

**SATSUMA CITY
BOARD OF EDUCATION
FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

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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 and each major fund of Satsuma City Board of Education, as of and for the year ended September 30, 2015, 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 and each major fund of Satsuma City Board of Education, as of September 30, 2015, 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, budgetary comparison information on pages 4-13 and 40-45 be presented to supplement the basic financial statements. Also, GASB Statement No. 68 requires that the Schedule of the Proportionate Share of the Net Pension Liability- Teacher's Retirement Plan of Alabama and the Schedule of Board Contributions- Teacher's Retirement Plan of Alabama be presented on pages 44 and 45, respectively. 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.

Restatement of Prior Period

The financial statements of the Board as of September 30, 2014, dated March 15, 2015, expressed an unmodified opinion on the financial statements. As discussed in Note 9 to the financial statements, the Board has adjusted its September 30, 2014, financial statements to retrospectively apply the implementation of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*.

As part of our audit, we also audited the adjustments to the September 30, 2014, financial statements to retroactively apply the change in accounting principle as described in Note 9. In our opinion, such adjustments are appropriate and have been properly applied.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2016, 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.

Hartmann, Blackmon & Kilgore, P.C.

Certified Public Accountants

March 31, 2016
Fairhope, Alabama

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

SEPTEMBER 30, 2015

The Satsuma City Board of Education's (the "Board") discussion and analysis presents the overall financial position and operating results for the year ended September 30, 2015. 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 decreased for the audit period ending September 30, 2015. The total net position decreased by \$273,746 primarily due to new GASB reporting requirements for Net Pension Liability and Expense and certain entries required for the Series 2015 Bond Issue. The assets of the Board exceeded its liabilities at the close of fiscal year 2015 by approximately \$32.8 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 approximately \$3.2 million. This includes the required 10-mill local system contribution into the State Foundation Program of \$479,689. The Foundation Program (the state funding mechanism for K-12 education systems in Alabama) and other state funds provided \$7.2 million toward the cost of these programs.
- For the General Fund, revenues exceeded total expenditures during the year by \$313,891 resulting in a fund balance of \$1,074,182 on the Budgetary Basis.
- The Board had long-term liabilities at year end totaling \$12,817,535. This liability represents a Qualified Zone Academy Bond (QZAB) bond payable of \$1,800,000, a Series 2015 bond payable of \$2,940,000 plus unamortized premium of \$118,535, and a liability of \$7,959,000 for Net Pension Liability as required by GASB Statement No. 68 reporting standards.

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, 2015

Required Components of Annual Financial Report

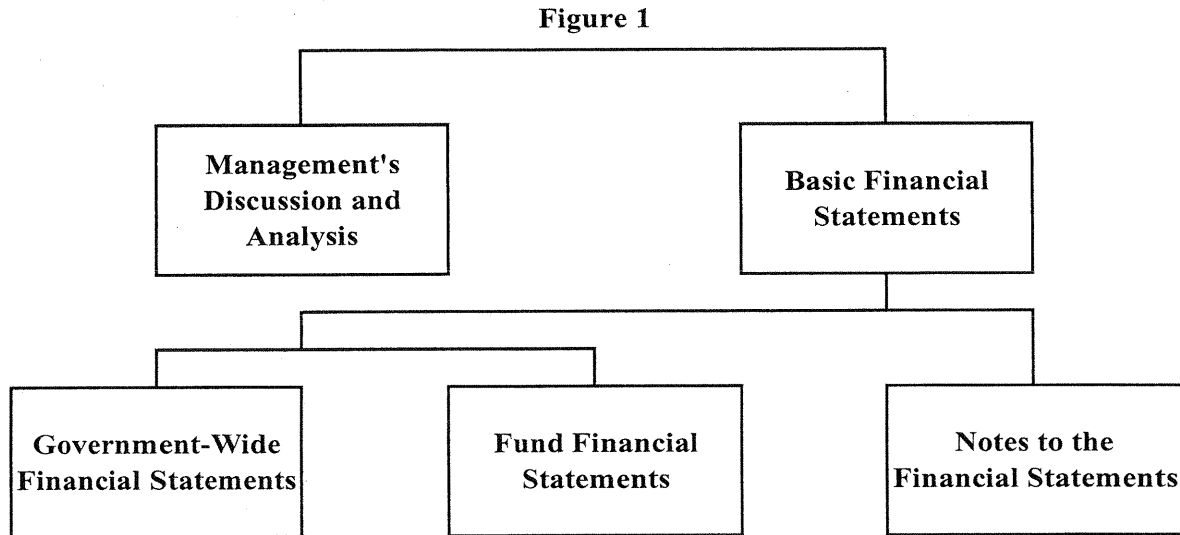


Figure 1 depicts the major features of the Board's financial statements. The focus of the financial statements is on the Board as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis 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
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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 \$32.8 million at September 30, 2015.

SATSUMA CITY BOARD OF EDUCATION
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- Of this figure, 83.43% or \$27.42 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, 13.59%, or \$4,464,222 is restricted and 2.98% or \$980,644 is unrestricted and available for future spending.

