

**SATSUMA CITY
BOARD OF EDUCATION
FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL SECTION	
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION & ANALYSIS	3- 12
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statement of Net Position	13
Statement of Activities	14
Fund Financial Statements	
Balance Sheet	15
Reconciliation of Governmental Fund Balances to Net Position of Governmental Activities	16
Statement of Revenues, Expenditures, and Changes in Fund Balances	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	18
Statement of Fiduciary Net Position	19
Notes to the Financial Statements	20-33
REQUIRED SUPPLEMENTARY INFORMATION	
Statement of Revenues, Expenditures and Changes in Fund Balances Budget to Actual General Fund	34
Statement of Revenues, Expenditures and Changes in Fund Balances Budget to Actual Special Revenue Fund	35
Notes to the Required Supplementary Information	36-37
COMPLIANCE SECTION	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards	38-39
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	40-41
Schedule of Expenditures of Federal Awards	42
Note to the Schedule of Expenditures of Federal Awards	43
Schedule of Findings and Questioned Costs	44

FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Satsuma City Board of Education, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise Satsuma City Board of Education's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Satsuma City Board of Education's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 Satsuma City Board of Education, as of September 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-12 and 34-37 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.


Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Satsuma City Board of Education's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2015, on our consideration of Satsuma City Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Satsuma City Board of Education's internal control over financial reporting and compliance.


Certified Public Accountants

March 13, 2015
Fairhope, Alabama

SATSUMA CITY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION & ANALYSIS
REQUIRED SUPPLEMENTAL INFORMATION

SEPTEMBER 30, 2014

The Satsuma City Board of Education's (the "Board") discussion and analysis presents the overall financial position and operating results for the fifteen month period ended September 30, 2014. Readers are encouraged to read it in conjunction with the Board's financial statements, which follow this analysis. The Management's Discussion and Analysis (MD&A) reflects an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

Financial Highlights: Significant Items to Note

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

- The Board's financial status increased for the audit period ending September 30, 2014. The Board's total net position increased by \$307,200 over the course of the audit period. This increase is attributable to an increase in cash and current assets netted against an increase in liabilities due to a bond issue processed in fiscal 2014. The assets of the Board exceeded its liabilities at the close of fiscal year 2014 by approximately \$40.4 million (net position).
- The total cost of the Board's programs for the year was \$12.6 million. After taking away a portion of these costs paid for with charges or fees, intergovernmental aid, interest earnings and other miscellaneous sources, the net cost that required funding from city and county taxpayers was \$2.7 million. This includes the required 10-mill local system contribution into the State Foundation Program of \$475,170. The Foundation Program (the state funding mechanism for K-12 education systems in Alabama) provided \$6.9 million toward the cost of these programs.
- For the General Fund, revenues exceeded total expenditures during the year by \$610,808 resulting in a fund balance of \$834,993 on the Budgetary Basis.
- The Board had long-term liabilities at year end totaling \$1,967,069. This liability represents a Qualified Zone Academy Bond (QZAB) bond payable of \$1,933,333 and a recorded liability for compensated absences in the amount of \$33,736.

Using the Financial Statements -An Overview for the User

The following graphic is provided for your review and understanding of the financial statements and this report as a whole. This annual financial report consists of four parts:

- Independent Auditor's Report
- Required Supplementary Information (including the MD&A)
- Basic Financial Statements (District-wide or Board-wide and Fund Financial Statements)
- Supplemental Information

**SATSUMA CITY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION & ANALYSIS
REQUIRED SUPPLEMENTAL INFORMATION**

SEPTEMBER 30, 2014

Required Components of Annual Financial Report

Figure 1

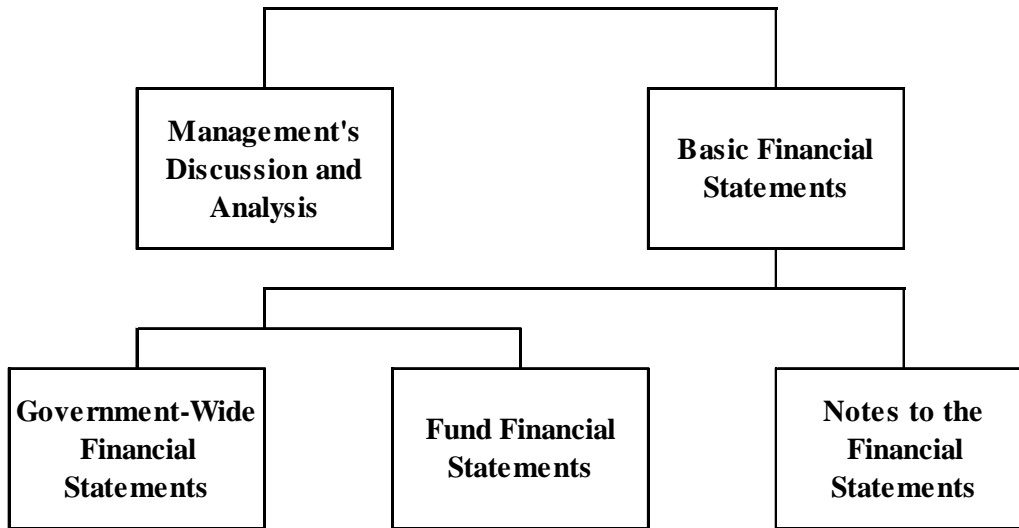


Figure 1 depicts the major features of the Board's financial statements. The focus of the financial statements is on the Board as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Board's accountability.

Government-Wide Financial Statements

The first two statements are government-wide financial statements — the *Statement of Net Position* and the *Statement of Activities*. These provide both long-term and short-term information about the Board's overall financial status. The focus of the *Statement of Net Position* (the "Unrestricted Net Position") is designed to be similar to bottom line results for the Board and its activities.

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

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

SATSUMA CITY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION & ANALYSIS
REQUIRED SUPPLEMENTAL INFORMATION

SEPTEMBER 30, 2014

Fund Financial Statements

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

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

Fiduciary funds - Fiduciary funds are used to account for assets held by the Board in a trustee capacity or as an agent for others. Activities from fiduciary funds are not included in the government-wide financial statements because the Board cannot use these assets for its operations. Fiduciary funds of the Board are reported in the Other Supplementary Information as Agency Funds Booster Clubs, using an accrual basis of accounting.

