

Report on the

Lauderdale County Board of Education

Lauderdale County, Alabama

October 1, 2012 through September 30, 2013

Filed: August 15, 2014



Department of Examiners of Public Accounts

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Ronald L. Jones, Chief Examiner



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

Dear Sir:

Under the authority of the *Code of Alabama 1975*, Section 41-5-21, I submit this report on the results of the audit of the Lauderdale County Board of Education, Lauderdale County, Alabama, for the period October 1, 2012 through September 30, 2013.

Sworn to and subscribed before me this
the 6 day of August, 2014.

Sandra E. Shirley
Notary Public

Respectfully submitted,

Denise H. Olive
Denise H. Olive
Examiner of Public Accounts

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Department of
Examiners of Public Accounts

SUMMARY

**Lauderdale County Board of Education
October 1, 2012 through September 30, 2013**

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

This report presents the results of an audit the objectives of which were to determine whether the financial statements present fairly the financial position and results of financial operations and whether the Board complied with applicable laws and regulations, including those applicable to its major federal financial assistance programs. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States as well as the requirements of the Department of Examiners of Public Accounts under the authority of the *Code of Alabama 1975*, Section 41-5-14.

An unmodified opinion was issued on the financial statements, which means that the Board's financial statements present fairly, in all material respects, its financial position and the results of its operations for the fiscal year ended September 30, 2013.

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

The following officials/administrative personnel were invited to an exit conference to discuss the contents of this report: Superintendent: Mrs. Jennifer Gray; Former Superintendent: William Valentine; Chief School Financial Officer: Larry Vance; and Board Members: Ralph Thompson, Dan Beavers, Chad Holden, Daniel Patterson, Barbara Cornelius, and Jerry Fulmer. The following individuals attended the exit conference, held at the Board's offices: Superintendent: Mrs. Jennifer Gray; Former Superintendent: William Valentine; Chief School Financial Officer: Larry Vance; Board Members: Dan Beavers, Barbara Cornelius, and Jerry Fulmer; and a representative of the Department of Examiners of Public Accounts: Denise H. Olive, Examiner of Public Accounts.

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Independent Auditor's Report

Independent Auditor's Report

To: Members of the Lauderdale County Board of Education, Superintendent and Chief School Financial Officer

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 Lauderdale County Board of Education, as of and for the year ended September 30, 2013, and related notes to the financial statements, which collectively comprise the Lauderdale County Board of Education's basic financial statements as listed in the table of contents as Exhibits 1 through 8.

Management's Responsibility for the Financial Statements

The management of the Lauderdale County Board of Education 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 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 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 Lauderdale County Board of Education, as of September 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) and the Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual, (Exhibits 9 and 10), be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lauderdale County Board of Education's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 11) is presented for the purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***, and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the 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 July 25, 2014, on our consideration of the Lauderdale County Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** in considering the Lauderdale County Board of Education's internal control over financial reporting and compliance.



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

Montgomery, Alabama

July 25, 2014

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

**Lauderdale County Board of Education
Management's Discussion and Analysis (MD&A)
September 30, 2013**

Our discussion and analysis of the Lauderdale County Board of Education's (the "Board's") financial performance provides an overview of the Board's financial activities for the fiscal year ended September 30, 2013. Please read it in conjunction with the Board's financial statements and notes to the financial statements, which immediately follow this analysis.

The Management's Discussion and Analysis (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 June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights: Significant Items to Note

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

- ✓ The assets of the Board exceeded its liabilities at the close of the 2013 fiscal year by \$57.23 million (net position). Of this amount \$11.5 million (unrestricted net position) may be used to meet the Board's future costs of operations.
- ✓ The total cost of the Board's programs for the year was \$74.4 million. After taking away a portion of these costs paid for with charges or fees, intergovernmental aid, interest earnings and other miscellaneous sources, the net cost that required funding from Lauderdale County taxpayers was \$14.43 million. (The State provided \$ 50.47 million towards the cost of the programs.)
- ✓ For the General Fund, revenues received during the year exceeded expenditures by \$424,717.17.
- ✓ At the end of the fiscal year, unassigned fund balance for the General Fund was \$9.81 million, or 17% of the total general fund expenditures, before other financing uses.
- ✓ Work was in progress on the Board of Education Office Annex, classrooms at Underwood, improvements of the sewer lagoon at Rogers, and a reroofing project at Brooks High School, all funded by the State's "Capital Purchase" allocation, also called "PSF" (Public School Fund).
- ✓ The Board reduced its outstanding long-term debt by \$308,349.36 or 9.58%.