Table 1: Summary of Net Position
As of September 30, 2015

	Governmental Activities	Percent of Total
Current and other assets	\$ 5,867,450	12.41%
Deferred outflows of resources	1,173,112	2.48%
Capital assets	40,228,941	85.11%
Total Assets and Deferred Outflows of Resources	\$ 47,269,503	100.00%
Current and Other Liabilities	\$ 998,696	6.93%
Deferred inflows of resources	597,000	4.14%
Long-term liabilities	12,817,535	88.93%
Total Liabilities and Deferred Inflows of Resources	14,413,231	100.00%
Net Position:		
Net investment in capital assets	27,411,406	83.43%
Restricted	4,464,222	13.59%
Unrestricted	980,644	2.98%
Total Net Position	\$ 32,856,272	100.00%

The results of fiscal year 2015's operations as a whole are reported in detail in the *Statement of Activities*. It is important to note that the beginning net position was restated and reduced by \$7,266,000 due to GASB Statement No. 68 Pension Liability reporting requirements. *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, 2015.

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**Table 2: Summary of Changes in Net Position from Operating
Results for Audit Period Ending September 30, 2015**

	<u>Governmental Activities</u>	<u>Percent of Total</u>
Revenues		
Program revenues:		
Charges for services	\$ 1,178,303	9.57%
Operating grants & contributions	7,812,767	63.43%
Capital grants & contributions	411,757	3.34%
General revenues:		
Local property taxes	2,370,008	19.24%
Local sales taxes	157,814	1.28%
Other taxes	96,415	0.78%
Grants & contributions not restricted	108,000	0.88%
Investment earnings	47,250	0.38%
Miscellaneous	135,129	1.10%
Total Revenues	<u>\$ 12,317,443</u>	<u>100.00%</u>
Expenses:		
Instructional services	\$ 7,108,569	56.46%
Instructional support services	1,808,253	14.36%
Operation & maintenance services	1,612,121	12.80%
Student transportation	466,842	3.71%
Food service	675,148	5.36%
General administration services	855,243	6.79%
Interest & fiscal charges	8,878	0.07%
Other expenses	56,135	0.45%
Total Expenses	<u>\$ 12,591,189</u>	<u>100.00%</u>

The Board's Net Position decreased by \$273,746. This decrease is primarily attributable to certain GASB Statement No. 68 entries required for Current Pension Expense and entries required for the Series 2015 bond issue. (See Reconciliation Statement on Page 19)

SATSUMA CITY BOARD OF EDUCATION
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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, 2015 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 \$8.2 million.
- \$3.2 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: \$2,370,008 in property taxes, \$157,814 in sales taxes, \$55,666 in Alcohol beverage tax, \$40,749 in other taxes (business privilege tax and tobacco tax), \$108,000 in unrestricted grants, \$47,250 in investment revenues, \$135,129 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, 2015

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Expenses:		
Instructional services	\$ 7,108,569	\$ (1,408,267)
Instructional support services	1,808,253	(162,473)
Operation & maintenance services	1,612,121	(785,163)
Student transportation	466,842	(55,531)
Food service	675,148	(112,623)
General administrative	855,243	(630,233)
Interest and fiscal charges	8,878	(8,878)
Other expenses	56,135	(25,194)
Total Expenses	<u>\$ 12,591,189</u>	<u>\$ (3,188,362)</u>

SATSUMA CITY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION & ANALYSIS
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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 17 and 19. 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 \$4,877,690. During the year, the net change in the general fund balance was an increase of \$197,123 and resulted in an ending fund balance of \$394,303. 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 \$1,074,182. According to the State standards, this budgetary fund balance represents a 1.20 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 \$29,192 resulting in a fund balance of \$404,159.

Capital Projects Fund – During the year, the net change in the Capital Projects Fund was an increase of \$1,684,442 resulting in a fund balance of \$4,079,228. State and local tax revenues for capital outlay, a balance left in the Quality Zone Academy Bond (QZAB) bond issue proceeds, and the Series 2015 bond issue proceeds accumulated in this fund, and capital related expenditures were made. All of the QZAB bond proceeds will be expended by the end of Fiscal Year 2016. It is expected that all of the Series 2015 proceeds will be expended as well. The Board plans to continue to allow this fund to grow to meet capital and emergency needs.

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, 2015. The original 2015 fiscal year budget, adopted on August 26, 2014, was based on a conservative approach that reflected only allocated revenues and essential expenditures. The Board approved amendments to the budget during the year on March 24, 2015 and on June 23, 2015. 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.

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General Fund - The comparison of general fund original budget to the final amended budget is on page 40. The difference between the original budget and the final amended budget of the Board was \$148,064 increase in overall revenues, an increase in overall expenditures of \$7,963, and an increase in Other Financing Uses of \$69,987. 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 \$1,074,182 as compared to the final budgeted amount of \$970,332.

Special Revenue Fund - The comparison of the special revenue original budget to the final amended budget is reflected on page 41. 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 a decrease in use of federal funds, an increase in local school revenues, and smaller variances for State and other revenues. There was a small decrease in expenditures as compared to amount budgeted.

Capital Assets and Debt Administration

Capital Assets - The Board's investment in capital assets reflected additions of \$1,879,579 but also reflected depreciation of \$1,046,791 which resulted in a net increase in capital assets of \$832,788 for the audit period. See Page 30 of the Audit and See Table 4 below for detailed schedule. Total Capital Assets at year-end totaled \$40,228,941.

Table 4: Capital Assets (net of accumulated depreciation)
As of September 30, 2015

Land	\$ 664,800
Land Improvements-Exhaustible	1,732,643
Construction in Progress	1,573,387
Buildings	34,780,732
Building Improvements	971,075
Equipment and Furniture	206,187
Vehicles	300,117
Total Capital Assets	<u><u>\$ 40,228,941</u></u>

Long-term Liabilities

At year-end the Board had \$12,817,535 reflected as long-term liabilities. Refer to Note 5 on Page 31. This amount is the payable for the QZAB Bond \$1,800,000, the payable for the Series 2015 Bond of \$2,940,000, the entry made for unamortized bond premium \$118,535 and the entry made to recognize Net Pension Liability of \$7,959,000.

