

ANDALUSIA CITY BOARD OF EDUCATION

FINANCIAL STATEMENTS

Year Ended September 30, 2013

ANDALUSIA CITY BOARD OF EDUCATION
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RABREN, ODOM, PIERCE & HAYES, P.C.

Certified Public Accountants

W.S. Rabren, Jr., CPA
Kenneth R. Odom, CPA, CGFM, CGMA
Melissa C. Pierce, CPA, CGFM, CITP
Gail C. Hayes, CPA

www.ro-cpa.com

1600 Dr. MLK, Jr. Expressway
Andalusia, AL 36420
Telephone: (334) 222-4101
Fax: (334) 222-9125

Jana G. Ealum
Anna N. Till

INDEPENDENT AUDITORS' REPORT

Members of the Board
Andalusia City Board of Education
Andalusia, 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 the Andalusia City Board of Education (the Board), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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.

Auditor's 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 the Andalusia Board of Education as of September 30, 2013, and the respective changes

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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, budgetary comparison and schedule of funding progress on pages 3 through 11, pages 40 and 41, and page 42 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 financial statements, and other knowledge we obtained during our audit of the 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 the Andalusia City Board of Education's basic financial statements. The schedule of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2014 on our consideration of the Board'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 the Board's internal control over financial reporting and compliance.

Rabren, Odom, Pierce & Hayes, PC

Andalusia, Alabama
April 24, 2014

ANDALUSIA CITY BOARD OF EDUCATION

Management Discussion and Analysis (MD&A) For the Year Ended September 30, 2013

Introduction

The Management's Discussion and Analysis (MD&A) of Andalusia City Board of Education's financial performance provides an overall review of the Board's financial activities for the fiscal year ended September 30, 2013. The intent of this discussion and analysis is to look at the Board's financial performance as a whole. Readers should also review the notes to the financial statements and the financial statements to enhance their understanding of the Andalusia City Board of Education's financial performance.

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

Financial Highlights

Key financial highlights of the 2012-2013 fiscal year include the following:

- General Fund revenues exceeded expenditures and other financing uses by \$1,175,758 resulting in a fund balance of \$3,618,622 available as of the fiscal year ended 2013.
- The assets of the Board exceeded its liabilities at the close of the 2013 fiscal year by \$20,499,572 (Net Position). Of this amount, \$3,527,668 (unrestricted Net Position) may be used to meet the Board's future costs of operations.

Overview of the Financial Statements

This discussion and analysis serves as an introduction to the Board's basic financial statements which are the government-wide financial statements, fund financial statements, and the notes to the financial statements. This report also includes supplementary information in addition to the basic financial statements themselves.

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. Although other governments may report governmental activities and business-type activities, the Board has no business-type activities.

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

The *Statement of Activities* provides information which shows how the Board's Net Position changed as a result of the year's activities. The statement uses the accrual basis of accounting, which is similar to the accounting used by private-sector businesses. 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).

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.

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.

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.

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 noted earlier, the Andalusia City Board of Education has no business-type activities. Consequently, all of the Board's Net Position is reported as Governmental Activities.

ANDALUSIA CITY BOARD OF EDUCATION

	Net Position	
	<u>Governmental Activities</u> <u>September 30, 2013</u>	<u>Governmental Activities</u> <u>September 30, 2012</u>
Current and other assets	\$ 4,307,636	\$ 3,263,393
Restricted assets	1,877,254	720,501
Capital assets	<u>18,083,410</u>	<u>17,159,997</u>
Total assets	<u>24,268,300</u>	<u>21,143,891</u>
Current and other liabilities	212,207	435,853
Long-term liabilities	<u>3,556,521</u>	<u>3,250,000</u>
Total liabilities	<u>3,768,728</u>	<u>3,685,853</u>
Net Position:		
Invested in capital assets, net of related debt	14,526,889	13,909,997
Restricted	2,445,015	719,456
Unrestricted	<u>3,527,668</u>	<u>2,828,585</u>
Total Net Position	<u>\$20,499,572</u>	<u>\$17,458,038</u>

The Board's assets exceeded liabilities by \$20,499,572 at the close of the fiscal year, an increase of \$3,041,534. The increase is due to the transfer of funds from the City for capital projects. Other increases are mainly due to the increase of sales tax and ad valorem taxes for the fiscal year.

The majority of the Board's Net Position is invested in capital assets (land, buildings, and equipment) owned by the Board. These assets are not available for future expenditures since they will not be sold. Unrestricted Net Position — the part of Net Position that can be used to finance day-to-day operations without constraints established by enabling legislation, debt covenants, or other legal requirements — is \$3,527,668 at the end of the year.

The Board's total revenues and expenditures are reflected in the following chart:

ANDALUSIA CITY BOARD OF EDUCATION

	Changes in Net Position	
	<u>Governmental Activities</u>	<u>Governmental Activities</u>
	<u>September 30, 2013</u>	<u>September 30, 2012</u>
<u>Revenues</u>		
Program revenues:		
Charges for services	\$ 1,286,715	\$ 1,051,830
Operating grants and contributions	10,311,709	9,855,364
Capital grants and contributions	459,895	467,029
General revenues:		
Property taxes	784,678	748,601
Sales tax	1,368,403	1,020,913
Miscellaneous Taxes	1,056,509	1,050,288
Grants and Contributions – Non Restricted	96,000	96,000
Section 16 Land Funds	10,862	87,860
Investment Earnings	12,780	12,369
Contributions – Restricted	220,620	217,516
Erate/On Behalf Of	52,856	242,272
Miscellaneous	168,810	386,445
Gain on Disposition of Capital Assets	3,600	0
Appropriations from the City of Andalusia	<u>2,500,000</u>	<u>0</u>
Total revenues	<u>18,333,437</u>	<u>15,236,487</u>
<u>Expenses</u>		
Instructional services	8,992,443	8,987,940
Instructional support services	1,920,761	1,837,603
Operation & maintenance services	1,399,840	1,364,627
Food Service	968,830	932,137
Student transportation services	552,448	508,388
General administrative services	724,977	691,936
Other	716,721	748,713
Interest and Fiscal Charges	<u>15,883</u>	<u>10,750</u>
Total expenses	<u>15,291,903</u>	<u>15,082,094</u>
Change in Net Position	<u>3,041,534</u>	<u>154,393</u>
Net Position, beginning	17,458,038	17,306,135
Prior Period Adjustment	<u>0</u>	<u>(2,490)</u>
Net Position, ending	<u>\$20,499,572</u>	<u>\$17,458,038</u>

The Board's total revenues increased by 20.3 percent and the total cost of all programs and services increased 1.39 percent. This accounts for the Board's gain of \$3,041,534 for the fiscal year.

The increase in revenues can be attributed to the following sources of income:

- Program Revenues – 6% increase
- General Revenues – 62.5% increase

The increase in the total cost of all programs and services can be found within the following programs:

- Instructional and Instructional Support Services – 1% increase
- Operations and Maintenance – 3% increase
- Transportation – 40% increase
- Food Service – 4%

Program revenues, specifically operating grants and contributions, are the largest component of total revenues (76%).

- Operating grants and contributions contribute 86% of program revenues and 65% of total revenues. The major sources of revenues in this category are State foundation program funds, state transportation operating funds, and state and federal funds restricted for specific programs.
- Capital grants and contributions include state capital outlay funds and state funds to replace buses.
- Charges for services include federal reimbursement for meals, student meal purchases, and local school revenues.

General revenues, primarily property taxes and sales taxes along with appropriations from the City of Andalusia, are used to provide \$6,275,118 for expenses not covered by program revenues.

Instructional services expenses, primarily salaries and benefits for classroom teachers, are the largest expense function of the Board (59%).

