiduciary fund types:

**Fiduciary Fund Types**

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

**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.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2012***

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

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

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

***D. Assets, Liabilities and Net Assets/Fund Balances***

***1. Deposits and Investments***

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

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.

Investments are reported at fair value, based on quoted market prices, except for money market investments and repurchase agreements, which are reported at amortized cost. The Board reports all money market investments – U. S. Treasury bills and bankers' acceptances having a remaining maturity at time of purchase of one year or less – at amortized cost.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2012***

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**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.

Receivables from external parties are amounts that are being held in a trustee or agency capacity by the fiduciary funds.

**3. Inventories**

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

**4. Restricted Assets**

Certain funds received from the State Department of Education for capital projects and improvements, which are included in Cash and Cash Equivalents on the balance sheet, as well as certain resources set aside for repayment of debt, are considered restricted assets because they are maintained separately and their use is limited. The Debt Service Fund is used to report resources set aside to pay the principal and interest on debt as it becomes due.

**5. Capital Assets**

Capital assets, which include property, equipment, and infrastructure assets, are reported 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.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2012***

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

	Capitalization Threshold	Estimated Useful Life
Land	\$1.00 or more	N/A
Construction in Progress	\$1.00 or more	N/A
Land Improvements – Exhaustible	\$ 50,000.00	20 years
Buildings	\$ 50,000.00	50 years
Building Improvements	\$ 50,000.00	7 – 30 years
Equipment and Furniture	\$ 5,000.00	5 – 20 years
Vehicles	\$ 5,000.00	8 – 10 years
Assets Under Capital Lease	\$ 5,000.00	15 – 30 years

**6. Long-Term Obligations**

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Warrant premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Warrants payable are reported net of the applicable warrant premium or discount. Warrant issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond 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 while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**7. 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 one day vacation leave per month. Unused leave days may be carried over to the next year. The Board will pay for a maximum of 10 days-unused vacation leave upon resignation or retirement.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2012*

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#### **8. 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 balance is reported in governmental funds in the fund financial statements under the following five categories:

- ◆ **Nonspendable** – Nonspendable fund balances include amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained in-tact. Examples of nonspendable fund balance reserves for which fund balance shall not be available for financing general operating expenditures include: inventories, prepaid items, and long-term receivables.
- ◆ **Restricted** – Restricted fund balances consist of amounts that are subject to externally enforceable legal restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation.
- ◆ **Committed** – Committed fund balances consist of amounts that are subject to a purpose constraint imposed by formal action of the Board before the end of the fiscal year and that require the same level of formal action to remove the constraint.
- ◆ **Assigned** – Assigned fund balances consist of amounts that are intended to be used by the school system for specific purposes. The Board authorizes the Superintendent or Chief School Financial Officer to make a determination of the assigned amounts of fund balance. Such assignments may not exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. Assigned fund balances require the same level of authority to remove the constraint.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2012*

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- ◆ **Unassigned** – Unassigned fund balances include all spendable amounts not contained in the other classifications. This portion of the total fund balance in the general fund is available to finance operating expenditures.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be the policy of the Board to consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the Board that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts. The Board of Education along with the Superintendent and the Chief School Financial Officer will periodically review all restricted, committed, and assigned fund balances. The Chief School Financial Officer will prepare and submit an annual report of all restricted, committed, and assigned funds for the Board of Education.

#### **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 are budgeted only to the extent expected to be received rather than on the modified accrual basis of accounting. The Special Revenue 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. The Capital Project Fund adopts project-length budgets. All appropriations lapse at fiscal year-end.

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

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2012***

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**Note 3 – Deposits and Investments**

**A. 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 Deposit 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.

**B. Investments in Cash with Fiscal Agents**

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 pledge of the three-mill school tax and other obligations as outlined in the *Code of Alabama 1975*, Section 19-3-120 and Section 19-3-120.1.

The Board does not have a formal policy on investments.

As of September 30, 2012, the Board had the following investments and maturities in overnight repurchase agreements classified as Cash with Fiscal Agent, which is included in Cash and Cash Equivalents on the financial statements:

Investments	Maturities	Fair Value
Federated U. S. Treasury Cash Reserves	Unknown	\$1,312,239.46
Total		<u>\$1,312,239.46</u>

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2012*

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

**Credit Risk** – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. State law requires that pre-funded public obligations, such as any bonds or other obligations of any state of the United States of America or of any agency instrumentality or local governmental unity of any such state that the Board invests in be rated in the highest rating category of Standard & Poor’s Corporation and Moody’s Investor Services, Inc. The Board does not have a formal investment policy requiring investments to be rated in the highest rating category. As of September 30, 2012, the Board’s investments in the treasury reserves were rated AAAM by Standard & Poor’s Corporation.

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

**Concentrations of Credit Risk** – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The Board does not have a formal investment policy.

#### **Note 4 – Receivables**

On September 30, 2012, receivables for the Board’s individual major funds are as follows:

	General Fund	Special Revenue Fund	Capital Projects Fund	Total
Accounts	\$ 34,039.13	\$ 19,229.38	\$ 78,842.62	\$ 132,111.13
Intergovernmental	3,547,072.50	1,563,741.46	25,365.33	5,136,179.29
Other	19,035.05			19,035.05
Total Receivables	<u>\$3,600,146.68</u>	<u>\$1,582,970.84</u>	<u>\$104,207.95</u>	<u>\$5,287,325.47</u>

## Notes to the Financial Statements

### For the Year Ended September 30, 2012

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, 2012, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Ad Valorem Taxes Receivable	\$62,950,000.00	\$4,054,327.28
Funds Received But Not Yet Earned		436,773.59
<b>Total Deferred/Unearned Revenue for Governmental Funds</b>	<b>\$62,950,000.00</b>	<b>\$4,491,100.87</b>

#### Note 5 – Capital Assets

Capital asset activity for the year ended September 30, 2012, was as follows:

	Balance October 1, 2011	Additions/ Reclassifications (*)	Retirements/ Reclassifications (*)	Balance September 30, 2012
<b>Governmental Activities:</b>				
<b>Capital Assets, Not Being Depreciated:</b>				
Land	\$ 11,864,196.88	\$ 1,678,641.26	\$	\$ 13,542,838.14
Construction in Progress	19,941,063.17	37,836,030.28	(13,874,902.66)	43,902,190.79
<b>Total Capital Assets, Not Being Depreciated</b>	<b>31,805,260.05</b>	<b>39,514,671.54</b>	<b>(13,874,902.66)</b>	<b>57,445,028.93</b>
<b>Capital Assets Being Depreciated:</b>				
Land Improvements – Exhaustible	15,090,911.67	114,789.45		15,205,701.12
Buildings	322,885,060.12	10,310,768.48		333,195,828.60
Building Improvements	46,006,960.64	4,608,087.28		50,615,047.92
Equipment and Furniture	13,237,305.48	942,744.46	(54,129.49)	14,125,920.45
Vehicles	14,691,748.87	8,077,632.40	(1,099,306.85)	21,670,074.42
Assets Under Capital Lease	10,366,944.20	103,685.00	(4,242,265.64)	6,228,363.56
<b>Total Capital Assets Being Depreciated</b>	<b>422,278,930.98</b>	<b>24,157,707.07</b>	<b>(5,395,701.98)</b>	<b>441,040,936.07</b>
<b>Less Accumulated Depreciation for:</b>				
Land Improvements – Exhaustible	(5,072,349.09)	(534,248.41)		(5,606,597.50)
Buildings	(90,110,386.87)	(5,094,580.14)		(95,204,967.01)
Building Improvements	(10,387,901.06)	(1,659,955.40)		(12,047,856.46)
Equipment and Furniture	(8,041,359.53)	(751,284.86)	32,831.30	(8,759,813.09)
Vehicles	(9,962,159.08)	(2,969,012.60)	982,050.98	(11,949,120.70)
Assets Under Capital Lease	(4,270,322.13)	(595,548.72)	2,344,227.69	(2,521,643.16)
<b>Total Accumulated Depreciation</b>	<b>(127,844,477.76)</b>	<b>(11,604,630.13)</b>	<b>3,359,109.97</b>	<b>(136,089,997.92)</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>294,434,453.22</b>	<b>12,553,076.94</b>	<b>(2,036,592.01)</b>	<b>304,950,938.15</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 326,239,713.27</b>	<b>\$ 52,067,748.48</b>	<b>\$(15,911,494.67)</b>	<b>\$ 362,395,967.08</b>
(*) Included in the "Additions" and "Retirements" columns above are reclassifications totaling \$13,874,902.66 from Construction in Progress to Land (\$532,293.85), Land Improvements (\$114,789.45), Buildings (\$9,631,488.08), and Building Improvements (\$3,596,331.28) as well as reclassifications totaling \$4,040,052.96 from Assets Under Capital Lease to Building Improvements (\$1,011,756.00), Equipment and Furniture (\$8,295.00) and Vehicles (\$3,020,001.96). Also included are in the "Additions" and "Retirements" columns above are reclassifications totaling \$2,213,493.79 from Accumulated Depreciation for Assets Under Capital Lease to Building Improvements (\$384,467.28), Equipment and Furniture (\$4,106.03) and Vehicles (\$1,824,920.48).				

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2012***

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

	Current Year Depreciation Expense
<u>Governmental Activities:</u>	
Instruction	\$5,261,930.04
Instructional Support	1,157,380.61
Operation and Maintenance	121,013.26
<u>Auxiliary Services:</u>	
Student Transportation	1,632,138.31
Food Service	1,197,893.05
General Administrative and Central Support	20,231.32
Other Expenditures	549.75
Total Depreciation Expense – Governmental Activities	<u>\$9,391,136.34</u>

**Note 6 – Defined Benefit Pension Plan**

**A. Plan Description**

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

Substantially all employees of the Board are members of the Teachers’ Retirement System. Membership is mandatory for covered or eligible employees of the Board. Benefits vest after 10 years of creditable service. Vested employees may retire with full benefits at age 60 or after 25 years of service. Retirement benefits are calculated by two methods with the retiree receiving payment under the method which yields the highest monthly benefit. The methods are (1) Minimum Guaranteed, or (2) Formula, of which the Formula method usually produces the highest monthly benefit. Under this method retirees are allowed 2.0125% of their average final salary (best three of the last ten years) for each year of service. Retirees may also elect to receive a reduced retirement allowance (*Special Privileges at Retirement*) in order to provide an allowance to a designated beneficiary after the member’s death. 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.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2012***

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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, 201 South Union Street, Montgomery, Alabama 36130-2150.

**B. Funding Policy**

Employees are required by statute to contribute 7.25 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,	2012	2011	2010
Total Percentage of Covered Payroll	17.25%	17.51%	17.51%
<b>Contributions:</b>			
Percentage Contributed by the Board	10.00%	12.51%	12.51%
Percentage Contributed by the Employees	7.25%	5.00%	5.00%
Contributed by the Board	\$13,776,450	\$17,421,878	\$17,358,871
Contributed by the Employees	9,987,907	6,963,190	6,938,007
Total Contributions	\$23,764,357	\$24,385,068	\$24,296,878

**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.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2012*

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#### **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 2012
Individual Coverage – Non-Medicare Eligible	\$151.00
Individual Coverage – Medicare Eligible	\$ 10.00
Family Coverage – Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	\$391.00
Family Coverage – Non-Medicare Eligible Retired Member and Dependent Medicare Eligible	\$250.00
Family Coverage – Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	\$250.00
Family Coverage – Medicare Eligible Retired Member and Dependent Medicare Eligible	\$109.00
Surviving Spouse – Non-Medicare Eligible	\$658.00
Surviving Spouse – Non-Medicare Eligible and Dependent Non-Medicare Eligible	\$847.00
Surviving Spouse – Non-Medicare Eligible and Dependent Medicare Eligible	\$816.00
Surviving Spouse – Medicare Eligible	\$328.00
Surviving Spouse – Medicare Eligible and Dependent Non-Medicare Eligible	\$517.00
Surviving Spouse – Medicare Eligible and Dependent Medicare Eligible	\$486.00

For employees that retire other than for disability on or after October 1, 2005 and before January 1, 2012, 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. Employees who retire on or after January 1, 2012, with less than 25 years of service, are required to pay 4% for each year under 25 years of service. In addition, non-Medicare eligible employees are required to pay 1% more for each year less than 65 (age premium) and to pay the net difference between the active employee subsidy and the non-Medicare eligible retiree subsidy (subsidy premium). When the retiree becomes Medicare eligible, the age and subsidy premium no longer applies, but the years of service premium (if applicable to the retiree) will continue to be applied throughout retirement. These changes are being phased in over a 5 year period. The tobacco premium is \$28.00 per month for retired members that smoke.

***Notes to the Financial Statements***  
***For the Year Ended September 30, 2012***

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
2012	\$714.00	\$228.85	32.05%	\$ 9,376,596.08	100%
2011	\$752.00	\$198.94	26.45%	\$ 8,235,002.16	100%
2010	\$752.00	\$241.27	32.08%	\$10,054,764.94	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 – Construction and Other Significant Commitments**

As of September 30, 2012, the Board was obligated under the following significant construction contracts:

	Total Amount Paid	Total Contract Amount
Calera Elementary School	\$ 508,018.28	\$ 522,519.32
Calera Intermediate School	46,433.75	48,650.00
Calera Middle School	10,943,579.12	12,685,429.25
Chelsea High School	259,981.68	418,995.00
Columbiana Middle School	1,560,394.00	1,812,706.31
Forest Oaks Elementary School	4,630,564.83	13,972,112.00
Helena Elementary School	736,782.61	1,743,600.00
Helena High School	11,208,598.32	38,937,500.00
Helena Intermediate School	1,957,836.94	2,571,439.00
Inverness Elementary School		508,053.00
Meadow View Elementary School	1,106,472.41	1,192,000.00
Mt. Laurel Elementary School		49,983.00
Pelham High School	3,740,952.16	3,977,642.76
Roofing Various Schools		228,978.43
Valley Elementary School		21,023.00
Vincent Elementary School	151,900.00	164,000.00
Vincent High School	179,337.00	289,000.00
Total	<u>\$37,030,851.10</u>	<u>\$79,143,631.07</u>

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2012***

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**Note 9 – Lease Obligations**

**Capital Leases**

The Board is obligated under certain leases accounted for as capital leases. Assets under capital leases totaled \$6,228,363.56 at September 30, 2012. If the Board completes the lease payments according to the schedule below, which is the stated intent of the Board, ownership of the leased equipment will pass to the Board. Until that time, the leased equipment will be identified separately on the balance sheet. The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of September 30, 2012.