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

Required Supplementary Information

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

Analysis of the School Board's Overall Financial Position

As indicated earlier, net position may serve over time as a useful indicator of a government's financial position. Refer to *Table 1* when reading the following analysis of net position. The Board's assets exceeded liabilities by \$40.4 million at September 30, 2014.

SATSUMA CITY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION & ANALYSIS
REQUIRED SUPPLEMENTAL INFORMATION

SEPTEMBER 30, 2014

- Of this figure, 92.47% or \$37.4 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 position is not available for future spending or funding of operations. Of the balance, 5.26%, or \$2,126,397 is restricted and 2% of \$806,799 is unrestricted and available for future spending.

Table 1: Summary of Net Position
As of September 30, 2014

	<u>Governmental</u> <u>Activities</u>	<u>Percent</u> <u>of Total</u>
Current and other assets	\$ 4,102,891	9.43%
Capital assets	<u>39,396,154</u>	<u>90.57%</u>
Total Assets	<u>\$ 43,499,045</u>	<u>100.00%</u>
Current and Other Liabilities	\$ 1,135,958	36.61%
Long-term liabilities	<u>1,967,069</u>	<u>63.39%</u>
Total Liabilities	<u>3,103,027</u>	<u>100.00%</u>
Net Position:		
Net investment in capital assets	37,462,822	92.74%
Restricted	2,126,397	5.26%
Unrestricted	<u>806,799</u>	<u>2.00%</u>
Total Net Position	<u>\$ 40,396,018</u>	<u>100.00%</u>

The results of fiscal year 2014's operations as a whole are reported in detail in the *Statement of Activities*. Table 2 below condenses the results of operations for the audit period into a format where the reader can easily see the total revenues of the Board for the year. It also shows the impact the operations had on changes in net position as of September 30, 2014.

SATSUMA CITY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION & ANALYSIS
REQUIRED SUPPLEMENTAL INFORMATION

SEPTEMBER 30, 2014

**Table 2: Summary of Changes in Net Position from Operating
Results for Audit Period Ending September 30, 2014**

	<u>Governmental Activities</u>	<u>Percent of Total</u>
Revenues		
Program revenues:		
Charges for services	\$ 1,124,466	8.70%
Operating grants & contributions	8,264,406	63.97%
Capital grants & contributions	498,720	3.86%
General revenues:		
Local property taxes	2,469,617	19.12%
Local sales taxes	203,401	1.57%
Other taxes	45,155	0.35%
Grants & contributions not restricted	108,000	0.84%
Investment earnings	64,528	0.50%
Miscellaneous	141,243	1.09%
Total Revenues	<u>\$ 12,919,536</u>	<u>100.00%</u>
Expenses:		
Instructional services	\$ 7,089,936	56.21%
Instructional support services	1,739,392	13.79%
Operation & maintenance services	1,667,731	13.22%
Student transportation	429,030	3.40%
Food service	740,694	5.87%
General administration services	847,031	6.72%
Interest & fiscal charges	24,500	0.19%
Other expenses	74,022	0.59%
Total Expenses	<u>\$ 12,612,336</u>	<u>100.00%</u>

The Board's Net Position increased by \$307,200 during the current audit period. This increase is attributable to an increase in revenues combined with careful monitoring for expenditure control.

SATSUMA CITY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION & ANALYSIS
REQUIRED SUPPLEMENTAL INFORMATION

SEPTEMBER 30, 2014

Governmental Activities - As shown in *Table 2*, the cost of services rendered from the Board's governmental activities for the audit period ended September 30, 2014 was \$12.6 million. It is important to note that not all of these costs were borne by the taxpayers of Satsuma City:

- Some of the cost, \$1.1 million, was paid by users who benefited from services provided during the year, such as school lunches, local school fundraisers, and admissions for local school events.
- State and federal governments subsidized certain programs with grants and contributions totaling \$8.8 million.
- \$2.7 million of the Board's total costs of \$12.6 million was financed by district and state taxpayers, unrestricted grants, investment and miscellaneous revenues as follows: \$2,469,617 in property taxes, \$134,630 in sales taxes, \$68,771 in Alcohol beverage tax, \$45,155 in other taxes (business privilege tax and tobacco tax), \$108,000 in unrestricted grants, \$64,528 in investment revenues, \$141,243 in miscellaneous revenues.

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

**Table 3: Net Cost of Governmental Activities for Audit Period
Ended September 30, 2014**

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Expenses:		
Instructional services	\$ 7,089,936	\$ (1,132,910)
Instructional support services	1,739,392	(135,296)
Operation & maintenance services	1,667,731	(637,246)
Student transportation	429,030	(43,181)
Food service	740,694	(144,016)
General administrative	847,031	(581,655)
Interest and fiscal charges	24,500	(24,500)
Other expenses	74,022	(25,940)
Total Expenses	<u>\$ 12,612,336</u>	<u>\$ (2,724,744)</u>

SATSUMA CITY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION & ANALYSIS
REQUIRED SUPPLEMENTAL INFORMATION

SEPTEMBER 30, 2014

Performance of School Board Funds

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

Governmental Funds - The focus of the Board's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Board's financial requirements (Note that the relationship between the *fund financial statements* and the *government-wide financial statements* are reconciled on pages 16 and 18. The financial performance of the Board as a whole is reflected in its governmental funds as well. At the end of the fiscal year, the Board's governmental funds reported combined ending fund balances of \$2,966,933. During the year, the net change in the general fund balance was an increase of \$577,928 and resulted in an ending fund balance of \$197,180 due to the negative beginning balance. This is the fund balance on the GAAP basis. This is due to the large salary and benefit accrual entry in excess of \$600,000. Note that the actual general fund balance on the budgetary basis was \$834,993. According to the State standards, this budgetary fund balance represents a 1.09 months operating balance. The State standard is to achieve a minimum of one month.

Special Revenue Fund - During the year, the net change in the special revenue fund was an increase of \$32,604 resulting in a fund balance of \$374,967.

