

**SARALAND BOARD OF EDUCATION**

**FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2014**

**Saraland Board of Education  
Financial Statements  
September 30, 2014**

**TABLE OF CONTENTS**

	<u>Page</u>
<b>FINANCIAL SECTION</b>	
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION & ANALYSIS	3-13
BASIC FINANCIAL STATEMENTS	
<b>Government-Wide Financial Statements</b>	
Statement of Net Position	14
Statement of Activities	15
<b>Fund Financial Statements</b>	
Balance Sheet	16
Reconciliation of Governmental Fund Balance to Net Position of Governmental Activities	17
Statement of Revenues, Expenditures and Changes in Fund Balances	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	19
Statement of Fiduciary Net Position	20
<b>Notes to the Financial Statements</b>	21-35
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Statement of Revenues, Expenditures and Changes in Fund Balances--Budget and Actual General Fund	36
Statement of Revenues, Expenditures and Changes in Fund Balances--Budget and Actual Special Revenue Fund	37
Notes to Required Supplementary Information	38
<b>COMPLIANCE SECTION</b>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	39-40
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	41-42
Schedule of Expenditures of Federal Awards	43
Note to the Schedule of Expenditures of Federal Awards	44
Schedule of Findings and Questioned Costs	45

## **FINANCIAL SECTION**

Xavier A. Hartmann, III, CPA  
Rucker T. Taylor, III, CPA  
J. Earl Blackmon, Jr., CPA  
B. Vance Kilgore, CPA  
Sally S. Wagner, CPA  
Dennis E. Sherrin, CPA



Certified Public Accountants & Consultants

**Hartmann, Blackmon & Kilgore, P.C.**

311 Sowell Street  
P.O. Box 1379  
Brewton, Alabama 36427  
Phone: 251.867.3801  
Fax: 251.867.3276

## INDEPENDENT AUDITORS' REPORT

Members of the Board  
Saraland Board of Education  
Saraland, Alabama

### **Report on the Financial Statements**

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

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Saraland Board of Education, as of September 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters****Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-13 and 36-38, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Saraland Board of Education's basic financial statements. The 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*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2014 on our consideration of Saraland 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 Saraland Board of Education's internal control over financial reporting and compliance.



Certified Public Accountants

December 16, 2014  
Brewton, Alabama

**SARALAND BOARD OF EDUCATION  
MANAGEMENT DISCUSSION AND ANALYSIS  
For The Year Ended September 30, 2014**

The Saraland Board of Education's (the "Board") discussion and analysis presents the overall financial position and operating results of the fiscal year that ended September 30, 2014. Readers are encouraged to read it in conjunction with the transmittal letter at the front of this report and 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**

The Board's Net Position decreased by \$482,929 in FY 2014. The activities revenues overall were \$24,490,059 in FY 2014 and \$21,714,038 in FY 2013, resulting in an increase of \$2,776,021 or 12.78% over the prior year. The Board's continual rise of student enrollment has resulted in annual increases in state allocations for our system. Local ad valorem tax increased by 10.09%, and local sales tax decreased by 19.33%. Also, Miscellaneous Revenue increased by 98.75% largely due to the writing off of compensated absences as a result of a policy change. Overall, there was a decrease in Net Position for the year. Refer to Table 2 for specific details of each category.

The General Fund expenditures and other financing uses exceeded revenues and other financing sources by \$296,128. Overall, the Board's expenditures and other financing uses exceeded revenues and other financing sources by \$744,755 largely due to expenditures from capital projects where the proceeds from long-term debt were recognized in the prior year and the accrual of salaries and benefits payable at year-end.

### **Overview of the Financial Statement and Use of This Report**

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 (RSI), including the MD&A
- Basic Financial Statements (Governmental-Wide and Fund Financial Statements)
- Supplemental Information

**Required Components of Annual Financial Report  
Figure 1**

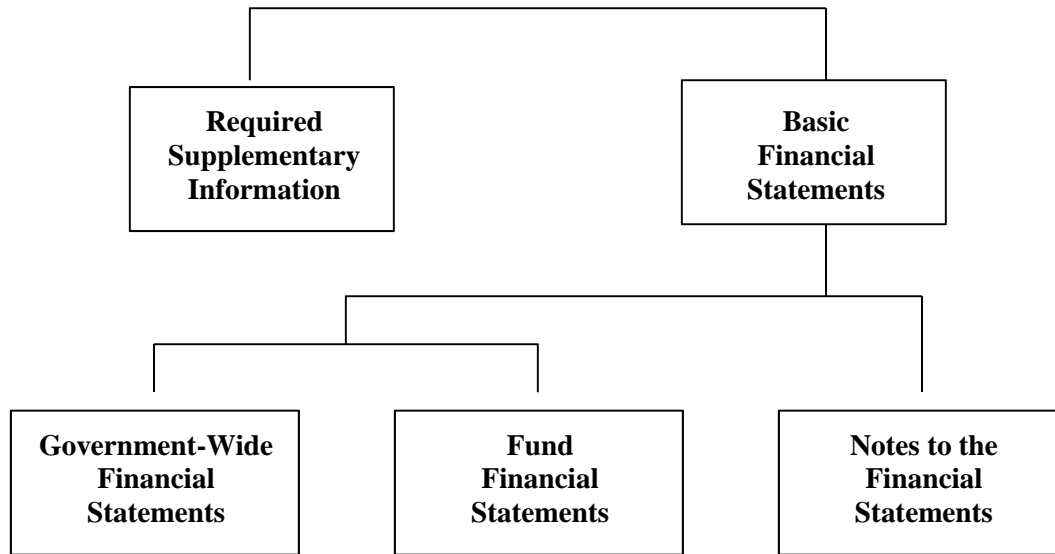


Figure 1 depicts the major features of the Board's financial statements. The focus of the financial statements is on the Board as a whole and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year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

## **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. All of the funds of the Board can be classified into one category: governmental funds.

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 – The Board is the trustee, or fiduciary, for some of its booster and parent organization activity funds, which are under the control and administration of its schools. Fiduciary funds also include agency funds, such as accounts payable clearing and payroll clearing funds. All of the Board's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. These funds are not available to the Board to finance its operations, and therefore not included in the government-wide financial statements. The Board is responsible for ensuring that the assets reported by these funds are used for their intended purposes.

## **Notes to the Financial Statements**

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

## Financial Analysis of the Board as a Whole

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 total assets exceeded liabilities by \$15,896,527 at September 30, 2014.

- ◆ Of this figure, \$13,820,426 reflects the Board's Net Investment in Capital Assets. Since these capital assets represent investment in land, buildings, school buses, furniture and equipment, this portion of net position is not available for future spending or funding of operations.
- ◆ Restricted net position is reported separately to show the external legal constraints from debt covenants and enabling legislation that limit the Board's ability to use this net position for day-to-day operations. \$753,854 is restricted for education and \$492,334 is restricted for construction.
- ◆ The balance of unrestricted net position is \$829,913.

The following table reflects a Summary of Net Position compared to the prior year. For more detailed information see the Statement of Net Position.