- In addition to teacher salaries and benefits, instructional services includes teacher aides, substitute teachers, textbooks, depreciation of instructional buildings, professional development, and classroom instructional materials, supplies, and equipment.
- Instructional support services includes salaries and benefits for school principals, assistant principals, librarians, counselors, school secretaries, school bookkeepers, speech therapists, and school nurses, and professional development expenses.
- Operation and maintenance services include utilities, security services, janitorial services, maintenance services, and depreciation of maintenance vehicles.
- In addition to bus driver salaries and benefits, student transportation services includes mechanics, bus aides, vehicle maintenance and repair expenses, vehicle fuel, depreciation of buses and bus shops, and fleet insurance.
- Food services includes salaries and benefits for cooks, servers, lunchroom managers, and cashiers, as well as donated and purchased food, food preparation and service supplies, kitchen and lunchroom equipment, and depreciation of equipment and facilities.
- General administrative services include salaries and benefits for the superintendent, assistants, clerical and financial staff, and other personnel that provide system-wide support for the schools. Also included are legal expenses, liability insurance, training for board members and general administrative staff, printing costs, and depreciation of central office equipment and facilities.
- Other expenses includes the salaries and benefits for adult and continuing education teachers, preschool teachers and aides, extended day personnel, and summer feeding program expenditures. Includes cooperative agreement with the City of Andalusia for repayment of bonds issued to construct the Andalusia Elementary School. Also included are the materials, supplies, equipment, related depreciation, and other expenses for operating programs outside of those for educating students in the K through 12 instructional programs.
- Debt service includes interest, but not principal payments, on long-term debt issues and other expenses related to the issuance and continuance of debt issues.

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?

As of the end of the current fiscal year, the Board's governmental funds reported a combined increase in fund balance of \$2,432,905. This increase resulted in a fund balance of \$6,063,637. Of this amount, \$3,618,622 was unreserved and available for use in future operations.

The general fund increased its fund balance by \$1,175,758, resulting in a fund balance of \$3,618,622.

The Food and Nutrition fund increased its fund balance by \$46,016, resulting in a fund balance of \$307,773.

General Fund Budgetary Highlights

The original 2013 fiscal year budget, adopted on September 10, 2012, was based on a "conservative" approach that reflected only guaranteed revenues and necessary expenditures. The original budget figures were amended when revenues or expenditures exceed 10%. Over the course of the year, the Board revised the annual operating budgets two times: January 28, 2013, and May 20, 2013.

The comparison of general fund original budget to the final amended budget is on page 39. The differences between the original budget and the final amended budget of the Board are \$330,257 increase in overall revenue appropriations and \$5,347,544 increase in overall expenditures and can be briefly summarized as follows:

- Amendment #1 was necessary to record State Carryover Funds \$3,876; State Current Unit Funds \$30,101; State of Alabama Grant \$75,000; Section 16 Income Funds \$188,267; and miscellaneous local revenues \$31,500. Expenditures were increased to include additional instructional and instructional support - \$129,152; and maintenance \$168,514.
- Amendment #2 was necessary to record City of Andalusia debt issue \$5,500,000. Required Child Nutrition Pass Thru funds were decreased by \$38,549. Expenditures were increased to include additional instructional and instructional support - \$16,119; capital building project \$5,500,000; maintenance \$9,930; auxiliary \$15,000; and administrative \$8,829.

Overall, the final amended budget is reflective of the actual operating activity for the year. Actual local and other revenues were \$851,324 more than budgeted due to local ad valorem taxes collected being more than anticipated and the receipt of E-rate funds for wireless connectivity projects. For purposes of this budgetary analysis, only the General Fund of the Board is discussed in accordance with the new reporting model.

General Fund – The comparison of the General Fund original budget to the final amended budget is on page 39. The differences between the original budget and the final amended budget of the Board were relatively minor with the exception of the addition of the \$5,500,000 City of Andalusia loan and corresponding capital projects expenditure. Overall, the final budget is reflective of the actual operating activity for the year.

Capital Assets and Debt Administration

Capital Assets - At September 30, 2013, the Board had \$18,083,410 invested in capital assets including land, buildings, equipment, vehicles and construction in progress costing \$5,000 or more. This amount is net of accumulated depreciation to date. Increases during the year represent additions to those categories, while decreases represent retirements of assets during the year and depreciation of depreciable assets for the year. The capital asset activity for the year is detailed on page 28.

Construction in Progress at year-end of \$1,437,106 was for the additions to Andalusia High School and Andalusia Elementary School to accommodate students due to the closing of the Andalusia Middle School. The cost of this project is being funded by bonds sold by the City of Andalusia on behalf of the Andalusia City Schools. Also, \$161,073 in vehicle purchases were made purchasing two school buses and one maintenance truck; and \$25,198 in various equipment purchases for the Andalusia High School were made with general funds. Building costs were increased by \$2,485,971 due to the completion of the Andalusia High School Physical Education Facility.

Long-Term Debt - The Board entered into a lease purchase agreement with the Alabama School Finance Cooperative to issue \$750,000 of Qualified Zone Academy Bonds (QZAB) for the purpose of renovations at the Andalusia High School. The Board chose the deferred payment option and will make payments of \$56,606 for ten years starting on June 1, 2006. These annual payments will be deposited into a restricted fund which will accumulate to earn interest to repay the face amount of the QZAB.

The Board entered into a special pool loan agreement of Series 2010 Qualified School Construction Bonds (QSCB) issued by the Alabama Public School & College Authority (PSCA) for the purpose of construction of a Physical Education Facility at Andalusia High School. The Board will make sinking fund payments beginning September 1, 2011 in the amount of \$111,411 for 16 years until the bond matures on September 1, 2027. The Board agreed to have quarterly interest payments withheld from Public School Fund allocations. The amounts to be withheld for QSCB interest payments are \$10,541 for the fiscal year 2011 and \$10,750 for each of the remaining 16 years until the bond matures.

The Board entered into a Cooperative Agreement with the City of Andalusia in connection with the General Obligation Warrants, Series 2011-A issued to construct additions to the Andalusia High School and Andalusia Elementary School. According to the agreement, the City shall transfer to the Board the sum of \$5,500,000 at a rate of 4% to finance the additions. In exchange for said transfer, the Board agrees to be obligated to pay the debt service on \$6,430,000 (said sum being the total principal due including capitalized interest through May 1, 2014). The Board is responsible for the full annual payment on the warrants beginning November 1, 2014 through September 30, 2042. To secure this payment, the Board agreed to designate and pledge its local tax revenues to the extent necessary to pay its portion of the annual debt service on the warrants.

The Board entered into a Secured Equipment Financing Agreement with Regions Equipment Finance Corporation, of Birmingham, Alabama for the sole purpose of purchasing three school buses in the amount of \$237,103 at a rate of 2.96%. The Board will begin making payments in the amount of \$6,884 beginning December 5, 2013, and continuing on the 5th day of each quarter (being March 5, June 5, September 5, and December 5 thereafter) through and including June 5, 2023. To secure this payment, the Board agreed to designate and pledge its State of Alabama Fleet Renewal funds to the extent necessary to pay its portion of the annual debt service under this agreement.

The Board entered into lease purchase agreement with Apple, Inc. to purchase Apple personal computers, servers, and networking equipment not to exceed \$106,007 at a rate of 3.51%. The lease period is for a period of 36 months with payments being made annually beginning September 2013 in the amount of \$36,589. The Board will use Title I and local funds to secure this payment to the extent necessary to pay its portion of the annual debt service under this agreement.

Economic Factors and Next Year's Budget

The following are currently known Andalusia City economic factors considered in going into the 2013-2014 fiscal year.

10 Mill Required Local Effort – Act 95-314, Section 16-13-231 of the *Code of Alabama* requires that local support for schools must be funded at an amount equivalent to 10 mills of district ad valorem tax. The State Department of Education reduces the Board's appropriation by this required local support. Because the assessed value of the property in Andalusia City is growing rapidly, the required 10 mill match continues to grow at a much higher rate than the Board's total tax revenues. In essence, even though the local ad valorem tax revenue has grown, the 10 mill match has caused the Board to lose money.

Additional Ad Valorem Tax – City of Andalusia – The City Council of Andalusia voted to increase the annual rate of ad valorem tax by one-fourth of one percent to be used exclusively for the purpose of capital improvements. The board expects to receive approximately \$190,000 annually. This tax may be revoked at any time by majority vote of the City Council of Andalusia.