Capital Projects Fund – During the year, the net change in the Capital Projects Fund was an increase of \$1,982,604 resulting in a fund balance of \$2,394,786. State and local tax revenues for capital outlay and a Quality Zone Academy Bond (QZAB) bond issue proceeds accumulated in this fund, and capital related expenditures were made. It is expected that the QZAB bond proceeds will be expended by the end of Fiscal Year 2015. The Board plans to continue to allow this fund to grow to serve as a fund for necessary capital project improvements or emergency needs in the future.

Budgetary Highlights of Major Funds

On or before October 1 of each year, the Board is mandated by state law to prepare and submit to the State Superintendent of Education the annual budget adopted by the Board. The State Department of Education required such budget to be submitted by September 15, 2014. The original 2014 fiscal year budget, adopted on September 10, 2013, was based on a conservative approach that reflected only allocated revenues and essential expenditures. The Board revised the annual operating budgets during the year on March 11, 2014 and on June 10, 2014. For purposes of this budgetary analysis, the General Fund and the Special Revenue fund of the board are discussed in accordance with the GASB 34 reporting model.

**SATSUMA CITY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION & ANALYSIS
REQUIRED SUPPLEMENTAL INFORMATION**

SEPTEMBER 30, 2014

General Fund - The comparison of general fund original budget to the final amended budget is on page 34. The difference between the original budget and the final amended budget of the Board was \$149,360 increase in overall revenues, an increase in overall expenditures of \$121,858, and a decrease in Other Financing Uses of \$56,569. These changes were necessary for additional state or local revenues and projects that were identified after the original budget was submitted. The actual ending revenues on a budgetary basis were higher than the budgeted amount due to strong local revenues. These revenues coupled with containment of expenditures resulted in an actual ending fund balance of \$834,993 as compared to the final budgeted amount of \$500,294.

Special Revenue Fund - The comparison of the special revenue original budget to the final amended budget is reflected on page 35. The Special Revenue Fund contains all of the federal programs including Child Nutrition as well as the public funds of the two local schools. The variance for revenues is due to an increase in federal, state and local funding during the year. There was increase in expenditures as well pertaining to the additional state and federal funding.

Capital Assets and Debt Administration

Capital Assets - The Board's investment in capital assets reflected additions of \$565,723 but also reflected depreciation of \$914,094 which resulted in a net decrease in capital assets of \$348,371 for the audit period. See Page 28 of the Audit and See Table 4 below for detailed schedule. Total Capital Assets at year end totaled \$39,396,154.

**Table 4: Capital Assets (net of accumulated depreciation)
As of September 30, 2014**

Land	\$ 664,800
Land Improvements-Exhaustible	1,837,652
Construction in Progress	259,229
Buildings	35,530,093
Building Improvements	744,860
Equipment and Furniture	219,441
Vehicles	140,079
Total Capital Assets	<u><u>\$39,396,154</u></u>

Long-term Liabilities

At year-end the Board had \$1,967,069 reflected as long-term liabilities. This amount is the payable for the QZAB Bond (\$1,933,333) and the entry made for compensated absences (\$33,736). The Board had no other long-term liabilities as of September 30, 2014.

SATSUMA CITY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION & ANALYSIS
REQUIRED SUPPLEMENTAL INFORMATION

SEPTEMBER 30, 2014

Economic Factors and Next Year's Budget

The following are currently known City of Satsuma City economic factors considered going into FY 2015.

- The population of the City of Satsuma as of the year 2013 was 6,156, a 8.2% increase over the 2000 census.
- Median age for the City of Satsuma is 40.7 as compared to a State average of 43.1.
- The estimated per capita income in 2012 was \$25,250 (it was \$23,972 in 2000).
- The median household income in the City of Satsuma for 2012 was \$55,123 as compared to a State average of \$41,574.
- Estimated median house or condo value in the City of Satsuma for 2012 was \$150,720 as compared to a statewide value of \$123,200.
- The citizens of Satsuma voted an increase of 7.5 mills of ad valorem tax in order to support the newly formed Satsuma City Board of Education. This tax yielded \$324,943.75 for FY 2014.
- The City of Satsuma levied a one-cent Sales Tax and appropriates half of the penny Sales Tax to the Board. The City appropriated \$108,000 to the Board for FY 2014.
- The Board increased its General Fund Balance on a budgetary basis to \$834,993 which represents a 1.09 months' operating balance.

Circumstances that could significantly affect the Board's financial health in the future are listed as follows: Proration of State Appropriations - Applicable provisions of the Constitution of Alabama effectively prohibit the State from engaging in deficit financing-that is to say, state expenditures during any fiscal year may not exceed available revenues. State law provides procedures for delaying or, if necessary, reducing (or "prorating") appropriations of state revenues in order to maintain and enforce the constitutional ban on deficit financing. The Board's General Fund receives the largest share of its annual revenue from the State. Although the State revenues provided for the payment of employee salaries and benefits are prorated, State law prohibits the Board from reducing salaries and benefits paid to employees. The postponement or reduction of State appropriations to the Board as a consequence of proration may therefore result in reductions of expenditures by the Board for certain budget items other than salaries (e.g. instructional materials, certain academic programs, maintenance projects, and supplies). School systems have experienced four years without proration, and the general economy and state funding has continued to increase slightly over the past four years. The Board monitors the state tax revenues closely in order to plan for any possible threat of proration.

SATSUMA CITY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION & ANALYSIS
REQUIRED SUPPLEMENTAL INFORMATION

SEPTEMBER 30, 2014

Estimated Capital Needs- The Board's five year capital plan submitted for fiscal year 2014 is based on facility assessments and enrollment needs, and includes \$17.9 million in estimated capital needs throughout the system. It is planned that \$2 million will be funded with a Quality Zone Academy Bond (QZAB) which was processed and executed in Fiscal Year 2014. The source of funding for remaining needs of \$15.9 million are not identified or determined at this time. The Board continues to allow the Capital Fund to grow in order to combine those funds with future bond issues in order to meet capital needs.

Student Enrollment- The Board's current enrollment based on the Average Daily Membership (ADM) as of the twenty-day report for the 2014-2015 scholastic year was 1,297 which is a decrease from the 1,304 reported in the previous year. This small reduction in ADM will not materially impact the state and local revenues for FY 2015-16.