Using the Financial Statements - An Overview for the User

The Board's basic financial statements are comprised of three components: 1) *government-wide financial statements*, 2) *fund financial statements*, and 3) *notes to the basic financial statements*.

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

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

- Instructional Support includes salaries and benefits for school principals, assistant principals, librarians, counselors, school secretaries, school bookkeepers, speech therapists, school nurses, and professional development expenses.
- Operation and maintenance includes utilities, security services, janitorial services, maintenance services, and depreciation of maintenance vehicles and maintenance buildings.
- Auxiliary services includes student transportation expenses, such as bus driver salaries and benefits, mechanics, bus aides, vehicle maintenance and repair expenses, vehicle fuel, depreciation of buses and bus shops, fleet insurance, food service salaries and benefits, donated and purchased food, food preparation and service supplies, kitchen and lunchroom equipment, and depreciation of food service equipment and facilities.
- General administration and central support includes salaries and benefits for the superintendent, assistants, clerical and financial staff, and other personnel that provide system-wide support for the schools. Also included are legal expenses, liability insurance, training for board members and general administrative staff, printing costs, and depreciation of central office equipment and facilities.
- Interest and fiscal charges included interest, but not principal payments, on long-term debt issues and other expenses related to the issuance and continuance of debt issues.
- Other includes the salaries and benefits for adult and continuing education teachers, preschool teachers and aides, extended day personnel, and community education instructors. Also included are the materials, supplies, equipment, related depreciation, and other expenses for operating programs outside of those for educating students in the kindergarten through 12th grade instructional programs.

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

The *Statement of Net Position* (Exhibit # 1) is most closely related to a balance sheet. It presents information on all of the board's assets (what it owns) and liabilities (what it owes), with the difference between the two reported as net position. The net position reported in this statement represent the accumulation of changes in net position for the current fiscal year and all fiscal years in the past combined. Over time, the increases or decreases in net position reported in this statement may serve as a useful indicator of whether the financial position of the school board is improving or deteriorating.

The *Statement of Activities* (Exhibit # 2) is most closely related to an income statement. It presents information showing how the Board's net position changed during the current fiscal year only. All of the current year's revenues and expenses are accounted for in the *Statement of Activities* regardless of when cash is received or paid. This statement shows gross expenses and offsetting program revenues to arrive at net cost information for each major expense function or activity of the Board. By showing the change in net position for the year, the reader may be able to determine whether the Board's financial position has improved or deteriorated over the course of the current fiscal year. The change in net position may be financial or non-financial in nature. Non-financial factors which may have an impact on the Board's financial condition include: age and condition of facilities, mandated educational programs for which little or no funding is provided, and increases or decreases in funding from state and federal governments, to name a few.

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

Governmental Funds - *Governmental Fund Financial Statements* are shown on Exhibit # 3. These statements account for basically the same governmental activities reported in the *Government-wide Financial Statements*. Before the implementation of GASB Statement 34, fund information had been reported in the aggregate by type of fund. As required under the new reporting model, the new *Fund Financial Statements* presented herein display information on each of the Board's most important governmental funds or *major funds*. This is required in order to better assess the Board's accountability for significant governmental programs or certain dedicated revenue. The Board's *major funds* are the General Fund, the Special Revenue Fund, and the Capital Projects Fund.

The *Fund Financial Statements* are still measured on the modified-accrual basis of accounting as reported in the previous fiscal years, where revenues and expenditures are recorded when they become measurable and available. As a result, the *Fund Financial Statements* focus more on the near term use and availability of spendable resources. The information provided in these statements is useful in determining the Board's immediate financial needs. This is in contrast to the accrual-based *Government-wide Financial Statements* which focus more on overall long-term availability of spendable resources. The relationship between governmental activities reported in the *Government-wide Financial Statements* and the governmental funds reported in the *Fund Financial Statements* are reconciled in Exhibit #4 and Exhibit #6 of these financial statements. These reconciliations are useful to readers in understanding the long-term impact of the Board's short-term financing decisions.