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Economic Factors and Next Year's Budget

- The population of the City of Satsuma as of the year 2014 was 6,167, an 8.4% increase over the 2000 census.
- Median age for the City of Satsuma is 42.8 as compared to a State average of 38.2.
- The estimated per capita income in 2014 was \$26,443 (it was \$23,972 in 2000). The State average was \$23,936.
- The median household income in the City of Satsuma for 2014 was \$58,750 as compared to a State average of \$43,511
- Percentage of persons in poverty in the City of Satsuma is only 6% as compared to 19.3% for the State average.
- Estimated median house or condo value in the City of Satsuma for 2014 was \$150,300 as compared to a statewide value of \$123,800.
- 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 \$393,628 for FY 2015.
- 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 2015.
- The Board increased its General Fund Balance on a budgetary basis to \$1,074,182 which represents a 1.20 months' operating balance. The Board has a goal of increasing the General Fund Balance each year for fiscal responsibility and security.

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.

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The Board monitors the state tax revenues closely in order to plan for any possible threat of proration.

Estimated Capital Needs- The Board's five year capital plan submitted for fiscal year 2015 is based on facility assessments and enrollment needs, and includes \$15,920,000 million in estimated capital needs throughout the system. It is planned that \$3 million will be funded with the Series 2015 Bond Issue executed in August 2015 and \$2 million will be funded with the Series 2016 Bond Issue executed in February 2016. The source of funding for remaining needs of \$10.9 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 2015-2016 scholastic year was 1,303 which is an increase from the 1,297 reported in the previous year. The next official ADM count was 1,305 in October 2015.

Medical and Retirement Costs - Employee health insurance is provided through the Public Education Employees Health Insurance Program (PEEHIP). The monthly premium for health insurance for teachers and support personnel under PEEHIP was \$780 for fiscal year 2015 and is again \$780 per month for fiscal year 2016. Also, the employer contribution rate to the Teachers Retirement System (TRS) was 11.71 and 11.05% for Tier I and II employees, respectively, in fiscal year 2015 and is 11.94% and 10.84% for Tier I and II employees, respectively, for fiscal year 2016.

**SATSUMA CITY BOARD OF EDUCATION
STATEMENT OF NET POSITION
SEPTEMBER 30, 2015**

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 2,672,655
Investments	2,879,095
Receivables, net	296,535
Inventories	19,165
Capital assets	
Nondepreciable	2,238,187
Depreciable, net	37,990,754
Total Assets	<u>46,096,391</u>
Deferred Outflows of Resources	
Proportionate share of collective deferred outflows related to net pension liability	558,000
Employer pension contribution	615,112
Total Deferred Outflows of Resources	<u>1,173,112</u>
Liabilities	
Accounts payable	215,150
Unearned revenue	13,696
Salaries and benefits payable	760,914
Accrued interest payable	8,936
Long-Term liabilities	
Portion due or payable within one year	298,333
Portion due or payable after one year	12,519,202
Total Liabilities	<u>13,816,231</u>
Deferred Inflows of Resources	
Proportionate share of collective deferred inflows related to net pension liability	597,000
Total Deferred Inflows of Resources	<u>597,000</u>
Net Position	
Net investment in capital assets	27,411,406
Restricted for:	
Education	384,994
Construction	4,079,228
Unrestricted	980,644
Total Net Position	<u>\$ 32,856,272</u>

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

**SATSUMA CITY BOARD OF EDUCATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in Net Position Governmental Activities	
	Expenses	Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
Instructional	\$ 7,108,569	\$ 132,681	\$ 5,378,800	\$ 188,821	\$ (1,408,267)
Instructional support	1,808,253	367,741	1,278,039	-	(162,473)
Operation and maintenance	1,612,121	45,394	593,123	188,441	(785,163)
Student transportation	466,842	37,483	354,049	19,779	(55,531)
Food service	675,148	527,144	35,381	-	(112,623)
General administrative	855,243	49,027	161,267	14,716	(630,233)
Interest and fiscal charges	8,878	-	-	-	(8,878)
Other expenses	56,135	18,833	12,108	-	(25,194)
Total governmental activities	\$ 12,591,189	\$ 1,178,303	\$ 7,812,767	\$ 411,757	\$ (3,188,362)
General revenues:					
Taxes:					
Property taxes for general purposes					1,559,666
Property taxes for specific purposes					810,342
Sales tax					157,814
Alcohol beverage tax					55,666
Other taxes					40,749
Grants and contributions not restricted for specific programs					108,000
Investment earnings					47,250
Miscellaneous					135,129
Total general revenues					2,914,616
Change in net position					(273,746)
Net position - beginning of year					40,396,018
Prior period adjustment- adoption of GASB Statement No. 68					(7,266,000)
Net position - end of year					\$ 32,856,272