Medical and Retirement Costs - Employee health insurance is provided through the Public Education Employees Health Insurance Program (PEEHIP). The premiums for health insurance for teachers and support personnel under PEEHIP did increase to \$780 for fiscal year 2015 (was \$714). Also, the employer contribution rate to the Teachers Retirement System (TRS) was 11.71 and 10.08% for Tier 1 and 2 employees, respectively, in fiscal year 2014 and is 11.71% and 11.05% for Tier 1 and 2 employees, respectively, for fiscal year 2015.

**SATSUMA CITY BOARD OF EDUCATION
STATEMENT OF NET POSITION
SEPTEMBER 30, 2014**

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 3,875,512
Receivables, net	208,276
Inventories	19,103
Capital assets	
Nondepreciable	924,029
Depreciable, net	38,472,125
Total Assets	\$ 43,499,045
Liabilities	
Accounts payable	\$ 409,633
Unearned revenue	36,374
Salaries and benefits payable	689,951
Long-Term liabilities	
Portion due or payable within one year	136,707
Portion due or payable after one year	1,830,362
Total Liabilities	3,103,027
Net Position	
Net investment in capital assets	37,462,822
Restricted for:	
Education	355,864
Construction	1,770,533
Unrestricted	806,799
Total Net Position	40,396,018
Total Liabilities and Net Position	\$ 43,499,045

See independent auditors' report and notes to the financial statements.

**SATSUMA CITY BOARD OF EDUCATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Instructional	\$ 7,089,936	\$ 142,588	\$ 5,649,374	\$ 165,064	\$ (1,132,910)
Instructional support	1,739,392	274,914	1,329,182	-	(135,296)
Operation and maintenance	1,667,731	43,863	772,469	214,153	(637,246)
Student transportation	429,030	33,511	332,348	19,990	(43,181)
Food service	740,694	552,777	43,901	-	(144,016)
General administrative	847,031	46,531	119,332	99,513	(581,655)
Interest and fiscal charges	24,500	-	-	-	(24,500)
Other expenses	74,022	30,282	17,800	-	(25,940)
Total governmental activities	\$ 12,612,336	\$ 1,124,466	\$ 8,264,406	\$ 498,720	(2,724,744)
General revenues:					
Taxes:					
Property taxes for general purposes					1,615,701
Property taxes for specific purposes					853,916
Sales tax					134,630
Alcohol beverage tax					68,771
Other taxes					45,155
Grants and contributions not restricted for specific programs					108,000
Investment earnings					64,528
Miscellaneous					141,243
Total general revenues					3,031,944
Changes in net position					307,200
Net position - beginning of year					40,088,818
Net position - end of year					\$ 40,396,018

See independent auditors' report and notes to the financial statements.

**SATSUMA CITY BOARD OF EDUCATION
FUND BALANCE SHEET – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014**

	(11) - General Fund	(12) - Special Revenue Fund	(14) - Capital Projects Fund	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 572,125	\$ 596,345	\$ 2,707,042	\$ 3,875,512
Receivables, net	65,960	127,427	14,889	208,276
Due from other funds	265,186	-	24,393	289,579
Inventories	-	19,103	-	19,103
Total assets	<u>\$ 903,271</u>	<u>\$ 742,875</u>	<u>\$ 2,746,324</u>	<u>\$ 4,392,470</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 18,282	\$ 64,966	\$ 326,385	\$ 409,633
Due to other funds	24,393	240,033	25,153	289,579
Unearned revenues	-	36,374	-	36,374
Salaries and benefits payable	663,416	26,535	-	689,951
Total liabilities	<u>706,091</u>	<u>367,908</u>	<u>351,538</u>	<u>1,425,537</u>
Fund Balances				
Nonspendable	-	19,103	-	19,103
Restricted for:				
Education	-	355,864	-	355,864
Construction	-	-	1,770,533	1,770,533
Unassigned	197,180	-	624,253	821,433
Total fund balances	<u>197,180</u>	<u>374,967</u>	<u>2,394,786</u>	<u>2,966,933</u>
Total liabilities and fund balances	<u>\$ 903,271</u>	<u>\$ 742,875</u>	<u>\$ 2,746,324</u>	<u>\$ 4,392,470</u>

See independent auditors' report and notes to the financial statements.

**SATSUMA CITY BOARD OF EDUCATION
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
SEPTEMBER 30, 2014**

Total Fund Balances - Governmental Funds	\$	2,966,933	
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.			
The Cost of Capital Assets is	\$	41,654,398	
Accumulated Depreciation is		<u>(2,258,244)</u>	
			<u>39,396,154</u>
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 Liabilities		136,707	
Noncurrent Portion of Long-Term Liabilities		<u>1,830,362</u>	
			<u>(1,967,069)</u>
Total Net Position - Governmental Activities	\$		<u><u>40,396,018</u></u>

See independent auditors' report and notes to the financial statements.

**SATSUMA CITY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	<u>(11) - General Fund</u>	<u>(12) - Special Revenue Fund</u>	<u>(14) - Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Revenues				
State	\$ 7,533,103	\$ 81,730	\$ 416,053	\$ 8,030,886
Federal	-	1,026,237	-	1,026,237
Local	2,190,290	760,610	854,004	3,804,904
Other	24,881	32,628	-	57,509
Total revenues	<u>9,748,274</u>	<u>1,901,205</u>	<u>1,270,057</u>	<u>12,919,536</u>
Expenditures				
Current:				
Instructional	5,574,017	638,471	-	6,212,488
Instructional support	1,315,027	424,887	-	1,739,914
Operation and maintenance	1,261,678	1,949	400,223	1,663,850
Auxiliary services:				
Student transportation	358,871	39,105	16,540	414,516
Food service	-	752,958	-	752,958
General administrative	531,793	113,452	220,734	865,979
Other	37,665	36,357	-	74,022
Capital outlay	-	6,934	558,789	565,723
Debt Service:				
Principal Retirement	-	-	66,667	66,667
Debt Issuance Costs/Other Debt Service	-	-	24,500	24,500
Total expenditures	<u>9,079,051</u>	<u>2,014,113</u>	<u>1,287,453</u>	<u>12,380,617</u>
Excess (deficiency) of revenues				
Over expenditures	<u>669,223</u>	<u>(112,908)</u>	<u>(17,396)</u>	<u>538,919</u>
Other Financing Sources (Uses)				
Indirect cost	54,217	-	-	54,217
Long term debt issued	-	-	2,000,000	2,000,000
Transfers in	42,343	187,855	-	230,198
Transfers out	<u>(187,855)</u>	<u>(42,343)</u>	<u>-</u>	<u>(230,198)</u>
Total other financing sources (uses)	<u>(91,295)</u>	<u>145,512</u>	<u>2,000,000</u>	<u>2,054,217</u>
Net changes in fund balances	577,928	32,604	1,982,604	2,593,136
Fund balances - beginning of year	(380,748)	342,363	412,182	373,797
Fund balances - end of year	<u>\$ 197,180</u>	<u>\$ 374,967</u>	<u>\$ 2,394,786</u>	<u>\$ 2,966,933</u>