Fiduciary Funds - The Board is the trustee, or fiduciary, for some of its booster and parent organization activity funds which are under the control and administration of its schools. Fiduciary funds also include the balances of agency funds, such as accounts payable clearing and payroll clearing funds. All of the Board's fiduciary activities are reported in a separate *Statement of Fiduciary Net Position* shown on Exhibit #7. These funds are not available to the Board to finance its operations, and therefore not included in the *government-wide financial statements*. The Board is responsible for ensuring that the assets reported by these funds are used for their intended purposes.

Notes to the Basic Financial Statements - The *Notes to the Basic Financial Statements* provide additional information that is essential for the statements to fairly represent the Board's financial position and its operations. The notes contain important information that is not part of the basic financial statements. However, the notes are an integral part of the statements, not an appendage to them. The *Notes to the Basic Financial Statements* begin immediately following the financial statements.

After the presentation of the basic financial statements, the new reporting model requires additional required supplemental information to be presented following the notes to the basic financial statements. The required supplemental information provides a comparison of the original adopted budgets to the final amended budgets of the Board's General Fund and Special Revenue Fund which are then further compared to the actual operating results for the fiscal year. The comparison of this data allows users to assess management's ability to project and plan for its operations throughout the year.

Analysis of the School Board's Overall Financial Position

As indicated earlier, net position may serve over time as a useful indicator of a government's financial position. Refer to *Table 1* when reading the following analysis of net position. The Board's assets exceeded liabilities by \$55.95 million at September 30, 2012, and by \$57.23 million at September 30, 2013.

- ✓ Of this figure, \$34.3 million at September 30, 2012 and \$34.6 million at September 30, 2013, reflects the Board's investment in capital assets net of related debt. Since these capital assets represent investment in land, buildings, school buses, furniture, and equipment, this portion of net position is not available for future spending or funding of operations.
- ✓ Restricted net position are reported separately to show the external legal constraints from debt covenants and enabling legislation that limit the Board's ability to use its position for day-to-day operations. \$8.76 million is reserved for capital projects.
- ✓ The remaining unrestricted net position of \$11.56 million may be used at the Board's discretion to meet ongoing obligations to citizens and creditors and for future operations.

Table 1: Summary of Net Position
As of September 30, 2012 and 2013

	2012	2013	Percent of Total
	Governmental Activities	Governmental Activities	
Current and Other Assets	32,753,947.26	32,637,127.38	46.53%
Net Capital Assets	37,940,240.06	37,510,395.14	53.47%
Total Assets	<u>70,694,187.32</u>	<u>70,147,522.52</u>	100.00%
Current and Other Liabilities	11,524,093.71	10,010,386.23	77.48%
Long-term Liability	3,218,349.36	2,910,000.00	22.52%
Total Liabilities	<u>14,742,443.07</u>	<u>12,920,386.23</u>	100.00%
Net Position:			
Net Investment in Capital Assets	34,303,488.11	34,600,395.14	60.46%
Restricted for:			
Debt Service	225,901.07	228,401.07	0.40%
Capital Projects	8,697,834.31	8,759,284.34	15.31%
Other Purposes	1,614,983.70	2,083,827.92	3.64%
Unrestricted	<u>11,109,537.06</u>	<u>11,555,227.82</u>	20.19%
Total Net Position	<u><u>55,951,744.25</u></u>	<u><u>57,227,136.29</u></u>	100.00%

At the end of the current fiscal year, the Board is able to report positive balances in all three categories of net position: net investment in capital assets, restricted and unrestricted. This means that the Board has enough available resources to cover all outstanding obligations, including non-capital liabilities as of September 30, 2013, with resources left over to use for next year's operations.

The results of this fiscal year's operations as a whole are reported in detail in the *Summary of Changes in Net Position From Operation Results* shown in Table 2. This table condenses the results of operations for the fiscal year into a format where the reader can easily see the total revenues of the Board for the year. It also shows the impact the operations had on changes in net position as of September 30, 2013.

Table 2: Summary of Changes in Net Position From Operation Results
Fiscal Year Ended September 30, 2012 and 2013