	<b>FY 2014</b>	<b>FY 2013</b>	<b>Variance</b>
<b><u>Assets</u></b>			
Current and Other Assets	\$ 3,865,032	\$ 4,244,586	-8.94%
Capital Assets, Net of Depreciation	71,368,905	70,394,720	1.38%
Total Assets	<u>75,233,937</u>	<u>74,639,306</u>	<u>0.80%</u>
<b><u>Liabilities</u></b>			
Current and Other Liabilities	1,788,931	1,423,730	<b>25.65%</b>
Long-Term Liabilities	57,548,479	56,836,120	1.25%
Total Liabilities	<u>59,337,410</u>	<u>58,259,850</u>	<u>1.85%</u>
<b><u>Net Position</u></b>			
Net Investment in Capital Assets	13,820,426	13,735,663	0.62%
Restricted for:			
Education	753,854	703,149	7.21%
Construction	492,334	991,666	<b>-50.35%</b>
Unrestricted	829,913	948,978	-12.55%
<b>Total Net Position</b>	<b><u>\$15,896,527</u></b>	<b><u>\$16,379,456</u></b>	<b><u>-2.95%</u></b>

Factors attributing to the significant variances in Current and Other Liabilities include the recording of \$148,537 in accounts payable versus \$11,259 in the prior year. Also, in Net Position Restricted for Construction, expenditures were incurred in the current year on a construction project where the proceeds from long-term debt were recognized in the prior year.

The following table reflects the Changes in Net Position compared to the prior year. For more detailed information see the Statement of Activities.

	<b>FY 2014</b>	<b>FY 2013</b>	<b>Variance</b>
<b><u>Revenues</u></b>			
Program Revenues:			
Charges for Services	\$2,537,067	\$ 2,182,265	16.26%
Operating Grants and Contributions	13,992,791	11,920,097	17.39%
Capital Grants and Contributions	788,392	539,750	<b>46.07%</b>
General Revenues:			
Property Taxes for General Purposes	2,676,546	2,485,590	7.68%
Property Taxes for Specific Purposes	1,473,872	1,284,578	14.74%
Sales Tax	2,220,312	2,752,457	-19.33%
Alcohol Beverage Tax	107,809	97,806	10.23%
Other Taxes	79,430	70,508	12.65%
Grants and Contributions Not Restricted			
for Specific Programs	500	30,608	<b>-98.37%</b>
Investment Earnings	126,931	95,383	<b>33.08%</b>
			-
Gain on Disposition of Capital Assets	0	10,263	<b>100.00%</b>
Miscellaneous	486,409	244,733	<b>98.75%</b>
Total Revenues	24,490,059	21,714,038	12.78%
<b><u>Expenditures</u></b>			
Governmental Activities:			
Instructional	12,595,433	10,828,268	16.32%
Instructional Support	3,607,323	3,252,261	10.92%
Operation and Maintenance	2,088,742	1,812,723	15.23%
Student Transportation	1,188,893	1,012,227	17.45%
Food Service	1,522,268	1,324,815	14.90%
General Administrative	1,233,572	1,148,298	7.43%
Interest and Fiscal Charges	2,434,239	2,387,924	1.94%
Other Expenses	302,518	319,897	-5.43%
Total Expenditures	24,972,988	22,086,413	13.07%
<b>Changes in Net Position</b>	<b>(482,929)</b>	<b>(372,375)</b>	<b>29.69%</b>
Net Position - Beginning of Year	16,379,456	16,751,831	-2.22%
Net Position - End of Year	\$15,896,527	\$16,379,456	-2.95%

The significant variances reflected on Table 2 are described below:

### Revenues

- ◆ Capital Grants and Contributions – Increase due to a State of Alabama Department of Education Bond Issuing allowing for the purchase of Career and Technical Education equipment.
- ◆ Grants and Contributions Not Restricted for Specific Programs – Decrease is not material and appears to be due to one-time miscellaneous contributions.
- ◆ Investment Earnings – Increase appears to be due to contributions received from 16<sup>th</sup> Section Land Proceeds
- ◆ Gain on Disposition of Capital Assets – Decrease due to the Board not selling any capital assets in FY 2014.
- ◆ Miscellaneous – As mentioned in Financial Highlights, increase due to the writing off of compensated absences as a result of a policy change.

### Expenditures

- ◆ The overall increase in expenditures is primarily due to the employment of additional faculty and staff as a result of a growing school system. Funds will not be received for the FY 2014 growth until FY 2015 therefore placing the financial burden on our local revenue. The loss in current unit funding is the primary reason for the significant decrease in net position.

### **Net Cost of Services**

Total cost of services was \$24,972,988. As shown in Table 3, the net cost of governmental activities was a negative \$7,654,738. This means that the local funds portion of revenue was used to fund the amount not covered from various program revenues.

	<u>FY 2014</u>		<u>FY 2013</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Governmental Activities:				
Instructional	\$12,595,433	\$(1,914,514)	\$10,828,268	\$(1,962,133)
Instructional Support	3,607,323	(588,141)	3,252,261	(695,047)
Operation and				
Maintenance	2,088,742	(1,569,323)	1,812,723	(1,327,832)
Student Transportation	1,188,893	(381,311)	1,012,227	(275,451)
Food Service	1,522,268	(153,741)	1,324,815	(116,291)
General Administrative	1,233,572	(548,098)	1,148,298	(577,702)
Interest and Fiscal				
Charges	2,434,239	(2,434,239)	2,387,924	(2,387,924)
Other Expenses	302,518	(65,371)	319,897	(101,921)
	<u><b>\$24,972,988</b></u>	<u><b>\$(7,654,738)</b></u>	<u>\$22,086,413</u>	<u>\$(7,444,301)</u>

## Financial Analysis of the Board's Funds

The analysis of governmental funds serves the purpose of looking at what resources came into the funds, how they were spent, and what is available for future expenditures. Did the Board generate enough revenue to pay for current obligations? What is available for spending at the end of the year? The financial performance of the Board as a whole is reflected in its governmental funds as well. At the end of the fiscal year, the Board's governmental funds reported combined ending fund balances of \$2,076,101. Of the combined ending fund balances, \$829,913 of this amount constitutes unassigned fund balance of the General Fund that is available as of the end of the fiscal year for spending on future operations. The remaining combined fund balances are classified as nonspendable, restricted, and assigned for various purposes as constituted by GASB No. 54.

- ◆ **General Fund** – The General Fund is the primary operating fund of the Board in providing educational services to students from kindergarten through 12th grade including pupil transportation.

Table 4 reflects a summary of General Fund Revenues for the most recent two-year period:

	<b>FY 2014</b>	<b>FY 2013</b>	<b>Variance</b>
State	\$12,572,820	\$10,630,481	18.27%
Federal	88,859	61,107	<b>45.42%</b>
Local	4,559,805	4,466,081	2.10%
Other	142,601	61,253	<b>132.80%</b>
<b>Total Revenues</b>	<b>\$17,364,085</b>	<b>\$15,218,922</b>	<b>14.10%</b>

The significant increase in federal revenues was due to the amount of prior year salary accruals moved into the General Fund being more than the previous audit; the significant increase in other revenues was due to the writing off of compensated absences as a result of a policy change.