Sales Tax Revenues –Sales tax revenues have increased approximately \$347,489. The City Council of Andalusia voted to increase the sales tax rate by 1 percent with ½ percent earmarked for the Andalusia City Schools beginning July 1, 2013. For the period from July 1, 2013 through September 30, 2013, the City had collected \$267,719 on behalf of the Andalusia City Schools.

Student Enrollment - The latest student enrollment figure as of the forty-day report in the 2013-2014 school year of 1,751 indicates there will be an actual decrease in enrollment of approximately 5 students for the 2014 fiscal year. This loss will result in a decrease of .5 earned teacher units.

Medical and Retirement Costs - Employee health insurance is provided through the Public Education Employees' Health Insurance Program (PEEHIP). PEEHIP employer costs remained at \$714 per employee per month for fiscal year 2014. The employer contribution rate to the Teachers Retirement System (TRS) increased from 10.08 percent for fiscal year 2013 to 11.71 percent for fiscal year 2014 for an increased cost of approximately \$128,000. The Board must use local funds to pay the salary-related benefit costs not paid by state and federal funds.

School Closing/Construction – The Board approved the closing of the Andalusia Middle School upon the construction of a sixth grade wing at the Andalusia Elementary School and a seventh and eighth grade wing at the Andalusia High School. Construction costs are to be funded by bonds issued by the City of Andalusia.

CONTACTING THE SCHOOL BOARD'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Board's finances and to show the Board's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Jean Sellers, Chief School Finance Officer. 122 Sixth Avenue, Andalusia, AL 36420 or by calling 334-222-3186 during regular office hours, Monday through Friday, from 7:30 a.m. to 4:00 p.m., central standard time.

BASIC FINANCIAL STATEMENTS

ANDALUSIA CITY BOARD OF EDUCATION
STATEMENT OF NET POSITION
September 30, 2013

	GOVERNMENTAL ACTIVITIES
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 2,332,611
Investments	16,629
Receivables	1,933,947
Inventory	22,272
Other Assets	2,177
Restricted Assets:	
Cash and Cash Equivalents	1,877,254
Capital Assets, Net of Depreciation	<u>18,083,410</u>
Total Assets	<u>24,268,300</u>
 LIABILITIES	
Accounts Payable	84,351
Accrued Salaries	90,954
Deferred Revenue	36,902
Noncurrent Liabilities:	
Due Within One Year	54,325
Due in More Than One Year	<u>3,502,196</u>
Total Liabilities	<u>3,768,728</u>
 NET POSITION	
Invested in Capital Assets, Net of Related Debt	14,526,889
Restricted for:	
Capital Projects	1,124,504
Debt Service	798,414
Special Revenue	522,097
Unrestricted	<u>3,527,668</u>
Total Net Position	<u><u>\$ 20,499,572</u></u>

The accompanying notes are an integral part of these statements.

ANDALUSIA CITY BOARD OF EDUCATION
STATEMENT OF ACTIVITIES
Year Ended September 30, 2013

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES
Instructional Services	\$ 8,992,443	\$ 304,706	\$ 7,269,737	\$ 359,985	\$ (1,058,015)
Instructional Support Services	1,920,761	76,909	1,529,695	14,794	(299,363)
Operation and Maintenance	1,399,840	26,734	555,257	37,792	(780,057)
Student Transportation Services	552,448	43,720	375,680	-	(133,048)
Food Services	968,830	704,858	89,862	30,003	(144,107)
General Administrative Services	724,977	5,477	455,085	-	(264,415)
Cooperative Agreement	480,000	-	-	-	(480,000)
Interest Expense	15,883	-	-	-	(15,883)
Other	236,721	124,311	36,393	17,321	(58,696)
Total	<u>\$ 15,291,903</u>	<u>\$ 1,286,715</u>	<u>\$ 10,311,709</u>	<u>\$ 459,895</u>	<u>(3,233,584)</u>
General Revenues:					
Taxes					
Property Tax for General Purposes					784,678
Local Sales Tax					1,368,403
Other Taxes					1,056,509
Grants and Contributions Not Restricted for Specific Programs					96,000
Investment Earnings					12,780
Section 16 Land Income					10,862
Miscellaneous					168,810
Gain on Disposition of Capital Assets					3,600
Contributions					220,620
Appropriations from the City of Andalusia					2,500,000
Erate/On Behalf Of					52,856
Total General Revenues and Special Items					<u>6,275,118</u>
Change in Net Position					<u>3,041,534</u>
Net Position - Beginning					<u>17,458,038</u>
Net Position - Ending					<u>\$ 20,499,572</u>

The accompanying notes are an integral part of these statements.

ANDALUSIA CITY BOARD OF EDUCATION
BALANCE SHEET - GOVERNMENTAL FUNDS
September 30, 2013

	GENERAL	CAPITAL PROJECTS FUND
ASSETS		
Cash and Cash Equivalents	\$ 1,888,673	\$ -
Investments	-	-
Receivables	1,797,737	59,815
Due from Other Funds	330,935	52,301
Inventory, at Cost	-	-
Other Assets	2,177	-
Restriced Assets:		
Cash and Cash Equivalents	-	1,078,840
Total Assets	<u>\$ 4,019,522</u>	<u>\$ 1,190,956</u>
LIABILITIES AND FUND BALANCES		
LIABILITIES:		
Accounts Payable	\$ 17,664	\$ 66,452
Deferred Revenue	-	-
Due to Other Funds	383,236	-
Total Current Liabilities	<u>400,900</u>	<u>66,452</u>
FUND BALANCES:		
Nonspendable	-	-
Restricted	-	1,124,504
Unassigned	3,618,622	-
Total Fund Balances	<u>3,618,622</u>	<u>1,124,504</u>
Total Liabilities and Fund Balances	<u>\$ 4,019,522</u>	<u>\$ 1,190,956</u>

The accompanying notes are an integral part of these statements.

DEBT SERVICE FUND	SPECIAL REVENUE FUND - TITLE I PART A	SPECIAL REVENUE FUND - FOOD AND NUTRITION	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ -	\$ 3,034	\$ 232,122	\$ 208,782	\$ 2,332,611
-	-	-	16,629	16,629
-	-	69,677	6,718	1,933,947
-	-	-	-	383,236
-	-	22,272	-	22,272
-	-	-	-	2,177
798,414	-	-	-	1,877,254
<u>\$ 798,414</u>	<u>\$ 3,034</u>	<u>\$ 324,071</u>	<u>\$ 232,129</u>	<u>\$ 6,568,126</u>
\$ -	\$ -	\$ 235	\$ -	\$ 84,351
-	3,034	16,063	17,805	36,902
-	-	-	-	383,236
-	3,034	16,298	17,805	504,489
-	-	22,272	-	22,272
798,414	-	285,501	214,324	2,422,743
-	-	-	-	3,618,622
<u>798,414</u>	<u>-</u>	<u>307,773</u>	<u>214,324</u>	<u>6,063,637</u>
<u>\$ 798,414</u>	<u>\$ 3,034</u>	<u>\$ 324,071</u>	<u>\$ 232,129</u>	<u>\$ 6,568,126</u>

ANDALUSIA CITY BOARD OF EDUCATION
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
September 30, 2013

Total Fund Balance - Governmental Funds \$ 6,063,637

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.

	Cost of Capital Assets	\$28,835,501	
	Accumulated Depreciation	<u>(10,752,091)</u>	
			18,083,410

In the Statement of Net Position, salaries and benefits are measured by the amounts earned during the year. In the governmental funds, however, expenditures for salaries and benefits are measured by the amount of financial resources used (essentially the amounts actually paid). (90,954)

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore not reported as liabilities in the funds. Interest on long-term debt is not accrued in the funds but rather is recognized as an expenditure when due.

	Capital Lease	(69,418)	
	Note Payable	(237,103)	
	Bonds and Warrants Payable	<u>(3,250,000)</u>	
			<u>(3,556,521)</u>

Total Net Position - Governmental Activities	<u><u>\$20,499,572</u></u>
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The accompanying notes are an integral part of these statements.