	2012 Governmental Activities	2013 Governmental Activities	2013 Percent of Total
Revenues			
Program Revenues:			
Charges for Services	6,875,028.51	6,816,777.05	9.01%
Operating Grants and Contributions	51,419,883.78	50,470,197.15	66.70%
Capital Grants and Contributions	2,630,007.00	2,683,864.68	3.55%
General Revenues:			
Property Taxes for General Purposes	8,291,357.35	8,375,474.82	11.07%
Sales and Use Taxes	4,197,989.08	4,304,534.12	5.69%
Miscellaneous Taxes	138,461.77	120,230.46	0.16%
Grants and Contributions not Restricted for Specific Programs	3,920.00	3,985.50	0.01%
Investment Earnings	193,434.43	144,199.32	0.19%
Miscellaneous	3,235,973.30	2,752,723.82	3.64%
Total Revenues	76,986,055.22	75,671,986.92	100.00%
Expenses			
Instruction	45,169,631.83	44,253,977.93	59.48%
Instructional Support	10,730,721.02	10,336,858.82	13.89%
Operation and Maintenance	5,714,555.72	6,020,453.97	8.09%
Auxiliary Services:			
Student Transportation	4,138,668.98	4,264,048.05	5.73%
Food Service	4,971,789.52	4,924,378.85	6.62%
General Administration and Central Support	1,432,951.80	3,161,695.34	4.25%
Interest and Fiscal Charges	101,202.74	149,773.14	0.20%
Other	1,299,090.14	1,285,408.78	1.73%
Total Expenses	73,558,611.75	74,396,594.88	100.00%
Increase in Net Position	3,427,443.47	1,275,392.04	
Net Position – Beginning	52,524,300.78	55,951,744.25	
Net Position – Ending	55,951,744.25	57,227,136.29	

Governmental Activities - As shown in *Table 2*, the Board's net position increased by \$1,275,392.04. The total cost of services rendered by the Board's was \$74.40 million and its revenues were \$75.67 million for the year ended September 30, 2013. It is important to note that not all of these costs were borne by the taxpayers of Lauderdale County:

- ✓ Some of the cost, \$6.82 million, was paid by users who benefited from services provided during the year, such as school lunches, summer school, drivers' education instruction, and transfer tuition.
- ✓ State and federal governments subsidized certain programs with grants and contributions totaling \$53.15 million.
- ✓ Other general revenue sources, such as interest earnings, sale of surplus property, etc., provided \$2.9 million in revenues.

- ✓ \$12.80 million of the Board's total costs of \$74.40 million was financed by district and state taxpayers, as follows: \$8.38 million in property taxes, \$4.3 million in sales and use taxes, and \$0.12 million in other taxes (business privilege tax, mineral lease documentary tax, helping-school vehicle tags, and manufactured home registration fees).

Table 3 is a condensed statement taken from Exhibit #2, *Statement of Activities*, showing the total cost for providing identified services for major Board activities. Total cost of services is compared to the net cost of providing these services. The net cost of services is the remaining cost of services after subtracting grants and charges for services that the Board used to offset the program's total cost. In other words, the net cost shows the financial burden that was borne locally by the taxpayers in Lauderdale County for each of these activities. This information allows citizens to consider the cost of the each program in comparison to the benefits they believe are provided.

Table 3: Net Cost of Governmental Activities

Fiscal Year Ended September 30, 2013

	Total Cost of Services	Net Cost of Services
Instruction	44,253,977.93	3,896,953.13
Instructional Support	10,336,858.82	1,983,880.52
Operation and Maintenance	6,020,453.97	5,015,399.26
Auxiliary Services:		
Student Transportation	4,264,048.05	307,344.23
Food Service	4,924,378.85	677,134.51
General Administration and Central Support	3,161,695.34	2,078,639.09
Interest and Fiscal Charges	149,773.14	149,773.14
Other	1,285,408.78	316,632.12
Total	74,396,594.88	14,425,756.00

Performance of School Board Funds

As noted earlier, the Board uses fund accounting to control and manage resources in order to ensure compliance with finance-related legal requirements. Using funds to account for resources for particular purposes helps the reader to determine whether the Board is being accountable for the resources provided by taxpayers and other entities, and it may also help to provide more insight into the Board's overall financial health. The following analysis of the Board's funds should be read in reference to the fund financial statements which begin on Exhibit #3.

Governmental Funds - The focus of the Board's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Board's financial requirements (Note that the relationship between the *Fund Financial Statements* and the *Government-wide Financial Statements* are reconciled in Exhibit #4 and Exhibit #6. The financial performance of the Board as a whole is reflected in its governmental funds as well. At the end of the fiscal year, the Board's governmental funds reported combined ending fund balances of \$22.63 million.

General Fund - The general fund is the primary operating fund of the Board. The \$424,717.17 increase in general fund balance as a result of operations this year was primarily due to modest gains in sales and ad valorem tax revenue combined with efforts to hold expenditures roughly level with the previous fiscal year.