It should be noted that each school system is required to provide a minimum equivalent of ten mills of ad valorem tax to participate in the Foundation Program. The ten mill equivalent match for Saraland was \$1,502,110 in fiscal year 2014.

Table 5 reflects a summary of General Fund Expenditures for the most recent two-year period:

	<b>FY 2014</b>	<b>FY 2013</b>	<b>Variance</b>
Current:			
Instructional	\$10,327,491	\$ 9,039,636	14.25%
Instructional Support	2,743,580	2,386,353	14.97%
Operation and Maintenance	2,031,059	1,783,830	13.86%
Auxiliary Services:			
Student Transportation	1,026,602	900,935	13.95%
General Administrative	1,092,186	967,867	12.84%
Other	91,342	117,222	<b>-22.08%</b>
Capital Outlay	210,705	188,667	11.68%
Debt Service:			
Principal Retirement	4,128	25,200	<b>-83.62%</b>
			-
Interest and Fiscal Charges	0	15,870	<b>100.00%</b>
Debt Issuance Costs/Other Debt			-
Service	0	23,291	<b>100.00%</b>
<b>Total Expenditures</b>	<b>\$17,527,093</b>	<b>\$15,448,871</b>	<b>13.45%</b>

The significant decrease in other expenditures was due to a reduction in extended day services. Also, the significant decreases in debt service expenditures resulted from the increase in local and state revenue restricted for debt service requirements relating to capital projects.

- ◆ **Special Revenue Fund** – The Special Revenue Fund accounts for all of the federal programs that flow through the State Department of Education which includes the Child Nutrition Program. In addition, this fund includes Public Local School source of funds. The beginning fund balance was \$703,149. Recognizing an excess of \$50,705 for the fiscal year, the ending fund balance for FY 2014 was \$753,854.
- ◆ **Capital Projects Fund** – The Capital Projects Fund accounts for all financial resources to be used for the acquisition or construction of major capital facilities. The beginning fund balance was \$991,666. Recognizing a deficiency of \$911,501 for the fiscal year, the ending fund balance for FY 2014 was \$80,165.

Overall, the Board's governmental funds reflected a deficiency of Revenues/Other Financing Sources over Expenditures/Other Financing Uses.

## Budgetary Highlights

The FY 2014 Budget, adopted on September 5, 2013, was based on known sources at the time of adoption. The budget reflected only guaranteed revenues and necessary expenditures as some of the state-funded programs had not been authorized at this point. The Board complied with State Department of Education requirements for budget amendments. The Board submitted Amendment #1 on February 6, 2014, to address changes in federal and state funds and other revisions to the General Fund. Amendment #2 was submitted on June 5, 2014, to make final budgetary adjustments to all funds and programs.

The comparisons of the General Fund and Special Revenue Fund original budgets to the final amended budgets are reflected in the required supplemental information in the report. The two budgets were amended to correct beginning fund balances and account for changes in state, federal and local sources.

## Capital Assets and Debt Administration

- ◆ **Capital Assets** – As of September 30, 2014, the Board had \$71,781,074 invested in capital assets including land and land improvements, construction in progress, buildings and building improvements, equipment and furniture and vehicles costing \$5,000 or more. This amount is net of accumulated depreciation, as of September 30, 2014. (Additional information on the Board's Capital Assets is presented in the notes to the financial statements.)

Table 6 below reflects a summary of Capital Assets, Net of Depreciation for the most recent two-year period:

	<b>FY 2014</b>	<b>FY 2013</b>	<b>Variance</b>
Land and Land Improvements	\$ 3,383,090	\$ 3,383,090	0.00%
Construction in Progress	1,571,088	15,399,056	<b>-89.80%</b>
Buildings	65,431,802	45,875,928	<b>32.24%</b>
Building Improvements	4,683,756	4,214,738	4.37%
Equipment and Furniture	677,297	430,393	-17.31%
Vehicles	1,280,064	1,091,515	-8.80%
<b>Total Capital Assets, Net of Depreciation</b>	<b>\$71,781,074</b>	<b>\$70,394,720</b>	<b>1.38%</b>

The significant decrease in construction in progress and increase in buildings is due to the completion of ongoing capital projects from the prior year.

- ◆ **Long-Term Debt** – As of September 30, 2014, the Board had \$57,548,479 in General Long-Term Debt outstanding. The Board made debt service payments as reflected on Table 7. (Additional information on the Board’s long-term debt is presented in the notes to the financial statements.)

**Table 7  
Summary of Long-Term Debt  
September 30, 2014**

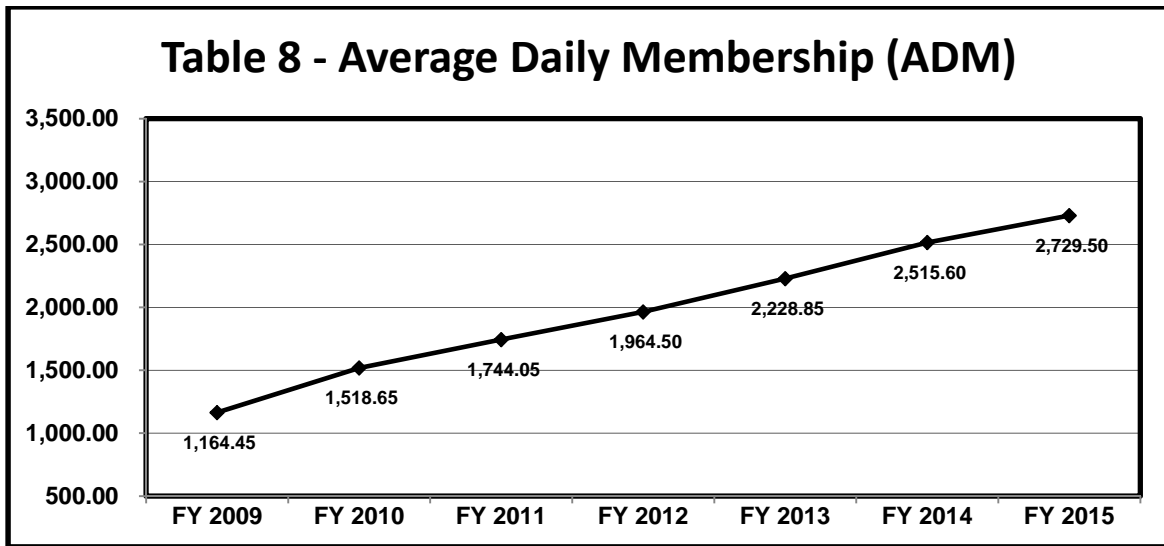
	Debt		Debt		Amounts Due within One Year
	Outstanding 10/1/2013	Issued/ Increased	Repaid/ Decreased	Outstanding 9/30/2014	
<u>Governmental Activities:</u>					
Capital Leases Payable	\$56,409,057		\$ (739,006)	\$55,670,051	\$ 771,936
Warrants Payable	250,000	1,650,000	(21,572)	1,878,428	57,513
Compensated Absences	177,063		(177,063)		
<b>Governmental Activities Long-Term Debt</b>	<b>\$56,836,120</b>	<b>\$1,650,000</b>	<b>\$(937,641)</b>	<b>\$57,548,479</b>	<b>\$ 829,449</b>