ANDALUSIA CITY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended September 30, 2013

	GENERAL	CAPITAL PROJECTS FUND	DEBT SERVICE FUND
REVENUES			
State Sources	\$ 8,803,205	\$ 447,880	\$ 10,750
Federal Sources	860	-	-
Local Sources	3,496,476	107,303	7,585
Other Sources	29,358	-	-
Total Revenues	<u>12,329,899</u>	<u>555,183</u>	<u>18,335</u>
EXPENDITURES			
Current:			
Instructional Services	7,030,377	11,409	-
Instructional Support Services	1,599,613	-	-
Operation and Maintenance Services	1,281,373	25,200	-
Student Transportation Services	601,699	-	-
Food Services	-	-	-
General Administrative Services	571,432	-	-
Cooperative Agreement Expenses	-	485,133	-
Other Expenditures	74,560	-	-
Debt Service:			
Principal	36,589	-	-
Interest	-	-	10,750
Capital Outlay	-	1,522,341	-
Total Expenditures	<u>11,195,643</u>	<u>2,044,083</u>	<u>10,750</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,134,256</u>	<u>(1,488,900)</u>	<u>7,585</u>
OTHER FINANCING SOURCES (USES)			
Long-Term Debt Issued	343,110	-	-
Indirect Cost	61,548	-	-
Appropriations from the City of Andalusia	-	2,500,000	-
Transfers In	7,217	-	168,017
Transfers Out	(374,840)	-	-
Other Financing Sources	4,467	-	-
Total Other Financing Sources (Uses)	<u>41,502</u>	<u>2,500,000</u>	<u>168,017</u>
Net Change in Fund Balances	<u>1,175,758</u>	<u>1,011,100</u>	<u>175,602</u>
FUND BALANCES - OCTOBER 1, 2012 (as previously stated)	2,442,864	117,150	619,066
Prior Period Adjustment	-	(3,746)	3,746
FUND BALANCES - OCTOBER 1, 2012 (as restated)	<u>2,442,864</u>	<u>113,404</u>	<u>619,066</u>
FUND BALANCES - SEPTEMBER 30, 2013	<u>\$ 3,618,622</u>	<u>\$ 1,124,504</u>	<u>\$ 798,414</u>

The accompanying notes are an integral part of these statements.

SPECIAL REVENUE FUND - TITLE I PART A	SPECIAL REVENUE FUND - FOOD AND NUTRITION	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ -	\$ -	\$ -	\$ 9,261,835
614,048	633,305	803,622	2,051,835
-	154,824	704,024	4,470,212
-	10,494	-	39,852
614,048	798,623	1,507,646	15,823,734
467,434	-	938,112	8,447,332
73,641	-	220,652	1,893,906
-	-	14,212	1,320,785
-	-	59,807	661,506
-	954,741	-	954,741
72,973	-	91,500	735,905
-	-	-	485,133
-	3,798	152,608	230,966
-	-	-	36,589
-	-	-	10,750
-	-	-	1,522,341
614,048	958,539	1,476,891	16,299,954
-	(159,916)	30,755	(476,220)
-	-	-	343,110
-	-	-	61,548
-	-	-	2,500,000
-	205,932	15,431	396,597
-	-	(21,757)	(396,597)
-	-	-	4,467
-	205,932	(6,326)	2,909,125
-	46,016	24,429	2,432,905
-	261,757	189,895	3,630,732
-	-	-	-
-	261,757	189,895	3,630,732
\$ -	\$ 307,773	\$ 214,324	\$ 6,063,637

ANDALUSIA CITY BOARD OF EDUCATION
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
Year Ended September 30, 2012

Total Net Change in Fund Balances - Governmental Funds \$ 2,432,905

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 capital outlays exceeds depreciation in the period.

Capital Outlays	\$ 1,708,612	
Depreciation Expense	<u>(784,899)</u>	
		923,713

The 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.

Issuance of debt	(343,110)
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Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities

Repayment of debt	36,589
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The proceeds from the sale of an asset is shown as revenue in the Governmental funds, whereas in the Statement of Activities the gain or loss on the sale is shown.

Gain on Disposition of Assets	(300)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Accrued Salaries	<u>(8,263)</u>
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Change in Net Position - Governmental Activities	<u><u>\$ 3,041,534</u></u>
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The accompanying notes are an integral part of these statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Andalusia City Board of Education (the Board) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Board's accounting policies are described below.

REPORTING ENTITY

The Andalusia City Board of Education is governed by an elected board consisting of five members elected by qualified voters of the City. The Board is responsible for the general administration and supervision of the public schools within the City.

Statements No. 14 and No. 34 of the Governmental Accounting Standards Board establishes standards for defining and reporting on the financial reporting entity. The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for agencies that make up its legal entity. It is also financially accountable for a legally separate agency if its officials appoint a voting majority of that agency's governing body and either it is able to impose its will on that agency or there is a potential for the agency to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. There are no component units, which should be included as a part of the financial reporting entity of the Andalusia City Board of Education.

BASIC FINANCIAL STATEMENT PRESENTATION

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the Board. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of net position presents the reporting entity's nonfiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

Invested in Capital Assets, Net of Related Debt – This category represents capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted – This category represents constraints imposed on net position by external creditors, grantors, contributors, laws or regulations of other governments, or law through constitutional provision or enabling legislation. For the year ended September 30, 2013, restricted net position for the Andalusia City Board of Education include \$1,124,504 for capital projects, \$798,414 for debt service, and \$522,097 for special revenue funds.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unrestricted – This category represents net position that is not subject to externally imposed stipulations and is available for any purpose.

When both restricted and unrestricted resources are available for use, it is the Andalusia City Board of Education's policy to use restricted resources first, followed by unrestricted resources.

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

Fund Financial Statements

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

The Board reports the following major governmental funds:

General Fund – The General Fund is the primary operating fund of the Board. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Projects Funds – These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Funds – These funds are used to account for the issuance and continuance of debt.

IDEA Part B – This fund is used to help provide special education and related services to all children with disabilities.

Title I Part A – This fund is used to help improve teaching and learning of children failing, or most at-risk of failing, to meet challenging State academic standards.

Child Nutrition Program – This fund is used to account for activities associated with providing nutritious breakfast and lunch services for school children.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Board reports the following fund types in the “Other Governmental Funds” column:

Governmental Fund Types:

Special Revenue Funds – These funds are used to account for the proceeds of specific revenue sources (other than those derived from special assessments or dedicated for major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

BASIS OF ACCOUNTING/MEASUREMENT FOCUS

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

The Board uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues reported in the governmental funds are considered to be available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from general long-term debt are reported as other financing sources.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the Board is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable – Amounts that cannot be spent because they are either not spendable in form or they are legally or contractually required to be maintained intact. Nonspendable fund balance consists of \$22,272 for Food and Nutrition inventory.

Restricted – Amounts with constraints placed on their use that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation. Restricted fund balance for Capital Projects, Debt Service, Food and Nutrition, and Other Governmental funds in the amount of \$1,124,504, \$798,414, \$285,501, and \$214,324 is restricted for the new physical education facility construction, investments for the repayment of bonds, food and nutrition services, and various other instructional and support services, respectively.

Committed – Amounts that can only be used for specific purposes imposed by formal action of the Board, and remain binding unless removed in the same manner.

Assigned – Amounts that are constrained by the Board for specific purposes but do not meet the criteria to be classified as restricted or committed.

Unassigned – Residual amounts for the governmental funds and includes all spendable amounts not contained in the other classifications. Unassigned fund balance for the General fund is \$3,618,622 for any instructional, support, operations, maintenance, student, food, or general services.

BUDGETS

Budgets are adopted on a basis consistent with generally accepted accounting principles with the exception of encumbrances. Annual appropriated budgets are adopted for the general fund. All annual appropriations lapse at fiscal year end.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVENTORIES

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

CAPITAL ASSETS

Capital assets purchased, including capital outlay costs, are recorded as expenditures in the fund financial statements at the time of purchase. In the government-wide financial statements, all purchased capital assets are valued at cost where historical records are available and at estimated historical cost based on appraisals or deflated current replacement cost where no historical records exist.

Donated capital assets are recorded at fair market value on the date donated. Disposals are removed at depreciated recorded cost.

The cost of normal maintenance and repairs that do not add to the value of assets or materially extend the useful lives of the assets is not capitalized.