Special Revenue Fund - The Special Revenue Fund is comprised of several different funding sources, which includes Title I, Special Education, and Child Nutrition. The ending fund balance of \$3,739,448.63 includes an increase to the fund balance of \$643,718.87 for fiscal year 2013.

Capital Projects Fund – The Capital Projects Fund is comprised of several different funding sources, which includes Fleet Renewal, Public School Funds, and PSCA Funds. The ending fund balance of \$8,759,284.34 includes an increase to the fund balance of \$61,450.03 for the fiscal year 2013.

Other Governmental Funds – This fund is a combined total of all other governmental funds not considered major funds.

Budgetary Highlights of Major Funds

On or before October 1 of each year, the Board is mandated by state law to prepare and submit to the State Superintendent of Education the annual budget adopted by the Board. The State Department of Education normally requires the budget to be submitted by September 15. The original 2013 fiscal year budget was adopted by the Board on September 13, 2012. Over the course of the year, the Board revised the annual budget to include various federal grants and state allocations that were not available at the time of the original budget approval.

Capital Assets and Debt Administration

Capital Assets - The Board's investment in capital assets for its governmental activities for the year ended September 30, 2013, amounted to \$37.5 million, net of accumulated depreciation. The Board's investment in capital assets includes, land at estimated historical cost, buildings and improvements at estimated historical cost, equipment and furniture at estimated historical cost, and construction in progress, and is shown in *Table 4*.

Depreciation on capital assets is provided on the straight-line basis over each asset's estimated useful life. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets reported in the government-wide statements are listed in the notes to the financial statements.

Table 4: Capital Assets
Fiscal Year Ended September 30, 2013

	Balance 10/1/2012	Additions*	Retirements*	Balances 9/30/2013
<u>Governmental Activities:</u>				
Capital Assets, Not Being Depreciated				
Land	1,406,535.40		(4,105.00)	1,402,430.40
Construction in Progress	382,359.16	657,028.74	(382,359.16)	657,028.74
Total Capital Assets, Not Being Depreciated	1,788,894.56	657,028.74	(386,464.16)	2,059,459.14
Capital Assets Being Depreciated:				
Land Improvements - Exhaustible	1,203,764.59			1,203,764.59
Buildings	44,393,582.17	650,273.00	(946,085.00)	44,097,770.17
Building Improvements	11,162,495.66	296,166.76	(786,254.00)	10,672,408.42
Equipment and Vehicles	9,544,271.81	1,717,463.88	(338,868.79)	10,922,866.90
Total Capital Assets Being Depreciated	66,304,114.23	2,663,903.64	(2,071,207.79)	66,896,810.08
Less Accumulated Depreciation for:				
Land Improvements	(549,318.26)	(50,188.23)		(599,506.49)
Buildings	(18,177,550.95)	(850,228.93)	329,189.00	(18,698,590.88)
Building Improvements	(4,584,906.48)	(475,958.15)	483,985.50	(4,576,879.13)
Equipment and Vehicles	(7,183,487.58)	(647,465.07)	260,055.07	(7,570,897.58)
Total Accumulated Depreciation	(30,495,263.27)	(2,023,840.38)	1,073,229.57	(31,445,874.08)
Total Capital Assets Being Depreciated, Net	35,808,850.96	640,063.26	(997,978.22)	35,450,936.00
Total Governmental Activities Capital Assets, Net	\$ 37,597,745.52	\$ 1,297,092.00	\$ (1,384,442.38)	\$ 37,510,395.14

*Amounts include reclassifications from Construction in Progress to Building Improvements for \$382,359.16.

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

	Current Year Depreciation
<u>Governmental Activities:</u>	
Instruction	\$ 1,361,588.73
Instructional Support	53,550.26
Operation and Maintenance	65,946.27
Auxiliary Services:	
Student Transportation	434,128.38
Food Service	92,869.64
General Administration and Central Support	15,757.10
Total Depreciation Expense - Governmental Activities	<u>\$ 2,023,840.38</u>

Long-Term Debt - At year-end, the Board had \$2.91 million in general obligation bonds, and long-term notes payable. This is a reduction of 9.58% in debt from last year, as shown in *Table 5* below.