See independent auditors' report and notes to the financial statements.

**SATSUMA CITY BOARD OF EDUCATION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

Net Changes in Fund Balances - Total Governmental Funds \$ 2,593,136

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

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

Capital Outlays	\$ 565,723	
Depreciation Expense	<u>(914,094)</u>	(348,371)

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. 66,667

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 Position but does not affect the Statement of Activities. (2,000,000)

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

Compensated Absences, Current Year (Increase)/Decrease in Noncurrent Portion		<u>(4,232)</u>
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Change in Net Position of Governmental Activities \$ 307,200

**SATSUMA CITY BOARD OF EDUCATION
STATEMENT OF FIDUCIARY NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	(32) - Agency Fund
Assets	
Cash and cash equivalents	\$ 94,886
Total assets	<u>\$ 94,886</u>
Liabilities	
Accounts payable	\$ 9,522
Salaries and benefits payable	38
Due to external organizations	85,326
Total liabilities	<u>\$ 94,886</u>

See independent auditors' report and notes to the financial statements.

**SATSUMA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The financial statements of the Satsuma City Board of Education (the Board) have been prepared in conformity with the accounting principles generally accepted in the United States of America as specified by the Governmental Accounting Standards Board (GASB).

For financial reporting purposes and in conformance with the criteria set forth by GASB Statement No. 14, the Board includes those funds, account groups, agencies, boards, commissions and authorities for which the Board has the ability to exercise its oversight responsibility and provides financial and managerial assistance.

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

Government-wide

The 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 the 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.

Fund Level

The government fund level financial statements are reported using the current financial resource 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 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, 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 the capital leases are reported as other financing sources. Since governmental fund level financial statements are presented on a different basis of accounting and measurement focus than governmental activities in the government-wide presentation, a summary is presented

**SATSUMA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

explaining adjustments necessary to reconcile fund level statements to the government-wide presentation.

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

Governmental Funds:

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

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

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

Fiduciary Fund:

Agency Fund—This fund is 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 governments.

C. CAPITAL ASSETS

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

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

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

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

**SATSUMA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

D. BASIS OF ACCOUNTING

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

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

E. IMPACT OF RECENTLY ISSUED ACCOUNTING PRINCIPLES

Recently Issued and Adopted Accounting Principles

On July 1, 2012, the Board implemented Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB Statement No. 62 incorporates into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedures. The adoption of GASB Statement No. 62 did not have any impact on the Board’s financial statements.

On July 1, 2012, the Board adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The Balance Sheet is renamed the Statement of Net Position and includes four components: assets, deferred outflows of resources, liabilities and deferred inflows of

**SATSUMA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

resources. The Board has determined they have no deferred outflows or inflows of resources at September 30, 2014, under the requirements of GASB 63.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 requires certain items that are currently reported as assets and liabilities to be reclassified as deferred outflows of resources, deferred inflows of resources or current-period outflows (expenses) and inflows (revenues). These determinations are based on the definitions of those elements in Concepts Statement No. 4, *Elements of Financial Statements*.

Deferred outflows of resources are consumptions of net position by the Board that are applicable to a future reporting period.

Deferred inflows of resources are acquisitions of net position by the Board that are applicable to a future reporting period.

Outflows of resources are consumptions of net position by the Board that are applicable to the reporting period.

Inflows of resources are acquisitions of net position by the Board that are applicable to the reporting period.

The Board has determined that they have no outflows or inflows of resources at September 30, 2014, under the requirements of GASB Statement No. 65.

Recently Issued Accounting Principles

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions-An Amendment of GASB Statement No. 27*. GASB Statement No. 68 requires net pension liability to be recognized, to the extent unfunded, on the Statement of Net Position. Previously, no such liability was recognized. GASB Statement No. 68 is effective for periods beginning after June 15, 2014. The Board estimates that upon implementation of GASB Statement No. 68, a liability will be shown on the Statement of Net Position as well as a reduction in unassigned net position equal to the unfunded accrued actuarial liability. Management is currently evaluating the impact of the adoption of this statement on the Board's 2015 financial statements.

F. NET ASSET AND EQUITY CLASSIFICATIONS

Government-wide Financial Statement

The Board adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which superseded GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government*. Equity is classified as net position and displayed in three components:

**SATSUMA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Net investment in capital assets – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources attributable to the unspent proceeds is not included in the same net position as the unspent proceeds.
- Restricted net position – Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.
- Unrestricted net position – The net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Fund Financial Statements

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

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

- Nonspendable fund balance—Consists of amounts that are not in a spendable form or are required to be maintained intact.
- Restricted fund balance—Consists of fund balances with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) the Board's own laws through its enabling legislation and other provisions of its laws and regulations.
- Committed fund balance—Consists of fund balances that are subject to a purpose constraint imposed by formal action or resolution of the Board, which is the highest level of decision-making authority, before the end of the fiscal year and that require the same level of formal action to remove or modify the constraint.
- Assigned fund balance—Consists of fund balances that are intended to be used by the school system for specific purposes. The Board authorized 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 restraint.

**SATSUMA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Unassigned fund balance—All other fund balances that do not meet the definition of “restricted, committed or assigned fund balances.” This portion of the total fund balance in the general fund is available to finance operating expenditures.