Depreciation is computed using the straight-line method.

Capitalization thresholds and estimated useful lives of capital assets reported in the government-wide financial statements are as follows:

	<u>Capitalization Policy</u>	<u>Estimated Useful Life</u>
Land	All	N/A
Land Improvements	All	15 years
Buildings	All	15-40 years
Building Improvements	\$50,000	15-20 years
Vehicles	\$5,000	10 years
Equipment	\$5,000	5-10 years

Depreciation is used to allocate the actual or estimated historical cost of all capital assets over estimated useful lives.

ANDALUSIA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CASH AND CASH EQUIVALENTS

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

INVESTMENTS

Generally, all investments are reported at fair market value.

RESTRICTED ASSETS

Certain funds received for capital projects and improvements, as well as certain resources set aside for repayment of debt, are classified as restricted assets on the balance sheet because they are maintained separately and their use is limited.

	<u>Restricted Assets</u> <u>September 30, 2013</u>
Cash - Capital Projects	\$ 1,078,840
Cash with Fiscal Agent - Debt Service	<u>798,414</u>
Total Restricted Assets	<u>\$ 1,877,254</u>

COMPENSATED ABSENCES

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

- a. The employees' right to receive compensation is attributable to services already rendered.
- b. 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

COMPENSATED ABSENCES (Continued)

Professional and support personnel are provided 2 days of personal leave per year with pay. Professional employees are paid, at the Board's substitute rate, for up to 2 days of unused personal leave. Professional and support personnel may convert unused, unreimbursed personal leave to sick leave at the end of the scholastic year. Unused personal leave cannot be carried over to succeeding years; therefore, no liability for unpaid leave is accrued in the financial statements.

All twelve month professional employees are allowed two weeks of vacation leave. All other twelve month employees are allowed one week of vacation leave. Unused vacation leave cannot be carried over to succeeding years; therefore, no liability for unpaid leave is accrued in 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. Accrued sick leave is limited to one day per month worked as applied to membership service in determining the total years of creditable service in the teachers' retirement system, with no additional cost to the Board. Employees do not receive compensation for unused sick leave at termination; therefore, no liability is recorded on the financial statements.

ESTIMATES

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

NOTE 2 - CASH AND INVESTMENTS

The Board's policy is to deposit funds in a financial institution approved as a qualified public depository by the Security for Alabama Funds Enhancement (SAFE Program). The Board follows the deposit and investment policies as required by the *Code of Alabama 1975*, Section 41-14A-3 and Section 36-17-18.

The Board had cash on deposit with various qualified public depositories at September 30, 2013 of \$3,406,243. At year end the Board also had cash on hand in various funds totaling \$5,208.

At September 30, 2013 all of the Board's investments were in certificates of deposit. These certificates of deposit are classified as "Deposits" in order to determine insurance and collateralization; however, they are classified as "Investments" on the financial statements.

Restricted cash and cash equivalents of \$1,078,840 are for the construction of the new sixth grade wing at the elementary school and the new junior high building at the high school. The funds are from the issuance of debt by the City of Andalusia. The Board has an agreement to repay the debt with the City of Andalusia.

NOTE 3 - RESTRICTED CASH WITH FISCAL AGENT

At September 30, 2013, the Board reported restricted cash with a fiscal agent of \$798,414 related to the capital Outlay Pool Warrant, Series 2010-QSCB and QZAB bonds (Note 14).

NOTE 4 - LEGAL COMPLIANCE

BUDGETS

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. The city superintendent of education or Board cannot approve any budget for operations of the school system for any 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.

The budget was originally adopted by the Board on September 13, 2012. Budgeted amounts presented are as amended by the Board on June 5, 2013.

NOTE 5 - RISK MANAGEMENT

The Board carries traditional insurance coverage rather than finance risks through self-insurance.

The State makes payments for unemployment compensation insurance for Board employees except those employees paid from federal grants. The state also pays the employer health insurance premiums for Board employees except those employees paid from federal grants. Payments made by the state for unemployment compensation and health insurance are recorded as revenues and expenditures in the funds from which the employees are paid. Payments made by the Board are recorded as expenditures in the applicable federal fund.

The State Board of Adjustment is a State agency with which people can file claims against the Board to collect reimbursement for damages when all other means have been exhausted.

ANDALUSIA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013

NOTE 6 - RECEIVABLES

Government-wide financial statement receivables at September 30, 2013 consist of:

	<u>Governmental Activities</u>
State Department of Education:	
Child Nutrition	\$ 62,649
Fresh Fruits and Vegetables	7,028
PSF Funds	9,187
Title VI	6,718
City of Andalusia	1,679,375
Covington County Commission	89,811
Covington County Probate Judge	10,419
Covington County Probate Judge-Helping Schools	523
Tallassee City Schools	9,031
Construction Materials	29,882
Ready Mix/Block USA	28,163
Jenkins Brick	383
Couch Aggregates	778
	<hr/>
TOTALS	<u>\$ 1,933,947</u>

NOTE 7 - PAYMENTS OR SERVICES FURNISHED BY OTHER AGENCIES

Certain payments or services are furnished by the State on behalf of the Board. Included in these items is the employer's portion of fringe benefits (health insurance, retirement, and unemployment compensation). These payments or services are reflected as revenues and expenditures on the Board's financial statements in the applicable funds.

NOTE 8 - DONATED FOOD PROGRAM

The commodities received from the federal government in connection with the donated food program are reflected in the accompanying financial statements. The total assigned value of commodities donated for fiscal year ended September 30, 2013 was \$42,731.

ANDALUSIA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013

NOTE 9 - DUE TO/FROM OTHER FUNDS

The following is a schedule of the due to/from other funds in the fund financial statements at September 30, 2013:

	<u>Due From</u>	<u>Due To</u>
General Funds:		
Local Default Source	\$ -	\$ 382,713
Helping Schools Tag	-	523
Gifted Education	1,915	-
PSF - Interest	4,916	-
Section 16 - EFT	312,104	-
State Contracts	12,000	-
Capital Projects Fund:		
PSF - Capital Outlay	4,536	-
Transportation Fleet Renewal	47,765	-
	<u>\$ 383,236</u>	<u>\$ 383,236</u>

ANDALUSIA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2013, was as follows:

	Balance 10/1/2012	Additions	Retirements	Balance 9/30/2013
<u>Governmental Activities:</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 541,471	\$ -	\$ -	\$ 541,471
Construction in Progress	2,400,736	1,522,341	2,485,971	1,437,106
Total Capital Assets, Not Being Depreciated	2,942,207	1,522,341	2,485,971	1,978,577
Capital Assets Being Depreciated:				
Land Improvements (Exhaustible)	514,719	-	-	514,719
Buildings	18,057,582	2,485,971	-	20,543,553
Buildings Improvements	3,670,418	-	-	3,670,418
Vehicles	844,815	25,198	29,392	840,621
Equipment	1,132,840	161,073	6,300	1,287,613
Total Capital Assets Being Depreciated	24,220,374	2,672,242	35,692	26,856,924
Less Accumulated Depreciation for:				
Land Improvements (Exhaustible)	468,089	8,695	-	476,784
Buildings	6,007,096	448,947	-	6,456,043
Buildings Improvements	1,911,629	225,906	-	2,137,535
Vehicles	698,572	38,538	29,092	708,018
Equipment	917,198	62,813	6,300	973,711
Total Accumulated Depreciation	10,002,584	784,899	35,392	10,752,091
Total Capital Assets, Being Depreciated, Net	14,217,790	1,887,343	300	16,104,833
Governmental Activities Capital Assets, Net	\$ 17,159,997	\$ 3,409,684	\$ 2,486,271	\$ 18,083,410

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

<u>Governmental Activities</u>	
Instructional Services	\$ 571,180
Instructional Support Services	23,049
Operation and Maintenance Services	82,300
Student Transportation Services	45,735
Food Services	57,855
General Administrative Services	4,780
Total Depreciation Expense - Governmental Activities	<u>\$ 784,899</u>

NOTE 11 - DEFINED BENEFIT PENSION PLAN

The employees of the Board are covered under a defined benefit plan, the Teachers' Retirement System (TRS), which is administered by the Retirement Systems of Alabama (RSA). The plan is a cost-sharing multiple-employer public employer retirement system. The payroll for employees covered by the TRS for the year ended September 30, 2013 was \$7,752,276; the Board's total payroll was \$8,013,932.