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

**SATSUMA CITY BOARD OF EDUCATION
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015**

	(11) - General Fund	(12) - Special Revenue Fund	(14) - Capital Projects Fund	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 993,599	\$ 483,559	\$ 1,195,497	\$ 2,672,655
Investments	-	-	2,879,095	2,879,095
Receivables, net	95,188	176,263	25,084	296,535
Due from other funds	132,111	-	15,000	147,111
Inventories	-	19,165	-	19,165
Total assets	<u>\$ 1,220,898</u>	<u>\$ 678,987</u>	<u>\$ 4,114,676</u>	<u>\$ 6,014,561</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 101,289	\$ 93,413	\$ 20,448	\$ 215,150
Due to other funds	22,586	109,525	15,000	147,111
Unearned revenues	-	13,696	-	13,696
Salaries and benefits payable	702,720	58,194	-	760,914
Total liabilities	<u>826,595</u>	<u>274,828</u>	<u>35,448</u>	<u>1,136,871</u>
Fund Balances				
Nonspendable	-	19,165	-	19,165
Restricted for:				
Education	-	384,994	-	384,994
Construction	-	-	4,079,228	4,079,228
Unassigned	394,303	-	-	394,303
Total fund balances	<u>394,303</u>	<u>404,159</u>	<u>4,079,228</u>	<u>4,877,690</u>
Total liabilities and fund balances	<u>\$ 1,220,898</u>	<u>\$ 678,987</u>	<u>\$ 4,114,676</u>	<u>\$ 6,014,561</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, 2015

Total Fund Balances - Governmental Funds \$ 4,877,690

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

\$ 43,533,977

(3,305,036)

40,228,941

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.

576,112

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

298,333

Noncurrent Portion of Long-Term Liabilities

12,519,202

(12,817,535)

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

Accrued Interest Payable

(8,936)

Total Net Position - Governmental Activities

\$ 32,856,272

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, 2015**

	<u>(11) - General Fund</u>	<u>(12) - Special Revenue Fund</u>	<u>(14) - Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Revenues				
State	\$ 6,894,989	\$ 39,844	\$ 385,975	\$ 7,320,808
Federal	-	1,191,750	-	1,191,750
Local	2,102,149	814,046	810,432	3,726,627
Other	68,593	9,636	26	78,255
Total revenues	<u>9,065,731</u>	<u>2,055,276</u>	<u>1,196,433</u>	<u>12,317,440</u>
Expenditures				
Current:				
Instructional	5,217,114	754,505	50,597	6,022,216
Instructional support	1,266,695	512,486	9,859	1,789,040
Operation and maintenance	1,181,817	3,103	419,255	1,604,175
Auxiliary services:				
Student transportation	382,255	48,815	9,498	440,568
Food service	-	716,246	-	716,246
General administrative	704,660	102,784	24,845	832,289
Other	29,476	25,763	-	55,239
Capital outlay	11,890	-	1,867,689	1,879,579
Debt Service:				
Principal Retirement	-	-	133,333	133,333
Debt Issuance Costs/Other Debt Service	-	-	56,203	56,203
Total expenditures	<u>8,793,907</u>	<u>2,163,702</u>	<u>2,571,279</u>	<u>13,528,888</u>
Excess (deficiency) of revenues				
Over expenditures	<u>271,824</u>	<u>(108,426)</u>	<u>(1,374,846)</u>	<u>(1,211,448)</u>
Other Financing Sources (Uses)				
Indirect cost	62,917	-	-	62,917
Long term debt issued	-	-	2,940,000	2,940,000
Premiums on long-term debt issued	-	-	119,288	119,288
Transfers in	41,962	179,580	-	221,542
Transfers out	<u>(179,580)</u>	<u>(41,962)</u>	<u>-</u>	<u>(221,542)</u>
Total other financing sources (uses)	<u>(74,701)</u>	<u>137,618</u>	<u>3,059,288</u>	<u>3,122,205</u>
Net changes in fund balances	197,123	29,192	1,684,442	1,910,757
Fund balances - beginning of year	197,180	374,967	2,394,786	2,966,933
Fund balances - end of year	<u>\$ 394,303</u>	<u>\$ 404,159</u>	<u>\$ 4,079,228</u>	<u>\$ 4,877,690</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, 2015**

Net Changes in Fund Balances - Total Governmental Funds	\$ 1,910,757
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.	\$ 1,879,579
Capital Outlays	(1,046,791)
Depreciation Expense	832,788
Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.	133,333
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.	(2,940,000)
Premiums on debt issuance are reported as other financing sources in the governmental funds, but are amortized in the Statement of Activities.	(119,288)
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	(33,736)
Accrued Interest Payable, Current Year Increase/(Decrease)	8,936
Amortization of Bond Premiums	(753)
Pension Expense, Current Year Increase/Decrease	116,889
	(91,336)
Change in Net Position of Governmental Activities	\$ (273,746)

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

**SATSUMA CITY BOARD OF EDUCATION
STATEMENT OF FIDUCIARY NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

	<u>(32) - Agency Fund</u>
Assets	
Cash and cash equivalents	\$ 109,225
Total assets	<u>\$ 109,225</u>
Liabilities	
Accounts payable	\$ 7,535
Due to external organizations	<u>101,690</u>
Total liabilities	<u>\$ 109,225</u>

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

**SATSUMA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

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. 61, 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, 2015**

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, 2015

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

SATSUMA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

components: assets, deferred outflows of resources, liabilities and deferred inflows of resources.

As of October 1, 2014, 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.

During the year ended September 30, 2015, the Board implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements create disclosure and reporting requirements that may or may not be consistent with the basis used for funding the plan. As a result, a net pension liability equal to the difference between the actuarial present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service, less the amount of the pension plan's fiduciary net position was recognized. Additionally, pension expense and deferred outflows of resources and deferred inflows of resources were recognized from changes in the components of the net pension liability. See Notes 8 and 9 for more information.

Recently Issued Accounting Principles

GASB Statement No. 72, *Fair Value Measurement and Application*, was issued to provide guidance for determining a fair value measurement for financial reporting purposes. The requirements for GASB Statement No. 72 are effective for fiscal year 2016. The Board is currently evaluating the impact this standard may have on its financial statements.