When 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 the purposes for which amounts in any of the unrestricted fund balance classification 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.

G. CASH AND INVESTMENTS

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

Cash in the capital projects fund amounting to \$1,770,533 for the 2014 fiscal year is restricted for capital projects for the high school and elementary school.

H. INVENTORIES

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

I. USE OF ESTIMATES

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

**SATSUMA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. ENCUMBRANCES

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

NOTE 2 DEPOSITS AND INVESTMENTS

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk

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

NOTE 3 INTERFUND TRANSACTIONS

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

SATSUMA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 3 INTERFUND TRANSACTIONS (continued)

	Interfund Receivables		
	General Fund	Capital Projects Fund	Totals
<hr/>			
<u>Interfund Payables</u>			
General Fund	\$ -	\$ 24,393	\$ 24,393
Special Revenue Fund	240,033	-	240,033
Capital Projects Fund	25,153	-	25,153
Totals	<u>\$ 265,186</u>	<u>\$ 24,393</u>	<u>\$ 289,579</u>
<hr/>			
	Transfers Out		
	General Fund	Special Revenue Fund	Totals
<hr/>			
<u>Transfers In</u>			
General Fund	\$ -	\$ 42,343	\$ 42,343
Special Revenue Fund	187,855	-	187,855
Totals	<u>\$ 187,855</u>	<u>\$ 42,343</u>	<u>\$ 230,198</u>

**SATSUMA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ending September 30, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ reclassifications</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land and Land Improvements	\$ 664,800	\$ -	\$ -	\$ 664,800
Construction in Progress	-	259,229	-	259,229
Total Capital Assets, Not Being Depreciated	<u>664,800</u>	<u>259,229</u>	<u>-</u>	<u>924,029</u>
Capital Assets Being Depreciated:				
Land Improvements-Exhaustible	2,100,174	-	-	2,100,174
Buildings	37,403,498	-	-	37,403,498
Building Improvements	605,716	173,774	-	779,490
Equipment and Furniture	196,487	78,426	-	274,913
Vehicles	118,000	54,294	-	172,294
Total Capital Assets Being Depreciated	<u>40,423,875</u>	<u>306,494</u>	<u>-</u>	<u>40,730,369</u>
Less Accumulated Depreciation for:				
Land Improvements-Exhaustible	157,513	105,009	-	262,522
Buildings	1,124,043	749,362	-	1,873,405
Building Improvements	18,171	16,459	-	34,630
Equipment and Furniture	26,723	28,749	-	55,472
Vehicles	17,700	14,515	-	32,215
Total Accumulated Depreciation	<u>1,344,150</u>	<u>914,094</u>	<u>-</u>	<u>2,258,244</u>
Total Capital Assets Being Depreciated, Net	<u>39,079,725</u>	<u>(607,600)</u>	<u>-</u>	<u>38,472,125</u>
Total Governmental Activities Capital Assets, Net	<u>\$ 39,744,525</u>	<u>\$ (348,371)</u>	<u>\$ -</u>	<u>\$ 39,396,154</u>

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

Instructional	\$ 874,979
Operation and Maintenance	3,524
Student Transportation	14,515
Food Service	17,036
General Administrative	4,040
Total Depreciation Expense - Governmental Activities	<u>\$ 914,094</u>

**SATSUMA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 5 LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended September 30, 2014:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Bonds and Warrants Payable	\$ -	\$ 2,000,000	\$ 66,667	\$ 1,933,333	\$ 133,333
Total Bonds and Notes Payable	<u>-</u>	<u>2,000,000</u>	<u>66,667</u>	<u>1,933,333</u>	<u>133,333</u>
Other Liabilities:					
Compensated Absences	29,504	4,232		33,736	3,374
Total Other Liabilities	<u>29,504</u>	<u>4,232</u>	<u>-</u>	<u>33,736</u>	<u>3,374</u>
Governmental Activities Long-Term Liabilities	<u>\$ 29,504</u>	<u>\$ 2,004,232</u>	<u>\$ 66,667</u>	<u>\$ 1,967,069</u>	<u>\$ 136,707</u>

Bonds and warrants payable at September 30, 2014, were comprised of the following:

School Tax Warrant, Series 2014 payable dated April 14, 2014, original debt obligation of \$2,000,000, non-interest bearing, payable in quarterly installments of \$33,333 from June 15, 2014 through March 15, 2029.

\$ 1,933,333

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

Year Ending September 30,	Principal	Interest	Total
2015	\$ 133,333	\$ -	\$ 133,333
2016	133,333	-	133,333
2017	133,333	-	133,333
2018	133,333	-	133,333
2019	133,333	-	133,333
2020-2024	666,667	-	666,667
2025-2029	600,001	-	600,001
	<u>\$ 1,933,333</u>	<u>\$ -</u>	<u>\$ 1,933,333</u>

**SATSUMA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 5 LONG-TERM LIABILITIES (continued)

The Board obtained a School Tax Warrant, Series 2014 which is pledged to be repaid solely from the proceeds of certain ad valorem taxes. The revenues remain pledged until the satisfaction of the warrant, which is anticipated to be in fiscal year 2029.

NOTE 6 COMPENSATED ABSENCES

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

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

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

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

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

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

NOTE 7 RISK MANAGEMENT

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

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and natural disasters. The Board has insurance for its building and

**SATSUMA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 7 RISK MANAGEMENT (continued)

contents through an insurance company. The insurance company provides coverage up to \$58,618,778. Errors and omissions insurance is purchased from the premiums and purchases commercial insurance for the amount of coverage requested by pool participants. The Board purchases commercial insurance for fidelity bonds and vehicle fleet. Settled claims in the past year have not exceeded the amounts of commercial insurance coverage.

Employee health insurance is provided through the Public Education Employees' Health Insurance Fund (PEEHIF), a public entity risk pool, administered by the Public Education Employees' Health Insurance Board. The fund was established to provide a uniform plan of health insurance for current and retired employees of state educational institutions and is self-sustaining. Monthly premiums for employee and dependent coverage are set annually by the Alabama Legislature based on the amounts necessary to fund coverage. The Board contributes the specified monthly amount to the PEEHIF for each employee.