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

Tier 1 retirement benefits are calculated based on a retirement formula, which yields the highest monthly benefit. The formula multiplies the retirees' average final salary (best three of the last ten years), by the number of years of creditable service and the retirement benefit factor of 2.0125% to calculate the yearly annual benefit. Divide the annual benefit by twelve to calculate the monthly benefit amount. Unless otherwise requested, the member will receive the highest monthly benefit.

During the 2012 regular session of the Alabama Legislature, Act 2012-377 was adopted. The legislation created a new defined benefit plan tier for employees hired on or after January 1, 2013, with no previous creditable service (Tier 2). These employees cannot request retirement until the age of 62. The 25 years of creditable service does not apply. Unused accrued sick leave also may not be converted to creditable service at retirement.

For Tier 2, retirement benefits are calculated based on a retirement formula, which yields the highest monthly benefit. The formula multiplies the retirees' average final salary (best five of the last ten years), by the number of years of creditable service and the retirement benefit factor of 1.65% to calculate the yearly annual benefit. Divide the annual benefit by twelve to calculate the monthly benefit amount. Unless otherwise requested, the member will receive the highest monthly benefit. The benefit cap under Tier 2 is 80% of the member's average final salary.

The member may elect an optional monthly benefit amount in order to provide a benefit for a beneficiary. The retiree may select from 4 separate options, all of which provide a lower monthly benefit than the retirement formula.

ANDALUSIA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013

NOTE 11 - DEFINED BENEFIT PENSION PLAN (Continued)

A member who is in service and has at least 10 years of service when disability occurs may apply for disability retirement benefits. Benefits are calculated under the same methods used for service retirement except a reduction factor of one-fourth of one percent for each month the member is less than age 60 or for each month of creditable service less than 30 years is applied. The maximum reduction is 25 percent. The member receives the larger of the two calculations. Once a member attains 25 years of creditable service, there is no reduction in benefits. The TRS also provides pre-retirement death benefits in the amount of the annual salary and life insurance.

Funding Policy

Employees are required to contribute 7.5% (Tier 1) and 6.0% (Tier 2) of their salary to RSA and may contribute additional amounts under RSA-1. The Board is required to contribute at an actuarially determined rate. For the year ending September 30, 2013 the employer cost rate is 11.16% (Tier 1) and 9.44% (Tier 2) based on the actuarial valuation performed as of September 30, 2010. The employer contribution rate has been changed from 11.16% to 10.08% (Tier 1) since the previous valuation to reflect the results of the experience investigation for the five-year period ending September 30, 2010.

Annual Pension Cost

For the year ended September 30, 2013, the Board's annual pension cost of \$781,306 was the Board's actual and required contribution. The required contribution was determined using the entry age actuarial cost method. The actuarial assumptions as of September 30, 2012, the latest actuarial valuation date, were: (a) 8.0% rate of return, (b) projected salary increases ranging from 3.50% to 8.25% per year, and (c) no cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.00%. The actuarial value of RSA assets was determined using the five-year market related value. RSA's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at September 30, 2012 was 30 years.

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC) *</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
9/30/2010	\$ 753,213	100%	\$ -
9/30/2011	\$ 755,944	100%	\$ -
9/30/2012	\$ 594,771	100%	\$ -

* \$ in 1,000's

ANDALUSIA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013

NOTE 11 - DEFINED BENEFIT PENSION PLAN (Continued)

Funding Progress

As of September 30, 2012, the most recent actuarial valuation date, the plan was 66.50 percent funded. The actuarial accrued liability for benefits was \$28,251,367 and the actuarial value of assets was \$18,786,008, resulting in an unfunded actuarial accrued liability (UAAL) of \$9,465,359. The covered payroll (annual payroll of active employees covered by the plan) was \$6,222,316, and the ratio of the UAAL to covered payroll was 152.10 percent.

The Schedule of Funding Progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Covered employees are required by state statute to contribute 7.5% (Tier 1) and 6.0% (Tier 2) percent of their salary to the TRS. The State of Alabama and the Board are required to contribute the remaining amounts necessary to pay benefits when due. The Board is required to pay the employer amount on employees paid from federal funds. The actuarial information as it relates to the plan has not been made available by TRS to the Board. The percentages of the contributions and the amount of contributions made by the Board and the Board's employees equal the required contributions for each year as follows:

	September 30, 2013	September 30, 2012	September 30, 2011
Total Percentage of Covered Payroll	17.33%	17.25%	15.00%
Contributions:			
Percentage Contributed by the Board	10.08% *	10.00%	10.00%
Percentage Contributed by Employees	7.50%	7.25%	5.00%
Amount Contributed by Board	\$ 781,306	\$ 767,313	\$ 989,385
Amount Contributed by Employees	581,005	556,302	395,466
Total Contributions	<u>\$ 1,362,311</u>	<u>\$ 1,323,615</u>	<u>\$ 1,384,851</u>

* As amended by the September 30, 2011 valuation

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The Public Education Employees' Health Insurance Fund (PEEHIF) was established in 1983 under the provisions of Act Number 455 to provide a uniform plan of health insurance for current and retired employees of state educational institutions. The plan is administered by the Public Education Employees' Health Insurance Board (PEEHIB). The employer's share of premiums for retired Board employee's health insurance is included as part of the premium for active employees and is funded on a pay-as-you go basis. Retirees who are eligible for Medicare benefits must pay \$10.00 per month for coverage while those who are not eligible must pay \$151.00 per month for coverage. The estimated portion of health insurance premiums paid by the Board for retired employees was approximately \$483,353, for the fiscal year 2013. The Board has no responsibility for the payment of health care benefits, beyond the payment of the premium, for retired employees.

Members who retired after September 30, 2005 are subject to a sliding scale premium, based on years of service. The premium for retiree coverage is broken down into the employer share and the retiree share. Under the sliding scale, the retiree is still responsible for the retiree share; however, the employer share will increase or decrease upon a retiree's years of service.

NOTE 13 - COOPERATIVE AGREEMENT WITH THE CITY OF ANDALUSIA

2003 Cooperative Agreement

The Board has a Cooperative Agreement with the City of Andalusia in connection with the General Obligation School Warrants, Series 2003 issued to construct the new elementary school.

According to the agreement, the City appropriated \$500,000 annually ending in the fiscal year 2008 and the Board is responsible for the payment of all debt service on the warrants in excess of the \$500,000 through fiscal year 2008. Thereafter, the Board is responsible for the full annual payment on the warrants until maturity. To secure this payment, the Board agreed to designate and pledge the County Tax to the extent necessary to pay its portion of the annual debt service on the warrants. The Board makes monthly payments to the warrant fund for 1/12 of the annual debt service. The liability associated with these warrants is reflected in the City's financial statements.

ANDALUSIA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013

NOTE 13 - COOPERATIVE AGREEMENT WITH THE CITY OF ANDALUSIA (Continued)

The Board's annual payments are as follows:

<u>Warrant Year</u>	<u>School Board's Share</u>
2014	<u><u>797</u></u>

During fiscal year ended September 30, 2013, the Board paid approximately \$40,428 per month. The total of those payments consisted of \$450,000 of principal and \$35,133 of interest.

Due to the implementation of GASB 34, payments on the above have been reported as Cooperative Agreement Expenses in the financial statements.

2011 Cooperative Agreement

The Board has a Cooperative Agreement with the City of Andalusia in connection with the General Obligation School Warrants, Series 2011-A issued to construct the new junior high school building at the high school, the sixth grade wing at the elementary school and improve infrastructure.