### **Economic Factors and Next Year’s Budget**

The following are currently known Saraland economic factors considered going into the 2014-2015 fiscal year:

- ◆ No new local taxes have been levied for the 2014-2015 fiscal year.
- ◆ Sequestration (reduction of federal funds) for the 2014-2015 fiscal year is foreseeable.
- ◆ The funding formula to appropriate state funds to each public school system requires the equivalent of ten mills of ad valorem tax to be provided locally to participate in the Foundation Program. The match will increase from \$1,502,110 in FY 2014 to \$1,589,680 for FY 2015. The match for FY 2015 is 11.36% of the total State Foundation Program funds earned by the system.
- ◆ Employee health insurance is provided through the Public Education Employees’ Health Insurance Program (PEEHIP). PEEHIP employer costs will increase from \$714 for FY 2014 to \$780 for FY 2015 per employee per month. In addition, the employer contribution to the Teachers’ Retirement System (TRS) for employees hired prior to January 1, 2013, will remain 11.71% for FY 2015. Employer contribution for employees hired on or after January 1, 2013, will be 11.05% for FY 2015. The Board uses local funds to pay the salary-related benefits costs not paid by state and federal funds.
- ◆ State Funding for Alabama school systems is based on average daily membership (ADM) for the first 20 days after Labor Day of the preceding school year. For every year since inception, average daily membership for the school system has increased. This increase places an additional financial burden on the Board’s local funds. Funding for earned teacher units is based on prior year ADM, rather than current year ADM. In a growing system, funding for salaries and benefits will always be a year behind and will not catch up until enrollment levels off or starts to decline.

Table 8 summarizes ADM by year since FY 2009:



### Financial Contact

The Board's financial statements are designed to present users (citizens, taxpayers, investors and creditors) with a general overview of the Board's finances and to demonstrate the Board's accountability for public funds received. If you have questions about the report or need additional financial information, contact Dr. Aaron Milner, Superintendent, 943 Hwy 43 South Saraland, Alabama 36571, or by calling (251) 375-5420.

14  
**Saraland Board of Education**  
**Statement of Net Position**  
**September 30, 2014**

	<u><b>Governmental Activities</b></u>
<b>Assets</b>	
Cash and Cash Equivalents	\$ 1,620,456
Investments	1,417,194
Receivables, Net	351,544
Inventories	44,076
Other Assets	19,593
Capital Assets:	
Nondepreciable	4,954,180
Depreciable, Net	66,826,894
<b>Total Assets</b>	<u><u>\$ 75,233,937</u></u>
<b>Liabilities</b>	
Accounts Payable	\$ 148,537
Unearned Revenue	22,072
Salaries and Benefits Payable	1,618,322
Long-Term Liabilities:	
Portion Due or Payable Within One Year	829,449
Portion Due or Payable After One Year	56,719,030
<b>Total Liabilities</b>	<u><u>59,337,410</u></u>
<b>Net Position</b>	
Net Investment in Capital Assets	13,820,426
Restricted for:	
Education	753,854
Construction	80,165
Unrestricted	1,242,082
<b>Total Net Position</b>	<u><u>15,896,527</u></u>
<b>Total Liabilities and Net Position</b>	<u><u>\$ 75,233,937</u></u>

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

15  
**Saraland Board of Education**  
**Statement of Activities**  
**For the Year Ended September 30, 2014**

<b>Functions/Programs</b>	<b>Program Revenues</b>				<b>Net (Expenses) Revenues</b>
	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>and Changes in Net Position</b>
					<b>Governmental Activities</b>
Instructional	\$ 12,595,433	\$ 375,157	\$ 9,523,370	\$ 782,392	\$ (1,914,514)
Instructional Support	3,607,323	492,876	2,526,306	-	(588,141)
Operation and Maintenance	2,088,742	105,712	413,707	-	(1,569,323)
Student Transportation	1,188,893	57,239	744,343	6,000	(381,311)
Food Service	1,522,268	1,295,659	72,868	-	(153,741)
General Administrative	1,233,572	29,201	656,273	-	(548,098)
Interest and Fiscal Charges	2,434,239	-	-	-	(2,434,239)
Other Expenses	302,518	181,223	55,924	-	(65,371)
<b>Total Governmental Activities</b>	<b>\$ 24,972,988</b>	<b>\$ 2,537,067</b>	<b>\$ 13,992,791</b>	<b>\$ 788,392</b>	<b>(7,654,738)</b>

General revenues:

Taxes:

Property Taxes for General Purposes	2,676,546
Property Taxes for Specific Purposes	1,473,872
Sales Tax	2,220,312
Alcohol Beverage Tax	107,809
Other Taxes	79,430
Grants and Contributions Not Restricted for Specific Programs	500
Investment Earnings	126,931
Miscellaneous	486,409
<b>Total General Revenues</b>	<b>7,171,809</b>
Changes in Net Position	(482,929)
Net Position - Beginning of Year	16,379,456
<b>Net Position - End of Year</b>	<b>\$ 15,896,527</b>

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

**16**  
**Saraland Board of Education**  
**Balance Sheet**  
**Governmental Funds**  
**September 30, 2014**

	(11) - General Fund	(12) - Special Revenue Fund	(14) - Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and Cash Equivalents	\$ 643,554	\$ 921,492	\$ 55,410	\$ -	\$ 1,620,456
Investments	1,417,194	-	-	-	1,417,194
Receivables, Net	132,467	194,322	24,755	-	351,544
Due from Other Funds	248,670	-	-	-	248,670
Inventories	-	44,076	-	-	44,076
Other Assets	19,593	-	-	-	19,593
Total Assets	<u>\$ 2,461,478</u>	<u>\$ 1,159,890</u>	<u>\$ 80,165</u>	<u>\$ -</u>	<u>\$ 3,701,533</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities:</b>					
Accounts Payable	\$ 72,375	\$ 76,162	\$ -	\$ -	\$ 148,537
Due to Other Funds	-	248,670	-	-	248,670
Unearned Revenues	-	22,072	-	-	22,072
Salaries and Benefits Payable	1,559,190	59,132	-	-	1,618,322
Total Liabilities	<u>1,631,565</u>	<u>406,036</u>	<u>-</u>	<u>-</u>	<u>2,037,601</u>
<b>Fund Balances</b>					
Nonspendable	-	44,076	-	-	44,076
Restricted for:					
Education	-	709,778	-	-	709,778
Construction	-	-	80,165	-	80,165
Unassigned	829,913	-	-	-	829,913
Total Fund Balances	<u>829,913</u>	<u>753,854</u>	<u>80,165</u>	<u>-</u>	<u>1,663,932</u>
Total Liabilities and Fund Balances	<u>\$ 2,461,478</u>	<u>\$ 1,159,890</u>	<u>\$ 80,165</u>	<u>\$ -</u>	<u>\$ 3,701,533</u>

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

**Saraland Board of Education**  
**Reconciliation of the Governmental Fund Balance to Net Position of Governmental Activities**  
**September 30, 2014**