Table 5: Long-Term Debt

Fiscal Year Ended September 30, 2013

	Debt Outstanding 10/01/2012	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 09/30/2013	Amounts Due Within One Year
Warrants Payable: Series 2010	3,285,000.00		375,000.00	2,910,000.00	380,000.00
Unamortized Discount	(66,650.64)		(66,650.64)		
Totals	3,218,349.36		308,349.36	2,910,000.00	380,000.00

Economic Factors and Next Year's Budget

The following are currently known Lauderdale County economic factors considered going into the 2013-2014 Fiscal Year.

- ✓ According to the U.S. Bureau of Labor Statistics, the unemployment rate in the Florence/Muscle Shoals MSA for February 2014 was 7.2%, which is an increase from the April 2013 rate of 5.5%. Lauderdale County's February 2014 unemployment rate was higher than Alabama's average unemployment rate of 6.4%, and slightly higher than the national average unemployment rate of 6.7%.
- ✓ The latest estimate available from the U.S. Census Bureau places Lauderdale County's population at 92,709 as of the 2010 Census. This is an increase of 3,110 over the last official count of 87,966 from the 2000 census. The Lauderdale County Schools' latest student enrollment figure for the 2013-2014 school year is 8,444, down 220 students from the 2011-2012 enrollment of 8,664.
- ✓ For the 2014 fiscal year property and sales tax revenues were budgeted at the level of 2013 collections.

Medical and Retirement Costs - Employee health insurance is provided through the Public Education Employees' Health Insurance Program (PEEHIP). PEEHIP health insurance employer costs have risen dramatically during recent years. However, PEEHIP employer costs remained level at \$8,568 per employee from fiscal year 2013 to fiscal year 2014, and employer contributions to the Teachers Retirement System (TRS) rose from 10.08% to 11.71%.

Support Personnel and Local Teaching Units - The Board must use its limited local revenues to absorb all increases in the salaries or benefits of its support personnel (i.e., central office administrators, maintenance employees, accountants, secretaries, etc.). The Board must also absorb such increases for each "local teaching unit" it employs. "Local teaching units" means the number of additional teachers employed in our system beyond the number funded by the State.

Lauderdale County Board of Education currently employs approximately 584 certificated personnel. Of that number, 544 units are funded directly under the State's Foundation Program, another 13 units by other State grants, 17 by Federal grants, leaving 10 teaching units directly funded from local revenue sources. It should be noted that any decreases in funding from State or Federal funding will constitute an increase in the number of locally funded teaching units.

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 Larry Vance, Chief School Financial Officer, at the Lauderdale County Board of Education, P.O. Box 278, Florence, Alabama 35631, or call (256) 760-1322 during regular office hours, Monday through Friday, from 8:00 a.m. to 4:00 p.m., central time.

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Basic Financial Statements

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Statement of Net Position
September 30, 2013

	Governmental Activities
<u>Assets</u>	
Cash	\$ 25,018,059.98
Investments	118,488.39
Cash with Fiscal Agent	228,401.07
Ad Valorem Property Taxes Receivable	5,297,489.69
Due From Other Governments	1,694,462.47
Inventories	280,225.78
Capital Assets (Note 5):	
Nondepreciable	2,059,459.14
Depreciable, Net	35,450,936.00
Total Assets	<u>70,147,522.52</u>
<u>Liabilities</u>	
Accounts Payable	897.31
Notes Payable	112,789.93
Deferred Revenue	5,928,280.46
Salaries and Benefits Payable	3,968,418.53
Long-Term Liabilities:	
Portion Due or Payable Within One Year:	
Warrants Payable	380,000.00
Portion Due or Payable After One Year:	
Warrants Payable	2,530,000.00
Total Liabilities	<u>12,920,386.23</u>
<u>Net Position</u>	
Net Investment in Capital Assets	34,600,395.14
Restricted for:	
Debt Service	228,401.07
Capital Projects	8,759,284.34
Other Purposes	2,083,827.92
Unrestricted	<u>11,555,227.82</u>
Total Net Position	<u>\$ 57,227,136.29</u>

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

Statement of Activities
For the Year Ended September 30, 2013

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Governmental Activities			
Instruction	\$ 44,253,977.93	\$ 1,314,032.07	\$ 37,025,691.57
Instructional Support	10,336,858.82	491,178.42	7,861,799.88
Operation and Maintenance	6,020,453.97	386,937.48	381,173.39
Auxiliary Services:			
Student Transportation	4,264,048.05	83,956.41	3,443,127.73
Food Service	4,924,378.85	3,963,556.17	283,688.17
General Administration and Central Support	3,161,695.34		1,083,056.25
Interest and Fiscal Charges	149,773.14		
Other Expenses	1,285,408.78	577,116.50	391,660.16
Total Governmental Activities	<u>\$ 74,396,594.88</u>	<u>\$ 6,816,777.05</u>	<u>\$ 50,470,197.15</u>