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

NOTE 8 DEFINED BENEFIT PENSION PLAN

Plan Description

The Board contributes to the Teacher's Retirement System of Alabama (TRS), 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 TRS. Membership is mandatory for covered or eligible employees of the Board. Benefits vest after 10 years of credible 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.

**SATSUMA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 8 DEFINED BENEFIT PENSION PLAN (continued)

The TRS 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 TRS is vested in the Board of Control (currently 14 members). Benefit provisions are established by the **Code of Alabama 1975**, Sections 16-25-1 through 16-25-113, as amended, and Sections 36-27B-1 through 36-27B-6, as amended.

The Retirement Systems of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Teachers' Retirement System of Alabama. That report may be obtained by writing to The Retirement Systems of Alabama, 201 South Union Street, Montgomery, Alabama 36130-2150.

Funding Policy

During 2012, the Alabama Legislature passed and the Governor signed into law, changes in the pension plan effective January 1, 2013, which created two "Tiers" of covered employees. Employees hired prior to January 1, 2013 (Tier 1 employees) must contribute 7.50% of their salary to the TRS. Employees hired on or after that date (Tier 2 employees) will contribute on gross earnings at a rate of 6.00%. The Board is required to contribute the remaining amounts necessary to fund the actuarially determine contributions to ensure sufficient assets will be available to pay benefits when due. Each year the TRS 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,	<u>2014 Tier 1</u>	<u>2014 Tier 2</u>	<u>2013 Tier 1</u>	<u>2013 Tier 2</u>
Total Percentage of Covered Payroll	<u>19.21%</u>	<u>17.08%</u>	<u>17.58%</u>	<u>15.44%</u>
 Contributions				
Percentage Contributed by the Board	11.71%	11.08%	10.08%	9.44%
Percentage Contributed by the Employees	7.50%	6.00%	7.50%	6.00%
 Contributed by the Board				
Contributed by the Board	\$ 588,508	\$ 60,860	\$ 501,941	\$ 6,665
Contributed by the Employees	<u>376,927</u>	<u>32,957</u>	<u>373,465</u>	<u>4,237</u>
Total Contributions	<u>\$ 965,435</u>	<u>\$ 93,817</u>	<u>\$ 875,406</u>	<u>\$ 10,902</u>

**SATSUMA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 9 CONTINGENT LIABILITIES

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

NOTE 10 SUBSEQUENT EVENTS

The Board has evaluated subsequent events through March 13, 2015, the date which the financial statements were available to be issued. There were no material subsequent events which require disclosure at September 30, 2014.

REQUIRED SUPPLEMENTARY INFORMATION

SATSUMA CITY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES—BUDGET TO ACTUAL
(11) – GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget	Budget to	Actual Amounts	
	Original	Final			Differences		GAAP
Revenues							
State	\$ 7,515,658	\$ 7,525,658	\$ 7,533,103	\$ 7,445	\$ -	\$ 7,533,103	
Local	1,900,785	2,034,235	2,190,290	156,055	-	2,190,290	
Other	9,576	15,486	24,881	9,395	-	24,881	
Total Revenues	9,426,019	9,575,379	9,748,274	172,895	-	9,748,274	
Expenditures							
Current:							
Instructional	5,723,699	5,673,983	5,556,380	117,603	17,637	5,574,017	
Instructional support	1,220,753	1,278,875	1,298,041	(19,166)	16,986	1,315,027	
Operation and maintenance	1,210,791	1,305,935	1,261,623	44,312	55	1,261,678	
Auxiliary services:							
Student transportation	344,416	370,831	360,669	10,162	(1,798)	358,871	
General administrative	646,560	637,845	531,793	106,052	-	531,793	
Other	31,387	31,987	37,665	(5,678)	-	37,665	
Total Expenditures	9,177,606	9,299,456	9,046,171	253,285	32,880	9,079,051	
Excess (Deficiency) of Revenues Over Expenditures	248,413	275,923	702,103	(80,390)	(32,880)	669,223	
Other Financing Sources (Uses)							
Indirect cost	53,910	110,931	54,217	(56,714)	-	54,217	
Transfers in	41,453	41,453	42,343	890	-	42,343	
Transfers out	(151,746)	(152,198)	(187,855)	(35,657)	-	(187,855)	
Total Other Financing Sources (Uses)	(56,383)	186	(91,295)	(91,481)	-	(91,295)	
Net Change in Fund Balances	192,030	276,109	610,808	(171,871)	(32,880)	577,928	
Fund Balances - Beginning of Year	205,975	224,185	224,185	-	(604,933)	(380,748)	
Fund Balances - End of Year	\$ 398,005	\$ 500,294	\$ 834,993	\$ (171,871)	\$ (637,813)	\$ 197,180	

SATSUMA CITY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES—BUDGET TO ACTUAL
(12) – SPECIAL REVENUE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget	Budget to	Actual Amounts
	Original	Final			Differences Over (Under)	
Revenues						
State	\$ 57,232	\$ 128,442	\$ 81,730	\$ (46,712)	\$ -	\$ 81,730
Federal	1,118,569	1,201,143	1,026,237	(174,906)	-	1,026,237
Local	646,047	655,247	760,610	105,363	-	760,610
Other	10,000	26,800	32,628	5,828	-	32,628
Total Revenues	<u>1,831,848</u>	<u>2,011,632</u>	<u>1,901,205</u>	<u>(110,427)</u>	<u>-</u>	<u>1,901,205</u>
Expenditures						
Current:						
Instructional	668,677	766,081	638,471	(127,610)	-	638,471
Instructional support	298,926	302,243	424,887	122,644	-	424,887
Operation and maintenance	18,600	5,750	1,949	(3,801)	-	1,949
Auxiliary services:						
Student transportation	12,379	39,827	39,105	(722)	-	39,105
Food service	707,410	747,847	750,814	2,967	2,144	752,958
General administrative	121,264	128,483	113,452	(15,031)	-	113,452
Other	44,968	53,863	36,357	(17,506)	-	36,357
Capital outlay	-	-	6,934	6,934	-	6,934
Total Expenditures	<u>1,872,224</u>	<u>2,044,094</u>	<u>2,011,969</u>	<u>(32,125)</u>	<u>2,144</u>	<u>2,014,113</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(40,376)</u>	<u>(32,462)</u>	<u>(110,764)</u>	<u>(78,302)</u>	<u>(2,144)</u>	<u>(112,908)</u>
Other Financing Sources (Uses)						
Transfers in	153,746	154,198	248,692	94,494	(60,837)	187,855
Transfers out	(43,453)	(43,453)	(103,180)	(59,727)	60,837	(42,343)
Total Other Financing Sources (Uses)	<u>110,293</u>	<u>110,745</u>	<u>145,512</u>	<u>34,767</u>	<u>-</u>	<u>145,512</u>
Net Change in Fund Balances	69,917	78,283	34,748	(43,535)	(2,144)	32,604
Fund Balances - Beginning of Year	267,444	366,751	366,752	1	(24,389)	342,363
Fund Balances - End of Year	<u>\$ 337,361</u>	<u>\$ 445,034</u>	<u>\$ 401,500</u>	<u>\$ (43,534)</u>	<u>\$ (26,533)</u>	<u>\$ 374,967</u>