**SATSUMA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement No. 68* was issued to establish requirements for assets that are not within the scope of GASB Statement No. 68. The requirements of GASB Statement No. 73 are effective for fiscal year 2016. The Board is currently evaluating the impact this standard may have on its financial statements.

GASB Statement No. 77, *Tax Abatement Disclosures*, was issued to improve financial reporting by giving users of the financial statements essential information that is not consistently or comprehensively reported to the public at the present. The requirements of GASB Statement No. 77 are effective for fiscal year 2017. The City is currently evaluating the impact that this statement may have on its 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:

- 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.

**SATSUMA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.
- 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 expenditures are 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 and investments in the capital projects fund amounting to \$1,195,497 and \$2,879,095, respectively for the 2015 fiscal year are restricted for capital projects for the high school and elementary school.

**SATSUMA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 or 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.

K. DEFERRED OUTFLOWS OF RESOURCES

Represents the pension plan contributions made between the measurement date of the pension plan and the end of the Board's fiscal year end and is amortized on a straight-line method.

L. DEFERRED INFLOWS OF RESOURCES

Represent deferred losses on the net difference between projected and actual earnings on the pension plan investments which is amortized on the straight-line method.

M. PENSIONS

The Teachers' Retirement System of Alabama (the Plan) financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to plan requirements. Benefits and refunds are recognized as revenues when due and payable in accordance with the terms of the plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made.

**SATSUMA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

N. PROPERTY TAXES

All ad valorem taxes levied by the state, county and any school board in Mobile County are assessed and collected by the Revenue Commissioner of Mobile County. The Mobile County property tax calendar requires the Revenue Commissioner to assess and attach taxes enforceable liens on property as of September 30, and taxes are due October 1 through December 31. Property taxes not paid by January 1 are considered delinquent. Tax collections received by the County Revenue Commissioner are remitted to the Board monthly. In accordance with the implementation of Governmental Accounting Standard (GASB) Statement No. 33, revenue is recorded based upon taxes assessed and considered available. Any taxes not considered available are recorded as deferred revenue.

NOTE 2 DEPOSITS AND INVESTMENTS

At September 30, 2015 the Board had investments in various certificates of deposit and U.S. money market mutual funds through its trustee agreement for debt reserve. The fair value of all investments was \$2,879,095. Of the total investments, \$750,005 was for U.S. money market mutual funds. The average maturity of the mutual funds was 42 days. All investments are reported at fair value.

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. The Board's mutual funds were rated AAAM by Standard & Poor's.

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.

**SATSUMA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

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.

	Interfund Receivables		Totals
	General Fund	Capital Projects Fund	
<u>Interfund Payables</u>			
General Fund	\$ 22,586	\$ -	\$ 22,586
Special Revenue Fund	109,525	-	109,525
Capital Projects Fund	-	15,000	15,000
Totals	\$ 132,111	\$ 15,000	\$ 147,111

	Transfers Out		Totals
	General Fund	Special Revenue Fund	
<u>Transfers In</u>			
General Fund	\$ -	\$ 41,962	\$ 41,962
Special Revenue Fund	179,580	-	179,580
Totals	\$ 179,580	\$ 41,962	\$ 221,542

**SATSUMA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ending September 30, 2015 was as follows:

	Beginning Balance	Additions	Retirements/ reclassifications	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land and Land Improvements	\$ 664,800	\$ -	\$ -	\$ 664,800
Construction in Progress	259,229	1,573,387	(259,229)	1,573,387
Total Capital Assets, Not Being Depreciated	<u>924,029</u>	<u>1,573,387</u>	<u>(259,229)</u>	<u>2,238,187</u>
Capital Assets Being Depreciated:				
Land Improvements-Exhaustible	2,100,174	-	-	2,100,174
Buildings	37,403,498	-	-	37,403,498
Building Improvements	779,490	99,983	259,229	1,138,702
Equipment and Furniture	274,913	19,455	-	294,368
Vehicles	172,294	186,754	-	359,048
Total Capital Assets Being Depreciated	<u>40,730,369</u>	<u>306,192</u>	<u>259,229</u>	<u>41,295,790</u>
Less Accumulated Depreciation for:				
Land Improvements-Exhaustible	262,522	105,009	-	367,531
Buildings	1,873,405	749,361	-	2,622,766
Building Improvements	34,631	132,996	-	167,627
Equipment and Furniture	55,472	32,709	-	88,181
Vehicles	32,215	26,716	-	58,931
Total Accumulated Depreciation	<u>2,258,245</u>	<u>1,046,791</u>	<u>-</u>	<u>3,305,036</u>
Total Capital Assets Being Depreciated, Net	<u>38,472,124</u>	<u>(740,599)</u>	<u>259,229</u>	<u>37,990,754</u>
Total Governmental Activities Capital Assets, Net	<u>\$ 39,396,153</u>	<u>\$ 832,788</u>	<u>\$ -</u>	<u>\$ 40,228,941</u>
Depreciation expense was charged to governmental functions/programs as follows:				
Instructional	\$	992,258		
Operation and Maintenance		5,907		
Student Transportation		26,173		
Food Service		17,267		
General Administrative		5,186		
Total Depreciation Expense - Governmental Activities		<u>\$ 1,046,791</u>		