General Revenues:

Taxes:
Property Taxes for General Purposes
Sales Tax
Alcohol Beverage Tax
Other Taxes
Grants and Contributions Not Restricted for Specific Programs
Investment Earnings
TVA in Lieu of Taxes
Miscellaneous
Total General Revenues
Changes in Net Position
Net Position - Beginning of Year
Net Position - End of Year

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

		Net (Expenses) Revenues and Changes in Net Position	
Capital Grants and Contributions		Total Governmental Activities	
\$	2,017,301.16	\$	(3,896,953.13)
			(1,983,880.52)
	236,943.84		(5,015,399.26)
			(307,344.23)
	429,619.68		(677,134.51)
			(2,078,639.09)
			(149,773.14)
			(316,632.12)
<u>\$</u>	<u>2,683,864.68</u>		<u>(14,425,756.00)</u>

8,375,474.82
4,304,534.12
13,026.84
107,203.62
3,985.50
144,199.32
1,079,805.94
1,672,917.88
<u>15,701,148.04</u>
1,275,392.04
55,951,744.25
<u>\$ 57,227,136.29</u>

Balance Sheet
Governmental Funds
September 30, 2013

	General Fund	Special Revenue Fund
<u>Assets</u>		
Cash	\$ 13,597,670.90	\$ 2,710,941.03
Investments		118,488.39
Cash with Fiscal Agent		
Ad Valorem Property Taxes Receivable	5,297,489.69	
Due From Other Governments	684,901.74	959,724.44
Inventories	86,107.56	194,118.22
Total Assets	<u>19,666,169.89</u>	<u>3,983,272.08</u>
<u>Liabilities and Fund Balances</u>		
<u>Liabilities</u>		
Accounts Payable		897.31
Notes Payable		112,789.93
Deferred Revenue	5,928,280.46	
Salaries and Benefits Payable	3,838,282.32	130,136.21
Total Liabilities	<u>9,766,562.78</u>	<u>243,823.45</u>
<u>Fund Balances</u>		
Nonspendable:		
Inventories	86,107.56	194,118.22
Restricted for:		
Debt Service		
Capital Projects		
Child Nutrition		1,889,709.70
Assigned to:		
Local Schools		1,655,620.71
Unassigned	9,813,499.55	
Total Fund Balances	<u>9,899,607.11</u>	<u>3,739,448.63</u>
Total Liabilities and Fund Balances	<u>\$ 19,666,169.89</u>	<u>\$ 3,983,272.08</u>

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

Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ 8,709,448.05	\$	\$ 25,018,059.98
		118,488.39
	228,401.07	228,401.07
		5,297,489.69
49,836.29		1,694,462.47
		280,225.78
<u>8,759,284.34</u>	<u>228,401.07</u>	<u>32,637,127.38</u>

		897.31
		112,789.93
		5,928,280.46
		3,968,418.53
		<u>10,010,386.23</u>

		280,225.78
	228,401.07	228,401.07
8,759,284.34		8,759,284.34
		1,889,709.70
		1,655,620.71
		9,813,499.55
<u>8,759,284.34</u>	<u>228,401.07</u>	<u>22,626,741.15</u>
<u>\$ 8,759,284.34</u>	<u>\$ 228,401.07</u>	<u>\$ 32,637,127.38</u>

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***Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Position
September 30, 2013***

Total Fund Balances - Governmental Funds (Exhibit 3) \$ 22,626,741.15

Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1)
are different because:

Capital assets used in governmental activities are not financial resources and therefore are
not reported as assets in governmental funds. These assets were added as net
capital assets in the following amount (Note 5). 37,510,395.14

Certain liabilities are not due and payable in the current period, and therefore are not
reported as liabilities in the funds. These liabilities at year-end consist of:

	Amounts Due and Payable Within One Year	Amounts Due and Payable After One Year	
Warrants Payable	\$ 380,000.00	\$ 2,530,000.00	(2,910,000.00)