Fiscal Year Ending	Governmental Activities
September 30, 2013	\$1,033,096.92
2014	1,010,002.21
2015	38,611.64
2016	3,297.61
2017	236.11
Total Minimum Lease Payments	2,085,244.49
Less: Amount Representing Interest	(80,772.05)
Present Value of Net Minimum Lease Payments	\$2,004,472.44

**Note 10 – Long-Term Debt**

The State of Alabama issued Pooled Warrants 2012-A and used some of the proceeds to refund Series 2002-A. The Board, as part of a pooled warrant issuance with other school systems within the State of Alabama, issued Capital Improvement Pool Warrants, Series 2002-A, Series 2005, Series 2006, Series 2008, Series 2009-B, Series 2009-C, 2011-B, and 2012-A in anticipation of their Public School Fund allocations, which are received from the Alabama Department of Education. Series 2002-A debt was defeased by the issuance of the Capital Improvement Pool Refunding Bonds, Series 2012-A. The Alabama Department of Education withholds the required debt service payments from the Board's Public School Fund allocation. The proceeds from these warrants provided funds for the acquisition, construction, and renovation of school facilities.

During fiscal year 2006, the Board issued Special Tax School Warrants. The proceeds from these warrants provided funds for the acquisition, construction, and renovation of school facilities.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2012*

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On April 9, 2009, the Board issued Capital Outlay School Warrants, Series 2009 in the amount of \$68,050,000.00 to currently refund the Series 1998-A, 1998-B, 1999-A and 1999-B capital outlay warrants, to currently refund the 2004 Sale/Lease Back Transaction, to pay other miscellaneous fees, and to pay issuance costs for the Series 2009 Warrants. The Board's share of the ten mill county ad valorem tax is pledged for principal and interest payments.

On December 16, 2009, the Alabama Public School and College Authority issued Capital Improvement Pool Qualified School Construction Bonds Series 2009-D (Tax Credit Bonds) with a tax credit rate of 5.76% and interest rate of 1.865% on behalf of various Boards of Education in the State. The Board had a 0.76% participation in the bonds resulting in the Board's share of principal, issuance costs and net proceeds of \$1,107,000, \$9,744.46 and \$1,097,255.54, respectively. The Board is required to make sinking fund deposits of \$57,609.60 on December 15 in each year for fifteen years so that such deposits and any interest earned thereon shall be used to pay the principal of the bonds upon maturity and are pledged to pay the debt service requirements of the bonds. The sinking fund deposits and interest payments are payable from and secured by a pledge of the Board's allocable share of Public School Capital Outlay Funds.

On June 2, 2011, the Alabama Public School and College Authority issued Capital Improvement Pool Qualified Zone Academy Bonds, Series 2011-A on behalf of various Boards of Education in the State. The Authority will lend the Board a portion of the proceeds of the bonds. The Board's share of the bonds, issuance costs, and net proceeds were \$900,000.00, \$3,367.30 and \$896,632.70 respectively. The Board is required to make sinking fund deposits of \$45,086.05 on May 1 of each year for fifteen years so that such deposits and any interest earned thereon shall be used to pay the principal of the bonds upon maturity and are pledged to pay the debt service requirements of the bonds. The sinking fund deposits and interest payments are payable from and secured by a pledge of the Board's allocable share of Public School Capital Outlay Funds.

On December 14, 2011, the Board issued \$350,000 Capital Outlay School Warrants (One Mill) for the purpose of constructing athletic complex and facilities at Chelsea High School at 4.69% interest rate will expire February 1, 2026.

During fiscal year 2011-2012, the Board issued Capital Outlay School Warrants (Ten Mill County Tax) Series 2011 in the amount of \$117,070,000.00. The proceeds in the amount of \$120,334,163.30 including a premium of \$3,264,163.30 were used to partially advance refund the Series 2009 Warrants in the escrow amount of \$31,061,277.18, pay for underwriting discount \$1,053,630.00, cost of issuance \$208,611.67 and the remainder of \$88,010,644.45 to construct new Helena High School, Forest Oaks Elementary School, classroom additions and modernization of schools in all Shelby County School Zones. The Board issued Series 2011 Capital Outlay Warrants on behalf of Chelsea High School for athletic facilities and renovations.

## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2012*

On March 14, 2012, the Alabama Public School and College Authority, on behalf of various Boards of Education in the pool, issued \$79,340,000 in Capital Improvement Pool Refunding Bonds Series 2012-A (“Series 2012-A”) with interest rates ranging from 4.00% to 5.00% to refund and retire on a current basis \$79,340,000 of outstanding Capital Improvement Pool Bonds Series 2002-A (“Series 2002-A”) with interest rates of 5.00%. The Board had 7.789% participation in the bonds, resulting in the Board’s share of the principal, issuance costs, and premium of \$4,478,495.70, \$15,867.18 and \$809,909.01, respectively. The Alabama Department of Education withholds the required debt service payments from the Board’s Public School Fund allocation.

The Board is obligated under certain leases accounted for as capital leases. These capital leases were obtained to purchase various equipment and to finance certain capital improvements.

The following is a summary of long-term debt transactions for the Board for the year ended September 30, 2012:

	Debt Outstanding 10/01/2011	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 09/30/2012	Amounts Due Within One Year
<b>Governmental Activities:</b>					
<b>Warrants Payable:</b>					
Capital Outlay School Warrant: Series 2011	\$	\$ 350,000.00	\$ (29,927.74)	\$ 320,072.26	\$ 16,900.43
Capital Outlay School Refunding Warrants:					
Series 2009	53,020,000.00		(31,945,000.00)	21,075,000.00	3,170,000.00
Series 2011		117,070,000.00	(470,000.00)	116,600,000.00	705,000.00
PSCA Capital Improvement Pool Warrants:					
Series 2002-A	5,501,165.36		(5,501,165.36)		
Series 2005	10,981,215.97		(593,355.28)	10,387,860.69	617,387.71
Series 2006	1,040,904.36		(48,790.56)	992,113.80	51,253.55
Series 2008	7,464,787.67		(320,438.82)	7,144,348.85	330,584.64
Series 2009-B	7,575,292.32		(189,780.84)	7,385,511.48	199,236.64
Series 2009-C	4,029,683.76		(153,907.47)	3,875,776.29	158,589.06
Series 2011-B	5,974,490.00		(959,472.00)	5,015,018.00	988,345.00
Series 2012-A		4,478,495.70		4,478,495.70	343,197.04
Qualified School Construction Bonds: Series 2009-D	1,107,000.00			1,107,000.00	
Qualified Zone Academy Bonds: Series 2011-A	900,000.00			900,000.00	
Special Tax School Warrants: Series 2006	44,935,000.00		(1,400,000.00)	43,535,000.00	1,465,000.00
Sub-Total Warrants Payable	142,529,539.44	121,898,495.70	(41,611,838.07)	222,816,197.07	8,045,494.07
Deferred Amounts:					
Unamortized Premium	3,884,898.15	4,074,072.31	(823,593.54)	7,135,376.92	606,993.79
Gain/Loss on Refunding	(2,334,980.11)	(2,945,678.96)	794,262.34	(4,486,396.73)	(790,982.55)
Total Warrants Payable, Net	144,079,457.48	123,026,889.05	(41,641,169.27)	225,465,177.26	7,861,505.31
Other Liabilities:					
Capital Leases Contracts Payable	3,445,461.40	113,067.00	(1,554,055.96)	2,004,472.44	981,414.12
Compensated Absences	1,683,449.84		(97,288.37)	1,586,161.47	158,616.15
Total Other Liabilities	5,128,911.24	113,067.00	(1,651,344.33)	3,590,633.91	1,140,030.27
Total Governmental Activities Long Term Liabilities	\$149,208,368.72	\$123,139,956.05	\$(43,292,513.60)	\$229,055,811.17	\$9,001,535.58