**SATSUMA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE 5 LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended September 30, 2015:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Bonds and Warrants Payable	\$ 1,933,333	\$ 2,940,000	\$ 133,333	\$ 4,740,000	\$ 298,333
Unamortized Premium	-	119,288	753	118,535	-
Total Bonds and Notes Payable	<u>1,933,333</u>	<u>3,059,288</u>	<u>134,086</u>	<u>4,858,535</u>	<u>298,333</u>
Other Liabilities:					
Compensated Absences	33,736	-	33,736	-	-
Net Pension Liability	7,895,000	64,000	-	7,959,000	-
Total Other Liabilities	<u>7,928,736</u>	<u>64,000</u>	<u>33,736</u>	<u>7,959,000</u>	<u>-</u>
Governmental Activities Long-Term Liabilities	<u>\$ 9,862,069</u>	<u>\$ 3,123,288</u>	<u>\$ 167,822</u>	<u>\$12,817,535</u>	<u>\$ 298,333</u>

Bonds and warrants payable at September 30, 2015, 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. The Board imputes interest on this interest free loan at 2.00%.

\$ 1,800,000

School Tax Warrant, Series 2015 payable in annual installments of \$165,000 to \$250,000 from February 1, 2016 through February 1, 2030, with interest at 2.00% to 3.50% payable on February 1 and August 1.

2,940,000

Total

\$ 4,740,000

**SATSUMA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE 5 LONG-TERM LIABILITIES (continued)

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

Year Ending September 30,	Principal	Interest	Total
2016	\$ 298,333	\$ 81,507	\$ 379,840
2017	293,333	84,462	377,795
2018	298,333	80,387	378,720
2019	303,333	75,362	378,695
2020	308,333	70,187	378,520
2021-2025	1,503,334	266,754	1,770,088
2026-2030	1,735,001	96,925	1,831,926
	<u>\$ 4,740,000</u>	<u>\$ 755,584</u>	<u>\$ 5,495,584</u>

The Board obtained a School Tax Warrant, Series 2015 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 2030.

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.

**SATSUMA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE 6 COMPENSATED ABSENCES (continued)

All vacation days must be used prior to effective resignation date. The Board shall not make cash payments for unused vacation days, unless specified in a negotiated contract and approved by the Board. Because employees do not receive compensation for unused vacation leave at termination, no liability is recorded on the financial statements.

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 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.

**SATSUMA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE 8 DEFINED BENEFIT PENSION PLAN

Plan Description

The Board contributes to the Teachers' Retirement System of Alabama (TRS), a cost-sharing multiple-employer public employee retirement plan for the various state-supported educational agencies and institutions. The TRS was established as of September 15, 1939, under the provisions of Act 419 of the Legislature of 1939 for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by State-supported educational institutions. The responsibility for the general administration and operation of the TRS is vested in its Board of Control. The TRS Board of Control consists of 15 trustees. The plan is administered by the Retirement Systems of Alabama (RSA). Title 16-Chapter 25 of the Code of Alabama grants the authority to establish and amend the benefit terms to the TRS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

Benefits Provided

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the TRS. Benefits for TRS members vest after 10 years of creditable service. TRS members who retire after age 60 with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the TRS are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 TRS members are eligible for retirement after age 62 with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the TRS are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary based on the members' age, service credit, employment status and eligibility for retirement.

Contributions

Covered members of the TRS contributed 5% of earnable compensation to the TRS as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, covered members of the TRS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the TRS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the TRS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, certified law enforcement, correctional officers, and firefighters of

**SATSUMA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE 8 DEFINED BENEFIT PENSION PLAN (continued)

the TRS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers and firefighters are required by statute to contribute 8.50% of earnable compensation.

Tier 2 covered members of the TRS contribute 6% of earnable compensation to the TRS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 7% of earnable compensation.

Participating employers' contractually required contribution rate for the year ended September 30, 2014 was 11.71% of annual pay for Tier 1 members and 11.08% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the Board were \$635,669 for the fiscal year ended September 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2015, the System reported a liability of \$7,959,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2013. The Board's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2014, the Board's proportion was 0.087614%, which was an increase of 0.007012% from its proportion measured as of September 30, 2013.

**SATSUMA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE 8 DEFINED BENEFIT PENSION PLAN (continued)

For the year ended September 30, 2015, the Board recognized pension expense of \$732,000. At September 30, 2015, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	597,000
Changes in proportion and differences between Employer contributions and proportionate share of contributions	558,000	-
Employer contributions subsequent to the measurement date	615,112	-
 Total	 \$ 1,173,112	 \$ 597,000

\$615,112 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	
2016	\$ (19,000)
2017	(19,000)
2018	(19,000)
2019	(19,000)
2020	37,000
Thereafter	-

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of September 30, 2013 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Investment rate of return*	8.00%
Projected salary increases	3.5%-8.25%

*Net of pension plan investment expense

**SATSUMA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE 8 DEFINED BENEFIT PENSION PLAN (continued)

The actuarial assumptions used in the actuarial valuation as of September 30, 2013, were based on the results of an investigation of the economic and demographic experience for the TRS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012.