Total Fund Balances - Governmental Funds		\$	1,663,932
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		\$	77,027,097
Accumulated Depreciation is			(5,246,023)
			71,781,074
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			829,449
Noncurrent Portion of Long-Term Liabilities			56,719,030
			(57,548,479)
Total Position - Governmental Activities		\$	15,896,527

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

18  
**Saraland Board of Education**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended September 30, 2014**

	(11) - General Fund	(12) - Special Revenue Fund	(14) - Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
State	\$ 12,572,820	\$ 67,470	\$ 718,959	\$ -	\$ 13,359,249
Federal	88,859	1,990,083	-	-	2,078,942
Local	4,559,805	1,697,033	1,476,279	1,103,626	8,836,743
Other	142,601	52,800	-	-	195,401
Total Revenues	<u>17,364,085</u>	<u>3,807,386</u>	<u>2,195,238</u>	<u>1,103,626</u>	<u>24,470,335</u>
<b>Expenditures</b>					
Current:					
Instructional	10,327,491	1,199,825	100,540	-	11,627,856
Instructional Support	2,743,580	841,214	-	-	3,584,794
Operation and Maintenance	2,031,059	19,518	-	-	2,050,577
Auxiliary Services:					
Student Transportation	1,026,602	42,435	-	-	1,069,037
Food Service	-	1,603,970	-	-	1,603,970
General Administrative	1,092,186	176,557	-	-	1,268,743
Other	91,342	211,986	-	-	303,328
Capital Outlay	210,705	-	2,569,135	-	2,779,840
Debt Service:					
Principal Retirement	4,128	-	106,451	650,000	760,579
Interest and Fiscal Charges	-	-	1,789,861	453,626	2,243,487
Debt Issuance Costs/Other Debt Service	-	-	190,752	-	190,752
Total Expenditures	<u>17,527,093</u>	<u>4,095,505</u>	<u>4,756,739</u>	<u>1,103,626</u>	<u>27,482,963</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(163,008)</u>	<u>(288,119)</u>	<u>(2,561,501)</u>	<u>-</u>	<u>(3,012,628)</u>
<b>Other Financing Sources (Uses)</b>					
Indirect Cost	194,779	-	-	-	194,779
Long-Term Debt Issued	-	-	1,650,000	-	1,650,000
Transfers In	-	370,047	-	-	370,047
Other Financing Sources	10,925	-	-	-	10,925
Transfers Out	(338,824)	(31,223)	-	-	(370,047)
Total Other Financing Sources (Uses)	<u>(133,120)</u>	<u>338,824</u>	<u>1,650,000</u>	<u>-</u>	<u>1,855,704</u>
Net Changes in Fund Balances	(296,128)	50,705	(911,501)	-	(1,156,924)
Fund Balances - Beginning of Year	1,126,041	703,149	991,666	-	2,820,856
Fund Balances - End of Year	<u>\$ 829,913</u>	<u>\$ 753,854</u>	<u>\$ 80,165</u>	<u>\$ -</u>	<u>\$ 1,663,932</u>

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

**Saraland Board of Education**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities**  
**For the Year Ended September 30, 2014**

Net Changes in Fund Balances - Total Governmental Funds \$ (1,156,924)

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

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

Capital Outlays	\$ 2,779,840	
Depreciation Expense	<u>(1,402,287)</u>	1,377,553

Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities.

760,579

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.

(1,650,000)

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

Donated Assets		8,800
----------------	--	-------

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

Compensated Absences, Current Year Increase/(Decrease) in Noncurrent Portion		<u>177,063</u>
--	--	----------------

Change in Net Position of Governmental Activities

\$ (482,929)

**Saraland Board of Education  
Statement of Fiduciary Net Position  
September 30, 2014**

	<u>Agency Funds</u>
<b>Assets</b>	
Cash and Cash Equivalents	\$ 145,497
Total Assets	<u>\$ 145,497</u>
<b>Liabilities</b>	
Accounts Payable	\$ 10,845
Due to External Organizations	<u>134,652</u>
Total Liabilities	<u>\$ 145,497</u>

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

21  
Saraland Board of Education  
Notes to the Financial Statements  
September 30, 2014

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. REPORTING ENTITY**

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

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

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

Government-wide

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows. Nonexchange transactions, in which the Board gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from grants entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Level

The government fund level financial statements are reported using the current financial resource measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measureable 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 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

22  
**Saraland Board of Education**  
**Notes to the Financial Statements**  
**September 30, 2014**

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

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

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

Governmental Funds:

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

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

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

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.

23  
Saraland Board of Education  
Notes to the Financial Statements  
September 30, 2014

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

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

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

**D. BASIS OF ACCOUNTING**

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

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

**E. IMPACT OF RECENTLY ISSUED ACCOUNTING PRINCIPLES**

*Recently Issued and Adopted Accounting Principles*

On October 1, 2012, the Board adopted the provisions of 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 Procedure. The adoption of GASB Statement No. 62 did not have any impact on the Board’s financial statements.

On October 1, 2012, the Board implemented 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

24  
Saraland Board of Education  
Notes to the Financial Statements  
September 30, 2014

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

is renamed the Statement of Net Position and includes four components: assets, deferred outflows of resources, liabilities and deferred inflows of resources. The Board has determined that they have no deferred outflows or inflows of resources at September 30, 2014, under the requirements of GASB Statement No. 63.

As of October 1, 2014, the Board implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 requires certain items that were previously 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 following definitions of those elements in Concepts Statement No. 4 *Elements of Financial Statements*:

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

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

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

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

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

*Recently Issued Accounting Principles*

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

**F. 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.

25  
Saraland Board of Education  
Notes to the Financial Statements  
September 30, 2014

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

**G. 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.

**H. 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.

**I. NET ASSET AND EQUITY CLASSIFICATIONS**

Government-wide Financial Statements

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. Deferred outflows of resources and deferred inflows of resources 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 at year-end, the portion of the debt or deferred inflows of resources attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of the related debt. Rather, that portion of the debt or deferred inflows of resources is 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.

26  
**Saraland Board of Education**  
**Notes to the Financial Statements**  
**September 30, 2014**

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

Fund Financial Statements

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

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

- Nonspendable fund balance—Consists of amounts that are not in a spendable form or are required to be maintained intact.
- Restricted fund balance—Consists of fund balances with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) the Board's own laws through its enabling legislation and other provisions of its laws and regulations.
- Committed fund balance—Consists of fund balances that are 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 Finance Officer to make a determination of the assigned amounts of fund balance. Such assignments may not exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. Assigned fund balances require the same level of authority to remove the constraint.
- Unassigned fund balance—All other fund balances that do not meet the definition of "restricted, committed or assigned fund balances." This portion of the total fund balance in the general fund is available to finance operating expenditures.

When expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) amounts are available, it shall be the policy of the Board to consider restricted amounts to have been reduced first. When an expenditure is incurred for the purposes for which amounts in any of the unrestricted fund balance classification could be used, it shall be the policy of the Board that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

**Saraland Board of Education  
Notes to the Financial Statements  
September 30, 2014**

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

**J. ENCUMBRANCES**

Encumbrances represent commitments related to underperformed contracts for goods or services. Encumbrances accounting—under which purchase orders, contracts and other commitments for the expenditure 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. SUBSEQUENT EVENTS**

The Board has evaluated subsequent events through December 15, 2014, the date which the financial statements were available to be issued. There were no material subsequent events which require disclosure at September 30, 2014, other than the following:

On November 6, 2014, the Board approved a line of credit with Bancorp South in the amount of \$1,000,000 with interest at 3.25% due September 30, 2015. At the date of issuance of the financial statements, no amounts had been drawn down.

**NOTE 2      DEPOSITS AND INVESTMENTS**

**Interest Rate Risk**

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

**Credit Risk**

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

**Custodial Credit Risk**

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

28  
**Saraland Board of Education**  
**Notes to the Financial Statements**  
**September 30, 2014**

**NOTE 3            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.

All personnel who are employed full-time on a 12-month basis are entitled to 15 days vacation leave per year. No more than 25 days can be carried over to the next year. Due to the intensity of summer work, the Superintendent may carry over days and must use all carry-over vacation according to the terms of his/her negotiated contract. Any vacation taken during the school year must be approved by the Superintendent.

Vacation days shall be earned by the month and accountable by the year, July 1 through June 30. One point two five (1.25) vacation days will be earned for each month employment up to 15 days, unless the employee is under a contract with specific terms for vacation.

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 4            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

**Saraland Board of Education**  
**Notes to the Financial Statements**  
**September 30, 2014**

**NOTE 4            RISK MANAGEMENT (continued)**

contents through an insurance company. The insurance company provides coverage up to \$87,179,709. Errors and omissions insurance is purchased from the premiums and purchases commercial insurance for the amount of coverage requested by pool participants. The Board purchases commercial insurance for fidelity bonds and vehicle fleet. Settled claims in the past three years have not exceeded the amounts of commercial insurance coverage.

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

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

**NOTE 5            PAYMENTS OR SERVICES FURNISHED BY OTHER AGENCIES**

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

**NOTE 6            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.

**30**  
**Saraland Board of Education**  
**Notes to the Financial Statements**  
**September 30, 2014**

**NOTE 7 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 ongoing operating subsidies and to recoup certain expenditures paid on-behalf of the local schools.

Interfund Receivables and Payables

	Interfund Receivables	
	General Fund	Totals
<u>Interfund Payables</u>		
Special Revenue Fund	\$ 248,670	\$ 248,670
Totals	\$ 248,670	\$ 248,670

	Transfers Out	
	General Fund	Totals
<u>Transfers In</u>		
Special Revenue Fund	\$ 338,824	\$ 338,824
Totals	\$ 338,824	\$ 338,824

31  
Saraland Board of Education  
Notes to the Financial Statements  
September 30, 2014

**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 system for the various state-supported educational agencies and institutions. This plan is administered by the Retirement Systems of Alabama.

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

The TRS was established as of October 1, 1941, under the provisions of Act Number 419, Acts of Alabama 1939, for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by state-supported educational institutions. The responsibility for general administration and operation of the TRS is vested in the Board of Control (currently 14 members). Benefit provisions are established by the **Code of Alabama 1975**, Sections 16-25-1 through 16-25-113, as amended, and Sections 36-27B-1 through 36-27B-6, as amended.

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

Funding Policy

During 2012, the Alabama Legislature passed and the Governor signed into law, changes in the pension plan effective January 1, 2013, which created two "Tiers" of covered employees. Employees hired prior to January 1, 2013 (Tier 1 employees) must contribute 7.50% of their salary to the TRS. Employees hired on or after that date (Tier 2 employees) will contribute on gross earnings at a rate of 6.00%. The Board is required to contribute the remaining amounts necessary to fund the actuarially determined contributions to ensure sufficient assets will be available to pay benefits when due. Each year the TRS recommends to the Legislature the contribution rate for the following fiscal year, with the Legislature setting this rate in the annual appropriation bill. The

**32**  
**Saraland Board of Education**  
**Notes to the Financial Statements**  
**September 30, 2014**

**NOTE 8      DEFINED BENEFIT PENSION PLAN**

percentages of the contributions and the amount of contributions made by the Board and the Board's employees equal the required contributions for each year as follows:

Fiscal Year Ended September 30,	2014 Tier 1	2014 Tier 2	2013 Tier 1	2013 Tier 2	2012
Total Percentage of Covered Payroll	19.21%	17.08%	17.58%	15.44%	17.25%
<u>Contributions:</u>					
Percentage Contributed by the Board	11.71%	11.08%	10.08%	9.44%	10.00%
Percentage Contributed by the Employees	7.50%	6.00%	7.50%	6.00%	7.25%
Contributed by the Board	\$ 1,205,277.81	\$ 84,920.71	\$ 963,184.00	\$ 7,044.00	\$ 867,678.00
Contributed by Employees	771,606.90	46,143.92	716,648.00	4,477.00	629,065.00
Total Contributions	<u>\$ 1,976,884.71</u>	<u>\$ 131,064.63</u>	<u>\$ 1,679,832.00</u>	<u>\$ 11,521.00</u>	<u>\$ 1,496,743.00</u>

33  
**Saraland Board of Education**  
**Notes to the Financial Statements**  
**September 30, 2014**

**NOTE 9 CAPITAL ASSETS**

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

	Beginning Balance	Additions	Retirements/ reclassifications	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land and Land Improvements	\$ 3,383,090	\$ -	\$ -	\$ 3,383,090
Construction in Progress	15,399,056	2,234,682	16,062,650	1,571,088
Total Capital Assets, Not Being Depreciated	<u>18,782,146</u>	<u>2,234,682</u>	<u>16,062,650</u>	<u>4,954,178</u>
Capital Assets Being Depreciated:				
Buildings	48,588,586	16,228,584	(614,632)	65,431,802
Building Improvements	4,942,117	356,271	614,632	4,683,756
Equipment and Furniture	677,297	-	-	677,297
Vehicles	1,248,310	31,754	-	1,280,064
Total Capital Assets Being Depreciated	<u>55,456,310</u>	<u>16,616,609</u>	<u>-</u>	<u>72,072,919</u>
Less Accumulated Depreciation for:				
Buildings	3,327,291	1,028,006	-	4,355,297
Building Improvements	112,746	171,976	-	284,722
Equipment and Furniture	246,904	74,521	-	321,425
Vehicles	156,795	127,784	-	284,579
Total Accumulated Depreciation	<u>3,843,736</u>	<u>1,402,287</u>	<u>-</u>	<u>5,246,023</u>
Total Capital Assets Being Depreciated, Net	<u>51,612,574</u>	<u>15,214,322</u>	<u>-</u>	<u>66,826,896</u>
Total Governmental Activities Capital Assets, Net	<u>\$ 70,394,720</u>	<u>\$ 17,449,004</u>	<u>\$ 16,062,650</u>	<u>\$ 71,781,074</u>

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

Instructional	\$ 1,030,913
Instructional Support	81,912
Operation and Maintenance	38,623
Student Transportation	124,831
Food Service	79,919
General Administrative	46,089
Total Depreciation Expense - Governmental Activities	<u>\$ 1,402,287</u>