***Notes to the Financial Statements***  
***For the Year Ended September 30, 2012***

Payments on the Series 2006 warrants payable are made by the Debt Service Fund with property taxes and sales taxes. Payments on the Series 2011 (Ten Mill) and 2011 (One Mill) and Series 2009 warrants payable are made by the Debt Service Fund with property taxes. Payments on the Capital Improvement Pool Bonds, Series 2002-A, 2005, 2006, 2008, 2009-B, 2009-C, 2009-D, 2011-A, 2011-B, and 2012-A are made with Public School Funds which are part of the Board's allocation from the Alabama Department of Education. Payments on the obligations under capital leases will be made by the General Fund and by the local schools.

The compensated absences liability will be liquidated by the General Fund or the fund for which the employee worked.

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

Fiscal Year Ending	Warrants Payable		Capital Lease Contracts Payable		Total Principal and Interest Requirements to Maturity
	Principal	Interest	Principal	Interest	
September 30, 2013	\$ 8,045,494.07	\$ 9,910,693.46	\$ 981,414.12	\$51,682.80	\$ 18,989,284.45
2014	8,406,524.19	9,583,426.53	983,056.71	26,945.50	18,999,952.93
2015	8,762,738.16	9,221,819.50	36,719.39	1,892.25	18,023,169.30
2016	9,136,059.55	8,845,158.84	3,063.38	234.23	17,984,516.00
2017	9,516,769.16	8,457,297.84	218.84	17.27	17,974,303.11
2018-2022	52,162,776.34	35,703,628.42			87,866,404.76
2023-2027	52,286,907.15	23,661,437.62			75,948,344.77
2028-2032	45,343,928.45	11,619,696.49			56,963,624.94
2033-2037	14,655,000.00	5,251,500.00			19,906,500.00
2038-2041	14,500,000.00	1,420,512.50			15,920,512.50
Totals	\$222,816,197.07	\$123,675,171.20	\$2,004,472.44	\$80,772.05	\$348,576,612.76

**Bond Issuance Costs, Deferred Charges on Refunding, and Premiums**

The Board has deferred amounts on refunding, issuance costs as well as premiums in connection with the issuance of its Capital Outlay School Warrants Series 2011 which partially refunded the Series 2009 Capital Outlay School Refunding Warrants. The issuance costs and premium are being amortized using the straight-line method over a period of thirty years. The deferred charges on refunding are being amortized over the remaining life of the Series 2009 Capital Outlay Refunding Warrants.

The Board has issuance costs as well as premium and deferred amounts on refunding in connection with the issuance of the PSCA Capital Improvement Pool Warrants, Series 2012-A which refunded the Series 2002-A Capital Improvement Pool Warrants. The issuance costs, deferred amount on refunding and premium are being amortized using the straight-line method over a period of ten years.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2012***

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The Board has issuance costs as well as premiums and deferred amounts on refunding in connection with the issuance of its Capital Outlay Refunding Warrants, Series 2009. The issuance cost, deferred amount on refunding, and premium are being amortized using the straight-line method over a period of nine years.

The Board has issuance costs in connection with its PSCA Capital Improvement Pool Warrants, Series 2005. The issuance costs are being amortized using the straight-line method over a period of twenty years.

The Board has issuance costs as well as premiums in connection with the issuance of its PSCA Capital Improvement Pool Warrants, Series 2008. The issuance costs and premium are being amortized using straight-line method over a period of twenty years.

The Board has issuance costs as well as premiums and deferred amounts on refunding in connection with the issuance of its PSCA Capital Improvement Refunding Pool Warrants, Series 2009-B. The issuance cost, deferred amount on refunding and premium are being amortized over the remaining life of the Series 2001-A, and 1999-D, which was 9.5 years.

The Board has issuance costs as well as premiums for the PSCA Capital Improvement Pool Warrants, Series 2009-C. The issuance costs and premium are being amortized using the straight-line method over a period of twenty years.

The Board has issuance costs for its Capital Improvement Pool Qualified School Construction Bonds, Series 2009-D. The issuance costs are being amortized using the straight-line method over a period of fifteen years.

The Board has issuance costs as well as premiums and deferred amounts on refunding in connection with the issuance of its in connection with the issuance of its PSCA Capital Improvement Pool Warrants, Series 2011-B. The issuance costs, deferred amount on refunding and premium are being amortized using the straight-line method over a period of ten years.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2012***

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The Board has issuance costs in connection with the issuance of its Qualified Zone Academy Bonds, Series 2011-A. The issuance costs are being amortized using the straight-line method over a period of fifteen years.

	Issuance Costs	Deferred Amount on Refunding	Premium
Total Issuance Costs, Deferred Amount on Refunding and Premium at October 1	\$2,192,597.68	\$2,913,997.81	\$5,015,736.99
Amount Amortized Prior Years	557,982.03	579,017.70	1,130,838.84
Balance Issuance Costs, Deferred Amount on Refunding and Premium	1,634,615.65	2,334,980.11	3,884,898.15
Current Year Additions	1,278,108.85	2,945,678.96	4,074,072.31
Current Year Deletions	(35,732.95)		(257,095.19)
Current Year Amortized	(222,401.23)	(794,262.34)	(566,498.35)
Total Issuance Costs, Deferred Amount on Refunding and Premium at September 30	<u>\$2,654,590.32</u>	<u>\$4,486,396.73</u>	<u>\$7,135,376.92</u>

**Pledged Revenues**

The Board issued Series 2005, Series 2006, Series 2008, Series 2009-B, Series 2009-C, Series 2011-B, 2012-A Capital Improvement Pool Warrants, Series 2009-D Capital Improvement Pool Qualified School Construction Bonds and Series 2011-A Capital Improvement Pool Qualified Zone Academy 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 \$54,631,443.85 are pledged to repay the principal and interest on the warrants at September 30, 2012. Proceeds of the public school funds in the amount of \$6,123,253.00 were received by the Board during the fiscal year ended September 30, 2012, of which \$4,246,346.04 was used to pay principal, interest and fees on the warrants. The Series 2012-A, Series 2005, Series 2006, Series 2008, Series 2009-B, Series 2009-C, 2009-D, Series 2011-A and Series 2011-B warrants will mature in fiscal years 2024, 2025, 2026, 2028, 2019, 2029, 2026, 2026, and 2021, respectively.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2012*

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The Board issued Series 2006 Special Tax School Warrants for the purpose of constructing a new high school in Calera, a new middle school in Helena, and classroom additions to various schools. The Board pledged to repay the special tax school warrants from the Board's portion of the proceeds of a sales tax levied by Shelby County Commission pursuant to the provisions of Act Number 81-461, Acts of Alabama, as amended by Act Number 96-505, Acts of Alabama. Future revenues in the amount of \$65,361,528.51 are pledged to repay the principal and interest on the warrants at September 30, 2012. Proceeds of the sales tax in the amount of \$10,963,587.92 were received by the Board during the fiscal year ended September 30, 2012, of which \$3,441,418.77 were used to pay principal and interest on the warrants. The Special Tax School Warrants will mature in fiscal year 2031.