Mortality rates for TRS were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA projected to 2015 and set back one year for females.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

	Target Allocation	Long-Term Expected Rate of Return
Fixed Income	25.00%	5.00%
U.S. Large Stocks	34.00%	9.00%
U.S. Mid Stocks	8.00%	12.00%
U.S. Small Stocks	3.00%	15.00%
International Developed Market Stocks	15.00%	11.00%
International Emerging Market Stocks	3.00%	16.00%
Real Estate	10.00%	7.50%
Cash	2.00%	1.50%
Total	100.00%	

*Includes assumed rate of inflation of 2.50%

Discount Rate

The discount rate used to measure the total pension liability was 8%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

SATSUMA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 8 **DEFINED BENEFIT PENSION PLAN (continued)**

Sensitivity of the Board's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the Board's proportionate share of the net pension liability calculated using the discount rate of 8%, as well as what the Board's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (7%) or 1-percentage point higher (9%) than the current rate:

	1% Decrease <u>(7.00%)</u>	Current Rate <u>(8.00%)</u>	1% Increase <u>(9.00%)</u>
Board's proportionate share of collective net pension liability	\$ 10,843,000	\$ 7,959,000	\$ 5,515,000

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2014. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2014. The auditor's report dated May 1, 2015, on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense for the sum of all participating entities as of September 30, 2014, along with supporting schedules is also available. The additional financial actuarial information is available at www.rsa-al.gov.

NOTE 9 **PRIOR PERIOD ADJUSTMENT**

Effective October 1, 2014, the Board implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* effective by recording a prior period adjustment in the amount of \$7,266,000. The prior period adjustment increased deferred outflow of resources by \$629,000 for the employer pension plan contributions made from the measurement date (September 30, 2014) through September 30, 2015, and established a net pension liability in the amount \$7,895,000.

NOTE 10 **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.

**SATSUMA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE 11 SUBSEQUENT EVENTS

The Board has evaluated subsequent events through March 31, 2016, the date which the financial statements were available to be issued. On February 25, 2016, the Board issued the Series 2016 Special Tax School Warrant for the purpose of funding various public school capital improvement projects in the amount of \$1,900,000. The warrant will be payable in 18 annual installments ranging from \$50,000 to \$240,000, plus interest with a variable interest rate ranging from 3% to 4% payable semi-annually. The warrant is secured by the proceeds of the 7.5 mill ad valorem tax and will mature on February 1, 2034. There were no other material subsequent events which require disclosure at September 30, 2015.

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, 2015

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget	Budget to GAAP	
	Original	Final			Differences Over (Under)	Actual Amounts GAAP Basis
Revenues						
State	\$ 6,859,990	\$ 6,892,887	\$ 6,894,989	\$ 2,102	\$ -	\$ 6,894,989
Local	1,854,610	1,995,712	2,102,149	106,437	-	2,102,149
Other	15,600	29,068	68,593	39,525	-	68,593
Total Revenues	8,730,200	8,917,667	9,065,731	148,064	-	9,065,731
Expenditures						
Current:						
Instructional	5,194,080	5,140,419	5,190,616	(50,197)	26,498	5,217,114
Instructional support	1,230,941	1,274,050	1,256,092	17,958	10,603	1,266,695
Operation and maintenance	1,067,299	1,143,335	1,181,678	(38,343)	139	1,181,817
Auxiliary services:						
Student transportation	390,390	407,544	377,428	30,116	4,827	382,255
General administrative	653,736	763,373	704,660	58,713	-	704,660
Other	3,266	3,266	29,476	(26,210)	-	29,476
Capital Outlay	-	11,890	11,890	-	-	11,890
Total Expenditures	8,539,712	8,743,877	8,751,840	(7,963)	42,067	8,793,907
Excess (Deficiency) of Revenues Over Expenditures	190,488	173,790	313,891	156,027	(42,067)	271,824
Other Financing Sources (Uses)						
Indirect cost	133,084	132,540	62,917	(69,623)	-	62,917
Transfers in	20,000	20,000	41,962	21,962	-	41,962
Transfers out	(157,254)	(157,254)	(179,580)	(22,326)	-	(179,580)
Total Other Financing Sources (Uses)	(4,170)	(4,714)	(74,701)	(69,987)	-	(74,701)
Net Change in Fund Balances	186,318	169,076	239,190	86,040	(42,067)	197,123
Fund Balances - Beginning of Year	500,000	801,256	834,992	33,736	(637,813)	197,180
Fund Balances - End of Year	\$ 686,318	\$ 970,332	\$ 1,074,182	\$ 119,776	\$ (679,880)	\$ 394,303

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, 2015

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget	Budget to GAAP	
	Original	Final			Differences Over (Under)	Actual Amounts GAAP Basis
Revenues						
State	\$ -	\$ 46,712	\$ 39,844	\$ (6,868)	\$ -	\$ 39,844
Federal	1,124,158	1,329,001	1,191,750	(137,251)	-	1,191,750
Local	720,559	720,559	804,952	84,393	9,094	814,046
Other	26,800	26,900	9,636	(17,264)	-	9,636
Total Revenues	1,871,517	2,123,172	2,046,182	(76,990)	9,094	2,055,276
Expenditures						
Current:						
Instructional	664,068	796,420	724,699	(71,721)	29,806	754,505
Instructional support	311,705	372,184	512,485	140,301	1	512,486
Operation and maintenance	4,600	5,100	3,103	(1,997)	-	3,103
Auxiliary services:						
Student transportation	41,819	48,947	45,760	(3,187)	3,055	48,815
Food service	757,049	768,101	717,449	(50,652)	(1,203)	716,246
General administrative	103,102	104,402	102,784	(1,618)	-	102,784
Other	39,848	41,945	25,762	(16,183)	1	25,763
Total Expenditures	1,922,191	2,137,099	2,132,042	(5,057)	31,660	2,163,702
Excess (Deficiency) of Revenues Over Expenditures	(50,674)	(13,927)	(85,860)	(71,933)	(22,566)	(108,426)
Other Financing Sources (Uses)						
Transfers in	157,254	157,254	230,363	73,109	(50,783)	179,580
Transfers out	(20,000)	(20,000)	(83,653)	(63,653)	41,691	(41,962)
Total Other Financing Sources (Uses)	137,254	137,254	146,710	9,456	(9,092)	137,618
Net Change in Fund Balances	86,580	123,327	60,850	(62,477)	(31,658)	29,192
Fund Balances - Beginning of Year	90,500	401,502	401,512	10	(26,545)	374,967
Fund Balances - End of Year	\$ 177,080	\$ 524,829	\$ 462,362	\$ (62,467)	\$ (58,203)	\$ 404,159

**SATSUMA CITY BOARD OF EDUCATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2015**

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.