**SATSUMA CITY BOARD OF EDUCATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2014**

NOTE 1 BUDGETS AND BUDGETARY ACCOUNTING

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

Budgeted amounts are as originally adopted by the Board on August 20, 2013. Final budgeted amounts were adopted by the Board on June 10, 2014.

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

**SATSUMA CITY BOARD OF EDUCATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2014**

**NOTE 2 EXPLANATION OF DIFFERENCE BETWEEN ACTUAL AMOUNT ON
BUDGETARY BASIS AND ACUTAL AMOUNTS GAAP BASIS**

	<u>(11)-General Fund</u>	<u>(12) Special Revenue Fund</u>
Sources/inflows of resources		
Actual amounts (budgetary bases) available for appropriation shown as Total Revenues on the budgetary comparison schedule	<u>\$ 9,748,274</u>	<u>\$ 1,901,205</u>
Uses/outflows of resources		
Actual amounts (budgetary basis) available for expenditures shown as Total Expenditures on the budgetary comparison schedule	\$ 9,046,171	\$ 2,011,969
Difference - budget to GAAP		
Salaries of teachers and other personnel with contracts of less than 12 months are paid over a 12 month period. Expenditures for salaries (and related fringe benefits) are budgeted based on the amount that will be paid from budgeted revenues. However, salaries (and related benefits) earned but not paid are recorded as expenditures on the financial statements	<u>32,880</u>	<u>2,144</u>
Total expenditures are reported on the statement of revenues, expenditures and changes in fund balances - governmental funds.	<u>\$ 9,079,051</u>	<u>\$ 2,014,113</u>

COMPLIANCE SECTION

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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

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

Compliance

We have audited Satsuma City Board of Education's compliances with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Satsuma City Board of Education's major federal programs for the year ended September 30, 2014. Satsuma City Board of Education's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Satsuma City Board of Education's major federal programs based on our audit of the types of compliance requirements referred to above.

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 Satsuma City Board of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Satsuma City Board of Education's compliance.

Opinion

In our opinion, Satsuma City Board of Education complied, in all material respects, with the types of 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, 2014.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Satsuma City Board of Education's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

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


Certified Public Accountants

March 13, 2015
Fairhope, Alabama

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

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

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Satsuma City Board of Education as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise Satsuma City Board of Education's basic financial statements, and have issued our report thereon dated March 13, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Satsuma City Board of Education's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Satsuma City Board of Education's internal control. Accordingly, we do not express an opinion on the effectiveness of Satsuma City Board of Education's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Internal Control Over Compliance

Management of Satsuma City Board of Education is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Satsuma City Board of Education's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 Satsuma City Board of Education's internal control over compliance.

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

Our consideration of 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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Restricted Use

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Hartmann, Blackman & Hogue, P.C.
Certified Public Accountants

March 13, 2015
Fairhope, Alabama

**SATSUMA CITY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

<u>Description</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Passed Through State Department of Education:		
National School Lunch Program		
Cash Assistance (M)	10.555	\$ 241,780
Non-Cash Assistance (N) (M)	10.555	43,901
National School Lunch Program Sub-Total		<u>285,681</u>
National School Breakfast Program (M)	10.553	<u>52,218</u>
Total U.S. Department of Agriculture		<u><u>337,899</u></u>
<u>U.S. Department of Education</u>		
Passed Through State Department of Education:		
Title I Grants to Local Education Agencies	84.010	267,424
Improving Teacher Quality State Grants	84.367	34,856
Special Education Cluster:		
Special Education - Grants to States (M)	84.027	308,523
Special Education - Preschool Grants (M)	84.173	2,840
Career and Technical Education-Basic Grant to States	84.048A	<u>15,970</u>
Total U.S. Department of Education		<u><u>629,613</u></u>
Total Expenditures of Federal Awards		<u><u>\$ 967,512</u></u>

(M) = Major Program

(N) = Non-Cash Assistance

**SATSUMA CITY BOARD OF EDUCATION
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
SEPTEMBER 30, 2014**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

SATSUMA CITY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SEPTEMBER 30, 2014

SECTION 1 - SUMMARY OF AUDITORS' RESULTS:

Financial Statements

Type of opinion issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	<u> </u> Yes	<u> X</u> No
Significant deficiency(ies) identified?	<u> </u> Yes	<u> X</u> None Reported
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X</u> No

Federal Awards

Type of auditors' report issued on compliance of major programs: Unqualified

Internal control over major programs:

Material weakness(es) identified?	<u> </u> Yes	<u> X</u> No
Significant deficiency(ies) identified?	<u> </u> Yes	<u> X</u> None Reported

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?

<u> </u> Yes	<u> X</u> No
-----------------------	-------------------

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.027	Special Education - Grants to State
84.173	Special Education - Preschool Grants
10.553	National School Breakfast Program
10.555	National School Lunch Program

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

Auditee qualified as low-risk auditee? X Yes No

SECTION 2 - FINANCIAL STATEMENT FINDINGS (GAGAS)

No matters were reportable.

SECTION 3 - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

No matters were reportable.