The Board issued Series 2009 Capital Outlay School Warrants for the purpose of current refunding the Board's Series 1998-A, 1998-B, 1999-A and 1999-B Capital Outlay School Warrants and to current refund 2004 Sale/Lease Back Transaction. The Board pledged to repay the capital outlay warrants from their share of the 10 mill county ad valorem tax. Future revenues in the amount of \$23,702,100.00 are pledged to repay the remaining principal and interest on the warrants at September 30, 2012. Proceeds of the 10 mill tax in the amount of \$25,841,828.80 were received by the Board during the fiscal year ended September 30, 2012, of which \$4,815,900.00 was used to pay principal and interest on the warrants. The Series 2009 warrants will mature in fiscal year 2018.

The Board issued \$350,000.00 Capital Outlay School Warrants, Series 2011 for the purpose of constructing athletic facilities and improvements. The Board pledged to repay the one mill county ad valorem tax (Section 269C as amended by Amendment No. 111) of the Constitution of 1901, as amended). Future revenues in the amount of \$444,043.66 are pledged to repay the principal and interest on the warrants at September 30, 2012. Proceeds from the one mill tax in the amount of \$2,584,182.87 were received by the Board during the fiscal year ended September 30, 2012 of which \$32,162.00 was used to pay principal and interest on warrants. The Capital Outlay School Warrants Series 2011 will expire February 1, 2026.

The Board issued \$117,070,000.00 Capital Outlay School Warrants, Series 2011 for the purpose of constructing two new schools, classroom additions, and school modernization throughout Shelby County School Zones. The Board pledged to repay the ten mill county ad valorem tax. Future revenues in the amount of \$202,352,252.25 are pledged to repay the remaining principal and interest on the warrants at September 30, 2012. Proceeds of the ten mill tax in the amount of \$25,841,828.80 were received by the Board during fiscal year ended September 30, 2012 of which \$4,681,428.58 was used to pay principal and interest on the warrants. The Capital Outlay School Warrants Series 2011 will expire in fiscal year 2041.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2012*

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#### *Defeased Debt*

On October 18, 2011, the Shelby County Board of Education issued \$117,070,000 Capital Outlay School Warrants Series 2011 with interest rates ranging from 3.00% to 5.00% to partially refund and retire on an advanced basis \$28,050,000 of outstanding Capital School Warrants Series 2009 with interest rates of 3.748%. The proceeds of \$31,061,277.18 were deposited into an irrevocable trust with an escrow agent to provide for the future debt service payments on the Series 2009 Capital Outlay Refunding Warrants that mature on February 1, 2018. Accordingly the trust account assets and liabilities for the defeased debt are not included on the Board's financial statements. At September 30, 2012 the escrow agent has paid \$3,660,000.00 of the total \$28,050,000.00 par that was advanced refunded accordingly is considered defeased. This resulted in the Board being obligated for the total principal of \$117,070,000 for the Series 2011. The Board's partial refunding resulted in a difference between the reacquisition price and the net carrying amount of the Series 2009 of \$3,011,277.18. The difference is being amortized over the remaining life of the old debt issued. As a result of the refunding, the Board increased its total debt service requirements by \$10,656,592.05, which resulted in an economic loss (difference between the present value of the debt service payments on the old and new debt) of (\$2,584,071.98).

The Series 2009 Warrants were issued to refinance various series of warrants theretofore issued by the Board to finance long-term capital assets, primarily new schools, of economic lives in excess of 40 years (the "2009 Refinanced School Projects"). Because all ad valorem taxes levied for the Board were to expire in 2017, the Board was required to provide that the Series 2009 Warrants become due and payable on an accelerated schedule of principal over a term of 9 years, beginning on February 1, 2010 and ending February 1, 2018. The term of the Series 2009 Warrants (9 years) was not, therefore, commensurate with the economic lives of the 2009 Refinanced School Projects (excess of 40 years), which resulted in a disproportionate and inequitable allocation of the entire costs of the 2009 Refinanced School Projects among the immediate taxpayers and users of such Projects during the 9-year term with no allocation of such costs among the taxpayers and users of such projects over the long remaining economic lives of such projects.

In early 2011, all ad valorem taxes levied for the Board were extended for a period of time which allows the Board to finance capital assets on a term commensurate with the economic lives thereof.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2012***

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In late 2011, the Board issued the Series 2011 Warrants to finance a variety of capital projects, including primarily new schools, of economic lives, in the aggregate, in excess of 40 years (the “2011 School Projects”). As part of a comprehensive structuring of the financing of the 2011 School Projects, the Board determined to refund a portion of the Series 2009 Warrants and extend the term of payment thereof, to provide better cash flow management for the Board with respect to all outstanding long-term debt of the Board, and to allow the Board to allocate the costs of all assets financed and refinanced by the Series 2011 Warrants (the 2011 School Projects and a portion of the 2009 Refinanced School Projects) over terms which were more commensurate with the respective economic lives of such assets and were on a more equitable basis for the taxpayers and users. In view of the large amounts of principal of the Series 2009 Warrants becoming due in the years 2012-2018 (being an average of approximately \$7,600,000 in each year), the Board could not finance the 2011 School Projects (which included new schools in high-growth areas of the Board's jurisdiction which were greatly needed) without extension of the maturities of certain of the Series 2009 Warrants. The extension of the term of those of the Series 2009 Warrants so refinanced by the 2011 Warrants did have the effect of increasing the interest cost of such Series 2009 Warrants and, when compared with the original interest cost of such portion of the Series 2009 Warrants (determined on a much abbreviated principal maturity schedule, as described above) appeared to create an economic loss in such refunding, especially when such refunding is considered in isolation from the comprehensive financing plan undertaken by the Board after the 2011 ad valorem tax extension and as necessary to provide greatly needed new school facilities which, absent such refunding of a portion of the 2009 Warrants, could not have been provided.