According to the agreement, the City will transfer the sum of \$5,500,000 representing the portion of the Series 2011-A General Obligation Warrant proceeds designated for use by the Board. In exchange for such transfer, the Board hereby agrees to be obligated to pay the debt service on \$6,430,000 (said sum being the total principal due because of capitalization of interest through May 1, 2014) as shown below. The Board shall cause to be transferred to the City the sum necessary for paying the annual debt service at least ten days prior to the due date of such annual debt service. To secure this payment, the Board pledges its tax revenues including those revenues collected and disbursed through the City for the timely payments of the obligation and the City is authorized to withhold from such tax revenues an amount equal to any amount past due and unpaid amount of such debt service after the 7.5 mils has been satisfied.

Due to the implementation of GASB 34, payments on the above will be reported as Cooperative Agreement Expenses in the financial statements. The liability associated with these warrants is reflected in the City's financial statements.

ANDALUSIA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013

NOTE 13 - COOPERATIVE AGREEMENT WITH THE CITY OF ANDALUSIA (Continued)

The Board's annual payments are as follows:

<u>Warrant Year</u>	<u>School Board's Share</u>
2015	\$ 394,913
2016	392,113
2017	394,081
2018	395,575
2019	396,375
2020	391,919
2021	392,388
2022	392,306
2023	391,778
2024	395,780
2025	394,208
2026	392,175
2027	394,690
2028	396,615
2029	392,954
2030	393,768
2031	394,049
2032	393,726
2033	392,851
2034	396,433
2035	394,260
2036	396,323
2037	392,823
2038	393,600
2039	393,535
2040	392,780
2041	396,220
2042	393,855
	<u>\$ 11,032,093</u>

As of September 30, 2013 the City of Andalusia has transferred \$2,500,000 of the Warrant proceeds to the Board for the improvements to the infrastructure.

NOTE 14 - LONG-TERM DEBT

2005 QZAB

During the year ended September 30, 2005, the Andalusia City Board of Education (the lessee) entered into a lease purchase agreement with the Alabama School Finance Cooperative (the lessor). This agreement was structured to qualify as a “Qualified Zone Academy Bond” (QZAB) pursuant to Section 1397E of the Internal Revenue Code of 1986, as amended.

Under this agreement, the Board issued a QZAB in the amount of \$750,000. This obligation is referred to as the “Board of Education of the City of Andalusia, Alabama QZAB”. The funds from the QZAB will be used for (a) rehabilitating or repairing the public school facility; (b) providing equipment; (c) developing course materials for education; (d) training teacher and other school personnel.

The Andalusia City Board of Education chose the deferred payment option. Under this option, the Board will make payments of \$56,606 for ten years starting on June 1, 2006. These annual payments will be deposited into a restricted fund which will accumulate to earn interest to repay the face amount of the QZAB. The Board will recognize interest as income annually beginning June 2007. At the end of the bond term, the payment of debt principal will be recognized at one time. As of September 30, 2013, the Board had \$452,850 in restricted cash for the repayment of the QZAB.

Series 2010-QSCB

During November 2010, the Andalusia City Board of Education obtained a Pool Loan from the Alabama Public School and College Authority (the Authority) in the amount of \$2,500,000 to fund the construction of a new Physical Education Facility. The Board accepted the Board Pool Loan and entered into the Special Pool Loan Agreement, dated as of September 8, 2010 between the Board, the State Superintendent of Education and the Authority and, in order to evidence the obligation to repay the Board Pool Loan the Board will issue to the Authority its Capital Outlay Pool Warrant, Series 2010-QSCB in the principal amount of \$2,500,000.

In August 2009, Governor Riley signed Act No. 2009-813, providing for the sale of Qualified School Construction Bonds (QSCB) by the PSCA. This legislation allows the local school board to pledge local taxes and public school funds (PSF Capital Purchase) for the local school board’s payments for the QSCB bonds. The Andalusia City Board of Education has agreed to have the quarterly interest payments withheld for annual PSF Capital Purchase allocations. The amounts to be withheld for QSCB interest payments are \$10,541 for the first fiscal year and \$10,750 for each of the remaining 16 years until the bond matures.

NOTE 14 - LONG-TERM DEBT (Continued)

The first annual sinking fund payment was made on September 1, 2011 in the amount of \$111,411 with the same amount for each of the following 16 years until the bond matures on September 1, 2027. The annual sinking fund payment will not be withheld from annual PSF Capital Purchase allocations although the annual sinking fund payment may be made from the PSF Capital Purchase funds or available local sources. As of September 30, 2013, the Board had \$345,564 in restricted cash for the repayment of the QSCB.

Regions Bank

On August 9, 2013, the Board entered into a Secured Equipment Financing Agreement with Regions Bank to purchase three school buses in the amount of \$237,103. The full term of the agreement is a period of 120 months starting December 5, 2013, and continuing on the 5th day of each quarter thereafter through and including June 5, 2023. The interest is 2.96%

Also, the Board entered into an Escrow agreement with Regions Bank whereas the Bank deposited the remaining \$86,230 into a bank account and the Board is entitled to receive up to one additional draw in the amount of \$86,230 to fund the purchase of the third special needs school bus. As of September 30, 2013, this bus has not been purchased and the money remains in the escrow account.

Apple Inc.

On August 5, 2013, the Board entered into a master lease purchase agreement with Apple, Inc. to purchase computers and various small equipment. The lease term is for 36 months with an interest rate of 1.50%. The Board has the option of buying the equipment for \$1. With the \$1 purchase option, the Board that owns their equipment at term's end may seek to trade in that equipment for credit toward new systems or for cash.

ANDALUSIA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013

NOTE 14 - LONG-TERM DEBT (Continued)

The following is a summary of long-term debt transactions for the year ended September 30, 2013:

Governmental Activities

	<u>Balance 10/1/2012</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Balance 9/30/2013</u>	<u>Amounts Due Within One Year</u>
Capital Outlay Pool					
Warrant, Series					
2010 - QSCB	\$2,500,000	\$ -	\$ -	\$ 2,500,000	\$ -
Qualified Zone					
Academy Bonds	750,000	-	-	750,000	-
Regions Bank	-	237,103	-	237,103	20,228
Apple, Inc	-	106,007	36,589	69,418	34,097
	<u>\$3,250,000</u>	<u>\$ 343,110</u>	<u>\$ 36,589</u>	<u>\$ 3,556,521</u>	<u>\$ 54,325</u>

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

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
September 30, 2014	\$ 54,325	\$ 9,800	\$ 64,125
September 30, 2015	56,673	7,457	64,130
September 30, 2016	21,992	5,545	27,537
September 30, 2017	22,650	4,887	27,537
September 30, 2018	23,328	4,209	27,537
Thereafter	3,377,553	10,129	3,387,682
	<u>\$3,556,521</u>	<u>\$ 42,027</u>	<u>\$ 3,598,548</u>

ANDALUSIA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013

NOTE 15 - DEFERRED REVENUE

Governmental funds report deferred revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

At September 30, 2013, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unearned Revenue</u>
Child Nutrition Program	\$ 16,062
Title I, Part A	3,034
Title II, Part A	392
IDEA - Part B	<u>17,414</u>
	<u><u>\$ 36,902</u></u>

NOTE 16 - INTERFUND TRANSFERS

The amounts of interfund transfers during the year ended September 30, 2013, were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 7,217	\$ 374,840
Child Nutrition Fund	205,932	-
Debt Service Fund	168,017	-
Other Governmental Funds	<u>15,431</u>	<u>21,757</u>
	<u><u>\$ 396,597</u></u>	<u><u>\$ 396,597</u></u>

The Board typically uses transfers to fund ongoing operating subsidies.

ANDALUSIA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013

NOTE 17 - CONTINGENCY

The Board receives various amounts under grants and programs that are subject to audit and adjustment by the grantor agencies. Any amounts disallowed, if any, may constitute a liability of the applicable funds. Such amounts, if any, are not considered to be material by the Board.

NOTE 18 - CLOSING OF ANDALUSIA MIDDLE SCHOOL

During the year ended September 30, 2012, the Andalusia City Board of Education voted to close the Andalusia Middle School and transfer 6th grade to Andalusia Elementary School and 7th and 8th grade to Andalusia High School. The Board has obtained financing for the additional facilities at the Elementary School and High School through a cooperative agreement with the City of Andalusia. Construction for the new facilities started during fiscal year 2013.