Final budgeted amounts were adopted by the Board on June 23, 2015.

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 yearend. Project-length financial plans are adopted for all capital project funds.

SATSUMA CITY BOARD OF EDUCATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2015

**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>\$ 9,065,731</u>	<u>\$ 2,046,182</u>
Uses/outflows of resources		
Actual amounts (budgetary basis) available for expenditures shown as Total Expenditures on the budgetary comparison schedule	\$ 8,751,840	\$ 2,132,042
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>42,067</u>	<u>31,660</u>
Total expenditures are reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 8,793,907</u>	<u>\$ 2,163,702</u>

**SATSUMA CITY BOARD OF EDUCATION
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHER'S RETIREMENT PLAN OF ALABAMA
SEPTEMBER 30, 2015**

	<u>2015</u>
Board's proportion of the net pension liability	0.087614%
Board's proportionate share of the net pension liability	\$ 7,959,000
Board's covered-employee payroll*	\$ 5,471,672
Board's proportionate share of the net pension liability as a percentage of its covered-employee payroll	145.46%
Plan fiduciary net position as a percentage of the total pension liability	71.01%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, governments should present information for those years for which information is available.

*Employer's covered-employee payroll during the measurement period is the total payroll paid to covered employees (not just pensionable payroll). For FY 2015, the measurement period is October 1, 2013-September 30, 2014.

**SATSUMA CITY BOARD OF EDUCATION
SCHEDULE OF THE BOARD CONTRIBUTIONS
TEACHER'S RETIREMENT PLAN OF ALABAMA
SEPTEMBER 30, 2015**

	<u>2015</u>
Contractually Required Contribution*	\$ 615,112
Contributions in relation to the contractually required contribution*	<u>615,112</u>
Contribution deficiency (excess)	<u>\$ -</u>
Board's covered employee-payroll**	\$ 5,471,672
Contributions as a percentage of covered- employee payroll	11.24%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, governments should present information for those years for which information is available.

*Amount of employer contributions equal to the amount that would be recognized as additions from the employer's contributions in the pension plan's schedule of changes in fiduciary net position during the period that coincides with the employer's fiscal year. This does not include amounts paid for Pre-retirement Death Benefit, Term Life Insurance or Administrative Expenses. It does include the amounts paid for the Employer's portion of the Normal Cost and Accrued Liability.

**Employer's covered-employee payroll during the measurement period is the total payroll paid to covered employees (not just pensionable payroll). For FY 2015, the measurement period is October 1, 2013- September 30, 2014.

COMPLIANCE SECTION

Shareholders

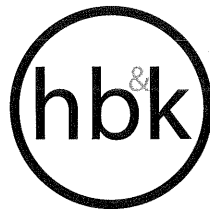
J. Earl Blackmon, Jr., CPA
B. Vance Kilgore, CPA
Dennis E. Sherrin, CPA

Principals

Rachel M. Godwin, CPA
G. Allen Cave, CPA

Of Counsel

Xavier A. Hartmann, III, CPA
Rucker T. Taylor, III, CPA
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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, 2015, 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 31, 2016.

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.

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.

Hartmann, Blackmon & Kilgore, P. C.

Certified Public Accountants

March 31, 2016
Fairhope, Alabama

Shareholders

J. Earl Blackmon, Jr., CPA
B. Vance Kilgore, CPA
Dennis E. Sherrin, CPA

Principals

Rachel M. Godwin, CPA
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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, 2015. Satsuma City Board of Education's major federal programs are identified in the summary of auditors' 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, 2015.

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 & Kilgore, P. C.

Certified Public Accountants

March 31, 2016
Fairhope, Alabama

**SATSUMA CITY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

<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	\$ 240,527
Non-Cash Assistance (N) (M)	10.555	43,901
National School Lunch Program Sub-Total		<u>284,428</u>
National School Breakfast Program (M)	10.553	<u>57,574</u>
Total U.S. Department of Agriculture		<u><u>342,002</u></u>
<u>U.S. Department of Education</u>		
Passed Through State Department of Education:		
Title I Grants to Local Education Agencies	84.010	297,407
Improving Teacher Quality State Grants	84.367	57,846
Special Education Cluster:		
Special Education - Grants to States	84.027	410,030
Special Education - Preschool Grants	84.173	3,645
Career and Technical Education-Basic Grant to States	84.048A	16,612
Total U.S. Department of Education		<u><u>785,540</u></u>
Total Expenditures of Federal Awards		<u><u>\$ 1,127,542</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, 2015**

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, 2015

SECTION 1 - SUMMARY OF AUDITORS' RESULTS:

Financial Statements

Type of opinion issued: Unmodified

Internal control over financial reporting:

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

Federal Awards

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

Internal control over major programs:

Material weakness(es) identified?	<u>Yes</u>	<u>X</u>	No
Significnat deficiency(ies) identified?	<u>Yes</u>	<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>Yes</u>	<u>X</u>	No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
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.