If the Board had not been required by the 2017 ad valorem tax expiration to issue the Series 2009 Warrants on such an abbreviated principal payment schedule, the Board would have issued the Series 2009 Warrants on a normal term commensurate with the economic lives of the 2009 Refinanced School Projects and consistent with the public policy consideration of financing long-term capital assets, which are used and paid for by taxpayers, over a term which provides for the most equitable allocation of, and payment for, the costs of such assets by the largest group of taxpayers and users. The issuance of the Series 2009 Warrants over such a term would have produced a much higher interest cost for the Series 2009 Warrants upon original issuance and would not have produced an apparent and artificial economic loss upon refunding thereof.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2012***

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On March 14, 2012, the Alabama Public School and College Authority, on behalf of the various Boards of Education in the pool, issued \$79,340,000 in Capital Improvement Pool Refunding Bonds Series 2012-A (“Series 2012-A”) with interest rates ranging from 4.00% to 5.00% to refund and retire on a current basis \$65,655,000 of outstanding Capital Improvement Pool Bonds Series 2002-A (“Series 2002-A”) with interest rates of 5.00%. A portion of the net proceeds of \$93,407,062.58 after a premium of \$14,348,161.85 and payment of \$281,099.33 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 2002-A and Series 2003. As a result, the Series 2002-A are considered to be defeased and the liabilities for those bonds have been removed. The Board had a 7.789% participation in the Series 2002-A. This resulted in the Board being obligated for \$4,478,495.70 of the total principal of \$57,497,698.00 for the Series 2012-A. The Board’s portion of the net proceeds deposited in an irrevocable trust with an escrow agent was \$5,272,537.53. The liability removed was \$4,478,495.70. The Board’s portion of the refunding resulted in a difference between the reacquisition price and the net carrying amount of the Series 2002-A of \$65,598.22. The difference is being amortized over the remaining life of the new debt which is substantially the same as the life of the old debt issued. As a result of the refunding, the Board reduced its total debt service requirements by \$828,876.18, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$785,780.48. The Series 2012-A refinanced two warrants: Series 2002-A in the amount of \$57,497,698.00 and Series 2003 in the amount of \$21,842,302.00 for a total of \$79,340,000.00. The Board did not participate in the original Series 2003 issue or refunding.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2012*

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#### Note 11 – Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board has insurance for its buildings and contents through the State Insurance Fund (SIF) part of the State of Alabama, Department of Finance, Division of Risk Management, which operates as a common risk management and insurance program for state owned properties and county boards of education. The Board pays an annual premium based on the amount of coverage requested. The SIF is self-insured up to \$3.5 million per occurrence and purchases excess commercial insurance for claims up to \$1 billion, per occurrence, with a \$3.5 million deductible for all perils, with the exception of a named storm, which has a \$10 million deductible. 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. Automobile insurance is purchased from Rux Carter Insurance Agency Auto Owners Insurance Company with medical payments limited to \$5,000.00 per person and a combined liability of \$500,000.00 per occurrence. 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, 2012***

**Note 12 – Interfund Transactions**

**Interfund Transfers**

The amounts of interfund transfers during the fiscal year ended September 30, 2012, were as follows:

	Transfers Out		Total
	General Fund	Special Revenue Fund	
<b>Transfers In:</b>			
General Fund	\$	\$2,683,360.91	\$2,683,360.91
Special Revenue Fund	3,494,241.09		3,494,241.09
<b>Totals</b>	<b>\$3,494,241.09</b>	<b>\$2,683,360.91</b>	<b>\$6,177,602.00</b>

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

**Note 13 – Subsequent Events**

The City of Alabaster has formed the Alabaster City Schools and plans to separate from the Board effective July 1, 2013.

The Board has approved the following significant construction contracts since October 1, 2012:

	Contract Amount
Mt. Laurel Elementary School - Classroom Addition	\$ 2,098,728.00
Wilsonville Elementary School - Gym Addition/Renovation	1,976,800.00
Columbiana Middle School - Roof Storm Damages	286,839.00
Helena High School - Athletic Facilities	6,515,351.00
Montevallo High School - Renovations	868,448.00
Calera Middle School - Gym Water Damages	60,025.00
Helena Elementary School - Partial Re-roofing	174,600.00
Valley Elementary School - Partial Re-roofing	219,340.00
Chelsea Middle School - Partial Re-roofing	301,556.00
Pelham High School - HVAC Chiller Replacement	500,000.00
Pelham High School - Summer Maintenance	110,000.00
Pelham High School - Gymnasium and Kitchen HVAC Updates	561,500.00
Montevallo Elementary School - Renovations	2,664,700.00
<b>Totals</b>	<b>\$16,337,887.00</b>

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*Required Supplementary Information*

***Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual - General Fund  
For the Year Ended September 30, 2012***

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>
	<b>Original</b>	<b>Final</b>	<b>Budgetary Basis</b>
<b>Revenues</b>			
State	\$ 132,374,217.00	\$ 133,409,571.59	\$ 133,635,516.35
Federal	168,484.27	188,733.93	189,064.28
Local	72,077,228.07	73,375,576.07	76,774,546.25
Other	250,400.00	255,773.92	566,751.96
Total Revenues	<u>204,870,329.34</u>	<u>207,229,655.51</u>	<u>211,165,878.84</u>
<b>Expenditures</b>			
Current:			
Instruction	121,735,816.76	122,839,378.91	120,316,181.66
Instructional Support	35,706,848.05	36,616,633.23	35,789,928.52
Operation and Maintenance	19,473,929.00	19,536,300.46	18,516,620.72
Auxiliary Services:			
Student Transportation	14,299,458.74	14,469,079.74	14,277,901.78
General Administrative and Central Support	3,720,604.97	3,744,249.69	3,606,279.61
Other	3,408,526.71	3,566,549.96	3,469,649.06
Capital Outlay	188,925.00	241,878.28	761,647.57
Debt Service:			
Principal Retirement	68,913.59	69,778.04	69,778.04
Interest and Fiscal Charges	1,190.25	1,639.80	1,639.80
Other Debt Service	12,210.42	210.42	210.39
Total Expenditures	<u>198,616,423.49</u>	<u>201,085,698.53</u>	<u>196,809,837.15</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>6,253,905.85</u>	<u>6,143,956.98</u>	<u>14,356,041.69</u>
<b>Other Financing Sources (Uses)</b>			
Indirect Cost	921,717.15	898,444.42	901,597.46
Long-Term Debt Issued		7,006.00	7,006.00
Transfers In	2,911,146.61	2,970,557.92	2,683,360.91
Other Financing Sources			162.84
Sale of Capital Assets		79,770.00	79,770.00
Transfers Out	(7,411,664.11)	(4,931,110.38)	(3,494,241.09)
Total Other Financing Sources (Uses)	<u>(3,578,800.35)</u>	<u>(975,332.04)</u>	<u>177,656.12</u>
Net Change in Fund Balances	2,675,105.50	5,168,624.94	14,533,697.81
Fund Balances - Beginning of Year	<u>15,459,652.08</u>	<u>20,516,944.31</u>	<u>20,516,944.31</u>
Fund Balances - End of Year	<u>\$ 18,134,757.58</u>	<u>\$ 25,685,569.25</u>	<u>\$ 35,050,642.12</u>