NOTE 19 - PRIOR PERIOD ADJUSTMENT

An error was discovered by the Board in the 2012 financial statements. Correction of an error resulted in an adjustment to the Cash with Fiscal Agent and Fund Balance in the amount of \$3,746. The adjustment was also moved from the Other Governmental funds to the Capital Projects fund.

NOTE 20 - SUBSEQUENT EVENTS

During November 2013, the Board purchased the third school bus using the money set aside in the Region's escrow account.

Subsequent events have been evaluated through April 24, 2014 which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

ANDALUSIA CITY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL-GENERAL FUND
Year Ended September 30, 2013

	ORIGINAL	FINAL	ACTUAL BUDGETARY BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES				
State Sources	\$ 8,488,183	\$ 8,783,940	\$ 8,803,205	\$ 19,265
Federal Sources	800	800	860	60
Local Sources	2,620,010	2,654,510	3,496,476	841,966
Other Sources	20,000	20,000	29,358	9,358
Total Revenues	11,128,993	11,459,250	12,329,899	870,649
EXPENDITURES				
Current:				
Instructional Services	6,888,064	7,021,135	7,030,377	(9,242)
Instructional Support Services	1,601,827	1,614,027	1,599,613	14,414
Operation and Maintenance Services	1,292,497	1,470,941	1,281,373	189,568
Student Transportation Services	411,753	426,753	601,699	(174,946)
General Administrative Services	544,063	552,892	571,432	(18,540)
Special Revenue Outlay	-	5,000,000	-	5,000,000
Other Expenditures	79,786	79,786	74,560	5,226
Debt Service	-	-	36,589	(36,589)
Total Expenditures	10,817,990	16,165,534	11,195,643	4,969,891
Excess of Revenues Over Expenditures	311,003	(4,706,284)	1,134,256	5,840,540
OTHER FINANCING SOURCES (USES)				
Long-term Debt issued	-	-	343,110	343,110
Indirect Cost	-	-	61,548	61,548
Transfers In	-	-	7,217	7,217
Transfers Out	-	-	(374,840)	(374,840)
Other Financing Sources	66,524	5,076,600	4,467	(5,072,133)
Other Fund Uses	(426,238)	(335,925)	-	335,925
Total Other Fund Uses	(359,714)	4,740,675	41,502	(4,699,173)
Net Change in Fund Balances	(48,711)	34,391	1,175,758	1,141,367
FUND BALANCES - OCTOBER 1, 2012	2,442,864	2,442,864	2,442,864	-
FUND BALANCES - SEPTEMBER 30, 2013	\$ 2,394,153	\$ 2,477,255	\$ 3,618,622	\$ 1,141,367

The accompanying Notes to Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund are an integral part of these statements.

ANDALUSIA CITY BOARD OF EDUCATION
NOTES TO THE SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
September 30, 2013

NOTE 1 - BUDGETARY COMPARISON

The Andalusia City Board of Education has not included budgetary comparisons for the major special revenue funds because the Board does not adopt a legal budget for each special revenue fund. The Board legally adopts a budget for the general fund and for all federal funds as a whole.

ANDALUSIA CITY BOARD OF EDUCATION
SCHEDULE OF FUNDING PROGRESS – DEFINED BENEFIT PENSION PLAN
Year Ended September 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
9/30/2007	\$20,650,916	\$25,971,534	\$ 5,320,618	79.5%	\$ 6,310,616 *	84.3%
9/30/2008	\$20,812,477	\$26,804,117	\$ 5,991,640	77.6%	\$ 6,294,341	95.2%
9/30/2009	\$20,582,348	\$27,537,400	\$ 6,955,052	74.7%	\$ 6,236,922	111.5%
9/30/2010	\$20,132,779	\$28,299,523	\$ 8,166,744	71.1%	\$ 6,183,204	132.1%
9/30/2011 **	\$19,430,135	\$28,776,316	\$ 9,346,181	67.5%	\$ 6,159,562	151.7%
9/30/2012 ***	\$18,786,008	\$28,251,367	\$ 9,465,359	66.5%	\$ 6,222,316	152.1%

* Includes pay increase granted under Act 2007-296.

** Reflects changes in assumptions

*** Reflects changes in methods

Dollar amounts in thousands

SUPPLEMENTARY INFORMATION

ANDALUSIA CITY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended September 30, 2013

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER	DISBURSEMENTS/ EXPENDITURES
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed Through State Department of Education:			
Title I, Part A Cluster:			
Title I, Part A (M)	84.010	104	\$ 507,136
Title I, Part A, Carryover (M)	84.010	104	106,912
			<u>614,048</u>
Special Education (IDEA) Cluster:			
IDEA, VI B, School Program (M)	84.027	104	572,585
IDEA, Preschool Incentive (M)	84.173	104	29,511
			<u>602,096</u>
Title II, Part A, Teacher Training	84.367	104	149,726
Title VI, Part B, Rural Education Initiative	84.358	104	28,559
Vocational - Basic Grants to States	84.048A	104	23,241
			<u>201,526</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>1,417,670</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed Through State Department of Education:			
Food Distribution Program (N)	10.550	104	42,731
Fresh Fruits and Vegetables (N)	10.582	104	47,507
Summer Food Service Program	10.559	104	6,503
Child Nutrition Cluster:			
National School Breakfast Program (M)	10.553	104	118,623
National School Lunch Program (M)	10.555	104	417,941
Subtotal Child Nutrition Cluster			<u>536,564</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>633,305</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Passed Through State Department of Education:			
Disability Insurance/SSI Cluster:			
Disability Determination	96.001	104	860
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>860</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,051,835</u>

(N) Non-cash assistance

(M) Major program

The accompanying Notes to the Schedule of Expenditures of Federal Awards are an integral part of this statement.

ANDALUSIA CITY BOARD OF EDUCATION
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended September 30, 2013

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Andalusia City Board of Education and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

ANDALUSIA CITY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
September 30, 2013

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified
Internal control over financial reporting:
Material weakness(es) identified? _____yes X no

Significant deficiency(ies) identified? _____yes X none reported

Noncompliance material to financial statements noted? _____yes X no

Federal Awards

Internal Control over major programs:
Material weakness(es) identified? _____yes X no

Significant deficiency(ies) identified? _____yes X none reported

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

Any audit findings disclosed that are required to be
reported in accordance with Circular A-133,
Section .510(a)? _____yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>10.553; 10.555</u>	<u>Child Nutrition Cluster</u>
<u>84.010; 84.389</u>	<u>Title I, Part A Cluster</u>
<u>84.027; 84.173</u>	<u>Special Education Cluster</u>

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

Auditee qualified as low -risk auditee X yes _____no

ANDALUSIA CITY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
September 30, 2013

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

RABREN, ODOM, PIERCE & HAYES, P.C.

Certified Public Accountants

W.S. Rabren, Jr., CPA
Kenneth R. Odom, CPA, CGFM, CGMA
Melissa C. Pierce, CPA, CGFM, CITP
Gail C. Hayes, CPA

www.ro-cpa.com

1600 Dr. MLK, Jr. Expressway
Andalusia, AL 36420
Telephone: (334) 222-4101
Fax: (334) 222-9125

Jana G. Ealum
Anna N. Till

INDEPENDENT AUDITORS' 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
Andalusia City Board of Education
Andalusia, Alabama

We have audited, in accordance with the 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 the Andalusia City Board of Education (the Board) as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements and have issued our report thereon dated April 24, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Board'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 Board's internal control. Accordingly, we do not express an opinion on the effectiveness of Board'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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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, the communication is not suitable for any other purpose.

Rabren, Odom, Pierce & Hayes, PC

Andalusia, Alabama
April 24, 2014

RABREN, ODOM, PIERCE & HAYES, P.C.

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Anna N. Till

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited the Andalusia City Board of Education's (the Board) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Board's major federal programs for the year ended September 30, 2013. The Board's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Board's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Andalusia City Board of Education, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended September 30, 2013.

Report on Internal Control Over Compliance

Management of the Board is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Board's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over compliance.

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

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

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

Rabren, Odom, Pierce & Hayes, PC

Andalusia, Alabama
April 24, 2014