34  
Saraland Board of Education  
Notes to the Financial Statements  
September 30, 2014

**NOTE 10 LONG-TERM LIABILITIES**

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

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Bonds and Warrants Payable	\$ 250,000	\$ 1,650,000	\$ 21,572	\$ 1,878,428	\$ 57,513
Total Bonds and Notes Payable	<u>250,000</u>	<u>1,650,000</u>	<u>21,572</u>	<u>1,878,428</u>	<u>57,513</u>
Other Liabilities:					
Capital Leases	56,409,057	-	739,006	55,670,051	771,936
Compensated Absences	177,063	-	177,063	-	-
Total Other Liabilities	<u>56,586,120</u>	<u>-</u>	<u>916,069</u>	<u>55,670,051</u>	<u>771,936</u>
Governmental Activities Long-Term Liabilities	<u>\$ 56,836,120</u>	<u>\$ 1,650,000</u>	<u>\$ 937,641</u>	<u>\$ 57,548,479</u>	<u>\$ 829,449</u>

Bonds and Warrants Payable at September 30, 2014, were comprised of the following:

Note payable for capital outlay purposes dated September 6, 2013, due in 120 monthly installments of \$2,647, including interest at 2.98%

\$ 250,000

Note payable for capital outlay purposes dated February 7, 2014, due in 360 monthly installments of \$7,309, including interest at 3.35% through January 31, 2024. After that date the installments will be adjusted to provide for equal monthly installments based upon the "Tax Exempt Rate", which is calculated by the interest rate equal to the 10-year Constant Maturity Treasury Index plus 2.15 % multiplied by .65 plus .25%

1,628,428

Total Bonds and Warrants Payable

\$ 1,878,428

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

Year Ending September 30,	Governmental Activities	
	Principal	Interest
2015	\$ 57,513	\$ 62,014
2016	59,402	60,125
2017	61,354	58,174
2018	63,370	56,158
2019	65,452	54,078
2020-2024	333,021	236,492
2025-2029	254,459	187,559
2030-2034	300,789	141,229
2035-2039	355,553	86,464
2040-2043	330,515	23,099
	<u>\$ 1,881,428</u>	<u>\$ 965,392</u>

35  
**Saraland Board of Education**  
**Notes to the Financial Statements**  
**September 30, 2014**

**NOTE 10 LONG-TERM LIABILITIES (CONTINUED)**

**Capital Leases**

The Board has entered into several lease agreements as lessee for financing the construction and renovation of school facilities and to purchase equipment. The leases qualify as capital leases for accounting purposes since there are bargain purchase elements at the end of the initial lease terms and the present value of the minimum lease payments are greater than 90 percent of the asset purchase prices. Each asset has, therefore, been recorded at the present value of the future minimum lease payments as of the inception date in the capital assets.

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

	Governmental Activities
Land	\$ 874,147
Buildings & building improvements, net of \$1,977,813 accumulated depreciation	49,295,853
Vehicles, net of \$47,507 accumulated depreciation	902,641
Total	\$ 51,072,641

The future minimum lease obligation and the net present value of the minimum lease payments as of September 30, 2014, were as follows:

	Governmental Activities
Year ending September 30,	
2015	\$ 2,937,029
2016	2,915,928
2017	3,632,266
2018	3,634,248
2019	3,642,184
2020-2024	18,165,254
2025-2029	17,969,678
2030-2034	18,133,316
2035-2039	14,897,703
2040-2041	3,603,893
Total minimum lease payments	89,531,499
Less amount representing interest	(33,861,448)
Present value of minimum lease payments	\$ 55,670,051

**REQUIRED SUPPLEMENTARY INFORMATION**

36  
**Saraland Board of Education**  
**Statement of Revenues, Expenditures and Changes in Fund Balances--Budget and Actual**  
**(11) - General Fund**  
**For the Year Ended September 30, 2014**

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget	Budget to GAAP	Actual Amounts GAAP Basis
	Original	Final			Differences Over (Under)	
<b>Revenues</b>						
State	\$ 12,279,646	\$ 12,490,242	\$ 12,572,820	\$ 82,578	\$ -	\$ 12,572,820
Federal	-	-	88,859	88,859	-	88,859
Local	3,994,029	4,141,791	4,559,805	418,014	-	4,559,805
Other	15,000	15,000	142,601	127,601	-	142,601
Total Revenues	16,288,675	16,647,033	17,364,085	717,052	-	17,364,085
<b>Expenditures</b>						
Current:						
Instructional	9,744,873	9,780,010	10,103,146	(323,136)	224,344	10,327,490
Instructional Support	2,556,621	2,581,821	2,763,013	(181,192)	(19,433)	2,743,580
Operation and Maintenance	1,856,035	2,018,936	2,030,578	(11,642)	481	2,031,059
Auxiliary Services:						
Student Transportation	896,654	910,011	1,013,265	(103,254)	13,337	1,026,602
General Administrative	990,915	990,915	1,092,186	(101,271)	-	1,092,186
Other	86,568	86,568	90,377	(3,809)	966	91,343
Capital Outlay	-	114,056	210,705	(96,649)	-	210,705
Debt Service:						
Principal Retirement	-	-	4,128	(4,128)	-	4,128
Total Expenditures	16,131,666	16,482,317	17,307,398	(825,081)	219,695	17,527,093
Excess (Deficiency) of Revenues Over Expenditures	157,009	164,716	56,687	(108,029)	(219,695)	(163,008)
<b>Other Financing Sources (Uses):</b>						
Indirect Cost	34,137	37,375	194,779	157,404	-	194,779
Transfers In	3,999	3,999	-	(3,999)	-	-
Other Financing Sources	-	-	10,925	10,925	-	10,925
Transfers Out	(333,147)	(333,147)	(338,824)	(5,677)	-	(338,824)
Total Other Financing Sources (Uses)	(295,011)	(291,773)	(133,120)	158,653	-	(133,120)
Net Change in Fund Balances	(138,002)	(127,057)	(76,433)	50,624	(219,695)	(296,128)
Fund Balances - Beginning of Year	1,650,000	2,288,473	2,465,536	177,063	(1,339,494)	1,126,041
Fund Balances - End of Year	\$ 1,511,998	\$ 2,161,416	\$ 2,389,103	\$ 227,687	\$ (1,559,189)	\$ 829,913

**Saraland Board of Education**  
**Statement of Revenues, Expenditures and Changes in Fund Balances--Budget and Actual**  
**(12) - Special Revenue Fund**  
**For the Year Ended September 30, 2014**