	<b>Budget to GAAP Differences</b>	<b>Actual Amounts GAAP Basis</b>
	\$	\$ 133,635,516.35
		189,064.28
(1)	(361,760.70)	76,412,785.55
		566,751.96
	<u>(361,760.70)</u>	<u>210,804,118.14</u>
(2)	2,019,358.16	118,296,823.50
(2)	402,598.67	35,387,329.85
(2)	55,472.22	18,461,148.50
(2)	247,177.24	14,030,724.54
(2)	(9,583.21)	3,615,862.82
(2)	36,198.67	3,433,450.39
		761,647.57
		69,778.04
		1,639.80
		210.39
	<u>2,751,221.75</u>	<u>194,058,615.40</u>
	<u>2,389,461.05</u>	<u>16,745,502.74</u>
		901,597.46
		7,006.00
		2,683,360.91
		162.84
		79,770.00
		<u>(3,494,241.09)</u>
		<u>177,656.12</u>
	2,389,461.05	16,923,158.86
(3)	<u>(18,698,775.77)</u>	<u>1,818,168.54</u>
	<u>\$ (16,309,314.72)</u>	<u>\$ 18,741,327.40</u>

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***Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual - General Fund  
For the Year Ended September 30, 2012***

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**Explanation of differences between Actual Amount on Budgetary Basis and Actual Amounts GAAP Basis:**

The Board budgets on the modified accrual basis of accounting except as shown below:

- (1) The Board recognizes motor vehicle taxes as they are received without regard to when they are earned (GAAP).
- (2) The Board budgets salaries payable as they are actually paid rather than on the modified accrual basis (GAAP).

Net Increase in Fund Balance - Budget to GAAP

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

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\$ (361,760.70)

2,751,221.75

\$ 2,389,461.05

***Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual - Special Revenue Fund  
For the Year Ended September 30, 2012***

	Budgeted Amounts		Actual Amounts Budgetary Basis
	Original	Final	
<b>Revenues</b>			
Federal	\$ 15,690,414.13	\$ 16,697,060.44	\$ 16,042,187.20
Local	20,606,230.16	20,760,798.88	21,074,972.61
Other	372,649.87	669,921.94	662,814.23
Total Revenues	<u>36,669,294.16</u>	<u>38,127,781.26</u>	<u>37,779,974.04</u>
<b>Expenditures</b>			
Current:			
Instruction	13,375,107.66	14,032,458.37	14,947,260.50
Instructional Support	3,076,065.21	3,399,219.90	3,699,035.00
Operation and Maintenance	1,081,440.00	1,085,209.00	1,224,306.58
Auxiliary Services:			
Student Transportation	661,570.39	665,819.54	650,896.74
Food Service	16,563,251.38	16,849,450.57	16,114,602.70
General Administrative and Central Support	152,074.53	159,816.15	162,502.80
Other	3,015,349.34	2,954,109.50	2,095,721.68
Capital Outlay	368,300.00	1,569,613.72	1,296,337.20
Debt Service:			
Principal Retirement	177,586.00	177,586.00	95,273.10
Interest and Fiscal Charges	16,368.00	16,368.00	5,899.51
Other Debt Service	11,201.00	11,701.00	11,293.29
Total Expenditures	<u>38,498,313.51</u>	<u>40,921,351.75</u>	<u>40,303,129.10</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,829,019.35)</u>	<u>(2,793,570.49)</u>	<u>(2,523,155.06)</u>
<b>Other Financing Sources (Uses)</b>			
Long-Term Debt Issued	20,000.00	370,000.00	456,061.00
Transfers In	8,017,821.16	5,477,856.12	3,494,241.09
Other Financing Sources	44,312.00	44,312.00	69,789.45
Transfers Out	(3,517,303.66)	(3,517,303.66)	(2,683,360.91)
Total Other Financing Sources (Uses)	<u>4,564,829.50</u>	<u>2,374,864.46</u>	<u>1,336,730.63</u>
Net Change in Fund Balances	2,735,810.15	(418,706.03)	(1,186,424.43)
Fund Balances - Beginning of Year	<u>9,793,901.12</u>	<u>14,833,369.68</u>	<u>13,775,069.04</u>
Fund Balances - End of Year	<u>\$ 12,529,711.27</u>	<u>\$ 14,414,663.65</u>	<u>\$ 12,588,644.61</u>

	<b>Budget to GAAP Differences</b>	<b>Actual Amounts GAAP Basis</b>
	\$	\$ 16,042,187.20
		21,074,972.61
		662,814.23
		<u>37,779,974.04</u>
		14,947,260.50
		3,699,035.00
		1,224,306.58
		650,896.74
(1)	237,280.13	15,877,322.57
		162,502.80
		2,095,721.68
		1,296,337.20
		95,273.10
		5,899.51
		11,293.29
	<u>237,280.13</u>	<u>40,065,848.97</u>
	<u>237,280.13</u>	<u>(2,285,874.93)</u>
		456,061.00
		3,494,241.09
		69,789.45
		<u>(2,683,360.91)</u>
		<u>1,336,730.63</u>
	237,280.13	(949,144.30)
(2)	<u>(814,863.40)</u>	<u>12,960,205.64</u>
	<u>\$ (577,583.27)</u>	<u>\$ 12,011,061.34</u>

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***Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual - Special Revenue Fund  
For the Year Ended September 30, 2012***

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**Explanation of differences between Actual Amount on Budgetary Basis and Actual Amounts GAAP Basis:**

The Board budgets on the modified accrual basis of accounting except as shown below:

- (1) The Board budgets salaries payable as they are actually paid rather than on the modified accrual basis (GAAP).

Net Increase in Fund Balance - Budget to GAAP

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

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\$ 237,280.13

\$ 237,280.13

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*Supplementary Information*

***Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2012***

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>
<b><u>U. S. Department of Education</u></b>		
<b><u>Passed Through Alabama Department of Education</u></b>		
Special Education:		
Special Education - Grants to States	84.027	N.A.
Special Education - Preschool Grants	84.173	N.A.
Sub-Total Special Education		
Title I Grants to Local Educational Agencies (M)	84.010	N.A.
Career and Technical Education - Basic Grants to States	84.048	N.A.
Education for Homeless Children and Youth	84.196	N.A.
Education Technology State Grants	84.318	N.A.
Special Education - State Personnel Development	84.323	N.A.
Advanced Placement Program	84.330	N.A.
English Language Acquisition Grants	84.365	N.A.
Improving Teacher Quality State Grants	84.367	N.A.
Education Jobs Fund	84.410	N.A.
<b><u>Passed Through Alabama Department of Rehabilitation Services</u></b>		
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	N.A.
Total U. S. Department of Education		
<b><u>U. S. Department of Agriculture</u></b>		
<b><u>Passed Through Alabama Department of Education</u></b>		
Child Nutrition Cluster:		
School Breakfast Program - Cash Assistance	10.553	N.A.
National School Lunch Program:		
Cash Assistance	10.555	N.A.
Non-Cash Assistance (Commodities)	10.555	N.A.
Sub-Total National School Lunch Program		
Sub-Total Child Nutrition Cluster (M)		
Fresh Fruit and Vegetable Program	10.582	N.A.
Total U. S. Department of Agriculture		
Sub-Total Forward		