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget--	Budget to GAAP	Actual Amounts GAAP Basis
	Original	Final			Differences Over (Under)	
<b>Revenues</b>						
State	\$ -	\$ 71,210	\$ 67,470	\$ (3,740)	\$ -	\$ 67,470
Federal	1,796,155	1,881,650	1,990,083	108,433	-	1,990,083
Local	1,128,650	1,128,650	1,697,033	568,383	-	1,697,033
Other	30,874	30,874	52,800	21,926	-	52,800
Total Revenues	2,955,679	3,112,384	3,807,386	695,002	-	3,807,386
<b>Expenditures</b>						
Current:						
Instructional	974,672	1,103,797	1,205,502	(101,705)	(5,677)	1,199,825
Instructional Support	570,831	585,460	841,214	(255,754)	-	841,214
Operation and Maintenance	1,050	1,050	19,518	(18,468)	-	19,518
Auxiliary Services:						
Student Transportation	70,323	70,323	42,435	27,888	-	42,435
Food service	1,328,967	1,336,467	1,593,596	(257,129)	10,374	1,603,970
General Administrative	176,490	179,733	176,557	3,176	-	176,557
Other	107,364	117,072	211,986	(94,914)	-	211,986
Total Expenditures	3,229,697	3,393,902	4,090,808	(696,906)	4,697	4,095,505
Excess (Deficiency) of Revenues Over Expenditures	(274,018)	(281,518)	(283,422)	(1,904)	(4,697)	(288,119)
<b>Other Financing Sources (Uses):</b>						
Transfers In	345,947	345,947	370,047	24,100	-	370,047
Transfers Out	(16,799)	(16,799)	(31,223)	(14,424)	-	(31,223)
Total Other Financing Sources (Uses)	329,148	329,148	338,824	9,676	-	338,824
Net Change in Fund Balances	55,130	47,630	55,402	7,772	(4,697)	50,705
Fund Balances - Beginning of Year	461,875	704,534	757,583	53,049	(54,436)	703,149
Fund Balances - End of Year	\$ 517,005	\$ 752,164	\$ 812,985	\$ 60,821	\$ (59,133)	\$ 753,854

38  
**Saraland Board of Education**  
**Notes to Required Supplementary Information**  
**September 30, 2014**

**NOTE 1            BUDGETS AND BUDGETARY ACCOUNTING**

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

Budgeted amounts are as originally adopted by the Board on September 5, 2013. Final budgeted amounts were adopted by the Board on June 5, 2014.

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

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

	<b>(11) - General Fund</b>	<b>(12) - Special Revenue Fund</b>
<b>Uses/outflows of resources</b>		
Actual amounts (budgetary basis) available for expenditures shown as		
Total Expenditures on the budgetary comparison schedule	\$ 17,307,398	\$ 4,090,808
 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	219,695	4,697
 Total expenditures are reported on the statement of revenues, expenditures and changes in fund balances--governmental funds	\$ 17,527,093	\$ 4,095,505

## **COMPLIANCE SECTION**

Xavier A. Hartmann, III, CPA  
Rucker T. Taylor, III, CPA  
J. Earl Blackmon, Jr., CPA  
B. Vance Kilgore, CPA  
Sally S. Wagner, CPA  
Dennis E. Sherrin, CPA



Certified Public Accountants & Consultants

Hartmann, Blackmon & Kilgore, P.C.

311 Sowell Street  
P.O. Box 1379  
Brewton, Alabama 36427

Phone: 251.867.3801

Fax: 251.867.3276

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

Members of the Board  
Saraland Board of Education  
Saraland, 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 Saraland Board of Education as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise Saraland Board of Education's basic financial statements, and have issued our report thereon dated December 16, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Saraland 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 Saraland Board of Education's internal control. Accordingly, we do not express an opinion on the effectiveness of Saraland 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a certain deficiency in internal control that we consider to be a significant deficiency and communicated it in writing to management and those charged with governance on December 16, 2014.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Saraland 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.

*Hartmann, Blackmon & Kilgore, P. C.*

Certified Public Accountants

December 16, 2014  
Brewton, Alabama

Xavier A. Hartmann, III, CPA  
Rucker T. Taylor, III, CPA  
J. Earl Blackmon, Jr., CPA  
B. Vance Kilgore, CPA  
Sally S. Wagner, CPA  
Dennis E. Sherrin, CPA



Certified Public Accountants & Consultants

**Hartmann, Blackmon & Kilgore, P.C.**

311 Sowell Street  
P.O. Box 1379  
Brewton, Alabama 36427  
Phone: 251.867.3801  
Fax: 251.867.3276

**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  
Saraland Board of Education  
Saraland, Alabama

**Compliance**

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

**Management's Responsibility**

Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the entity's management.

**Auditors' Responsibility**

Our responsibility is to express an opinion on Saraland Board of Education's compliance with the applicable compliance requirements based on our compliance audit.

We conducted our compliance audit 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and Circular A-133 require that we plan and perform the compliance 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. A compliance audit includes examining, on a test basis, evidence about Saraland Board of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our compliance audit provides a reasonable basis for our opinion. Our compliance audit does not provide a legal determination on Saraland Board of Education's compliance with those requirements.

**Opinion**

In our opinion, Saraland Board of Education complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2014.

**Internal Control over Compliance**

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

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

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

**Restricted Use**

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance, and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting 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 over financial reporting and compliance. Accordingly, this report is not suitable for any other purpose.

*Hartmann, Blackmon & Kilgore, P. C.*

Certified Public Accountants

December 16, 2014  
Brewton, Alabama

**Saraland Board of Education  
Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2014**

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b><u>U.S. Department of Agriculture</u></b>		
<b>Passed Through Alabama Department of Education:</b>		
Child Nutrition Cluster:		
National School Breakfast Program--Cash Assistance	10.553	\$ 163,412
National School Lunch Program:		
Cash Assistance	10.555	590,188
Non-Cash Assistance (N)	10.555	72,868
National School Lunch Program Sub-Total		<u>663,056</u>
<b>Total U.S. Department of Agriculture</b>		<u>826,468</u>
<b><u>U.S. Department of Education</u></b>		
<b>Passed Through State Department of Education:</b>		
Special Education Cluster:		
Special Education-Grants to States (M)	84.027	381,569
Special Education-Preschool Grants (M)	84.173	7,059
Title I Grants to Local Education Agencies	84.010	660,772
Career and Technical Education Basic Grants to States	84.048A	33,589
Improving Teacher Quality State Grants (M)	84.367	168,986
<b>Total U.S. Department of Education</b>		<u>1,251,975</u>
<b>Total Expenditures of Federal Awards</b>		<u>\$ 2,078,443</u>

(M) = Major Program

(N) = Non-Cash Assistance

**Saraland Board of Education**  
**Note to the Schedule of Expenditures of Federal Awards**  
**September 30, 2014**

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

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

**Saraland Board of Education  
Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2014**

**SECTION 1-SUMMARY OF AUDITORS' RESULTS:**

**Financial Statements**

Type of opinion issued: Unqualified

Internal control over financial reporting:

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

**Federal Awards**

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

Internal control over major programs:

Material weakness(es) identified?	Yes	<u>X</u>	No
Significant deficiency(ies) identified?	<u>X</u>	Yes	None reported
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	Yes	<u>X</u>	No

Identification of major programs:

<b>CFDA Numbers</b>	<b>Name of Federal Program or Cluster</b>
84.027 & 84.173 84.367	Special Education Cluster (IDEA) Improving Teacher Quality State Grants

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.

See independent auditors' report and note to the Schedule of Expenditures of Federal Awards.