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
10/01/2011 - 09/30/2012	\$ 5,609,375.53	\$ 5,609,375.53	\$ 5,464,423.60	\$ 5,464,423.60
10/01/2011 - 09/30/2012	86,976.00	86,976.00	82,508.86	82,508.86
	<u>5,696,351.53</u>	<u>5,696,351.53</u>	<u>5,546,932.46</u>	<u>5,546,932.46</u>
10/01/2011 - 09/30/2012	3,220,864.16	3,220,864.16	2,853,254.33	2,853,254.33
10/01/2011 - 09/30/2012	298,462.00	298,462.00	298,462.00	298,462.00
10/01/2011 - 09/30/2012	26,500.00	26,500.00	26,500.00	26,500.00
10/01/2011 - 09/30/2012	8,825.90	8,825.90	8,825.90	8,825.90
10/01/2011 - 09/30/2012	64,965.36	64,965.36	63,710.90	63,710.90
10/01/2011 - 09/30/2012	45,700.00	45,700.00	41,379.00	41,379.00
10/01/2011 - 09/30/2012	301,879.74	301,879.74	266,018.80	266,018.80
10/01/2011 - 09/30/2012	772,997.84	772,997.84	725,797.28	725,797.28
10/01/2011 - 09/30/2012	81,551.00	81,551.00	81,551.00	81,551.00
10/01/2011 - 09/30/2012	25,120.01	25,120.01	25,120.01	25,120.01
	<u>10,543,217.54</u>	<u>10,543,217.54</u>	<u>9,937,551.68</u>	<u>9,937,551.68</u>
10/01/2011 - 09/30/2012	1,077,165.24	1,077,165.24	1,077,165.24	1,077,165.24
10/01/2011 - 09/30/2012	4,204,833.16	4,204,833.16	4,204,833.16	4,204,833.16
10/01/2011 - 09/30/2012	709,452.90	709,452.90	709,452.90	709,452.90
	<u>4,914,286.06</u>	<u>4,914,286.06</u>	<u>4,914,286.06</u>	<u>4,914,286.06</u>
	<u>5,991,451.30</u>	<u>5,991,451.30</u>	<u>5,991,451.30</u>	<u>5,991,451.30</u>
10/01/2011 - 09/30/2012	111,392.77	111,392.77	111,392.77	111,392.77
	<u>6,102,844.07</u>	<u>6,102,844.07</u>	<u>6,102,844.07</u>	<u>6,102,844.07</u>
	\$ 16,646,061.61	\$ 16,646,061.61	\$ 16,040,395.75	\$ 16,040,395.75

***Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2012***

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>
Sub-Total Brought Forward		
<b><u>U. S. General Services Administration</u> <u>Passed Through Alabama Department of Economic and Community Affairs</u></b>		
Donation of Federal Surplus Personal Property	39.003	N.A.
<b><u>Social Security Administration</u> <u>Passed Through Alabama Department of Education</u></b>		
Social Security - Disability Insurance	96.001	N.A.
<b><u>Other Federal Assistance</u> <u>U. S. Department of Defense</u> <u>Direct Program</u></b>		
ROTC - Army	N.A.	N.A.
ROTC - Air Force	N.A.	N.A.
ROTC - Navy	N.A.	N.A.
Total U. S. Department of Defense		
Total Expenditures of Federal Awards		

(M) = Major Program

N.A. = Not Applicable/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		
	\$ 16,646,061.61	\$ 16,646,061.61	\$ 16,040,395.75	\$ 16,040,395.75
10/01/2011 - 09/30/2012			988.05	988.05
10/01/2011 - 09/30/2012	5,704.00	5,704.00	5,704.00	5,704.00
10/01/2011 - 09/30/2012	63,510.89	63,510.89	63,510.89	63,510.89
10/01/2011 - 09/30/2012	56,302.70	56,302.70	56,302.70	56,302.70
10/01/2011 - 09/30/2012	63,546.69	63,546.69	63,546.69	63,546.69
	<u>183,360.28</u>	<u>183,360.28</u>	<u>183,360.28</u>	<u>183,360.28</u>
	<u>\$ 16,835,125.89</u>	<u>\$ 16,835,125.89</u>	<u>\$ 16,230,448.08</u>	<u>\$ 16,230,448.08</u>

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***Notes to the Schedule of Expenditures  
of Federal Awards  
For the Year Ended September 30, 2012***

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**Note 1 – Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Shelby 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 financial statements.

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## *Additional Information*

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***Board Members and Administrative Personnel***  
***October 1, 2011 through September 30, 2012***

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<b>Board Members</b>		<b>Term Expires</b>
Hon. Lee Doebler, Ph.D.	President	2012
Hon. Steve Martin	Vice-President	2012
Hon. Peg Hill	Member	2014
Hon. Aubrey Miller	Member	2016
Hon. Jane Hampton	Member	2016
<b><u>Administrative Personnel</u></b>		
Hon. Randy Fuller	Superintendent	2014
Mr. Gary McCombs	Assistant Superintendent of Finance/Chief School Financial Officer	Annual Contract

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***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***

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We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Shelby County Board of Education as of and for the year ended September 30, 2012, which collectively comprise the Shelby County Board of Education's basic financial statements and have issued our report thereon dated July 31, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

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

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

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

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***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***

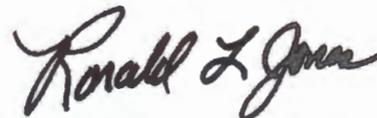
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**Compliance and Other Matters**

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

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

July 31, 2013

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***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***

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**Independent Auditor's Report**

**Compliance**

We have audited the Shelby County Board of Education's compliance with the types of compliance requirements described in the ***OMB Circular A-133 Compliance Supplement*** that could have a direct and material effect on each of the Shelby County Board of Education's major federal programs for the year ended September 30, 2012. The Shelby County Board of Education's major federal programs are identified in the Summary of Examiner's Results Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Shelby County Board of Education's management. Our responsibility is to express an opinion on the Shelby County Board of Education's compliance based on our audit.

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

In our opinion, the Shelby County Board of Education complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

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***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***

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**Internal Control Over Compliance**

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

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

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

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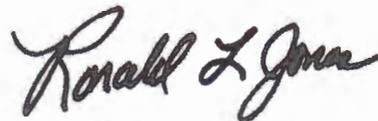
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***Report on Compliance With Requirements That Could  
Have a Direct and Material Effect on Each Major  
Program and on Internal Control Over Compliance in  
Accordance With OMB Circular A-133***

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

July 31, 2013

***Schedule of Findings and Questioned Costs***  
***For the Year Ended September 30, 2012***

**Section I – Summary of Examiner's Results**

**Financial Statements**

Type of opinion issued: Unqualified

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

Significant deficiency(ies) identified? \_\_\_\_\_ Yes     X  None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes     X  No

**Federal Awards**

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

Significant deficiency(ies) identified? \_\_\_\_\_ Yes     X  None reported

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

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

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.553 and 10.555 84.010	Child Nutrition Cluster Title I Grants to Local Education Agencies

Dollar threshold used to distinguish between Type A and Type B programs: \$486,913.44

Auditee qualified as low-risk auditee? \_\_\_\_\_ Yes     X  No

***Schedule of Findings and Questioned Costs***  
***For the Year Ended September 30, 2012***

**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.	