Total Net Position - Governmental Activities (Exhibit 1) \$ 57,227,136.29

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

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2013

	General Fund	Special Revenue Fund
Revenues		
State	\$ 45,910,671.93	\$
Federal	158,263.02	6,523,637.26
Local	13,290,406.63	5,686,499.61
Other	414,569.27	128,705.02
Total Revenues	<u>59,773,910.85</u>	<u>12,338,841.89</u>
Expenditures		
Current:		
Instruction	37,670,464.19	5,070,923.01
Instructional Support	8,998,707.85	1,284,600.71
Operation and Maintenance	5,109,122.64	503,618.88
Auxiliary Services:		
Student Transportation	3,783,140.35	46,779.32
Food Service		4,928,118.90
General Administration and Central Support	2,103,607.40	164,726.11
Other	344,922.68	940,486.10
Capital Outlay	96,640.00	297,539.75
Debt Service:		
Principal Retirement		
Interest and Fiscal Charges		
Debt Issuance Costs/Other Debt Service		
Total Expenditures	<u>58,106,605.11</u>	<u>13,236,792.78</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,667,305.74</u>	<u>(897,950.89)</u>
Other Financing Sources (Uses)		
Indirect Cost	96,609.69	
Transfers In	219,368.53	1,761,538.29
Sale of Capital Assets	202,471.50	
Transfers Out	(1,761,038.29)	(219,868.53)
Total Other Financing Sources (Uses)	<u>(1,242,588.57)</u>	<u>1,541,669.76</u>
Net Changes in Fund Balances	424,717.17	643,718.87
Fund Balances - Beginning of Year	<u>9,474,889.94</u>	<u>3,095,729.76</u>
Fund Balances - End of Year	<u>\$ 9,899,607.11</u>	<u>\$ 3,739,448.63</u>

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

Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ 2,677,663.68	\$	\$ 48,588,335.61
		6,681,900.28
420,948.00	460,622.50	19,858,476.74
		543,274.29
<u>3,098,611.68</u>	<u>460,622.50</u>	<u>75,671,986.92</u>
151,002.00		42,892,389.20
341,766.18		10,283,308.56
		5,954,507.70
		3,829,919.67
		4,928,118.90
		2,268,333.51
		1,285,408.78
2,544,393.47		2,938,573.22
	375,000.00	375,000.00
	82,062.50	82,062.50
	1,060.00	1,060.00
<u>3,037,161.65</u>	<u>458,122.50</u>	<u>74,838,682.04</u>
<u>61,450.03</u>	<u>2,500.00</u>	<u>833,304.88</u>
		96,609.69
		1,980,906.82
		202,471.50
		(1,980,906.82)
		<u>299,081.19</u>
61,450.03	2,500.00	1,132,386.07
<u>8,697,834.31</u>	<u>225,901.07</u>	<u>21,494,355.08</u>
<u>\$ 8,759,284.34</u>	<u>\$ 228,401.07</u>	<u>\$ 22,626,741.15</u>

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended September 30, 2013

Net Changes in Fund Balances - Total Governmental Funds (Exhibit 5)	\$ 1,132,386.07
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 outlay (\$2,938,573.22) exceeds depreciation expense (\$2,023,840.38) in the current period.	914,732.84
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.	375,000.00
In the Statement of Activities only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds the proceeds from the sale increase financial resources. The change in net position differs from the change in fund balances by this amount.	
Proceeds from Sale of Capital Assets	\$ (202,471.50)
Loss on Disposition of Capital Assets	(799,611.72)
	(1,002,083.22)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Amortization of Bond Discounts/Premiums/Issuance Costs	(144,643.65)
Change in Net Position of Governmental Activities (Exhibit 2)	<u>\$ 1,275,392.04</u>

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

Statement of Fiduciary Net Position
September 30, 2013

	Private-Purpose Trust Funds	Agency Funds
<u>Assets</u>		
Cash	\$ 44,826.93	\$ 161,534.82
Investments	28,350.00	
Accounts Receivable	27.30	
Total Assets	<u>73,204.23</u>	<u>161,534.82</u>
<u>Liabilities</u>		
Salaries and Benefits Payable		5,245.82
Due to External Organizations		156,289.00
Total Liabilities		<u>\$ 161,534.82</u>
<u>Net Position</u>	<u>\$ 73,204.23</u>	

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

***Statement of Changes in Fiduciary Net Position
For the Year Ended September 30, 2013***

	Private-Purpose Trust Funds
<u>Additions</u>	
Earnings on Investments	\$ 169.43
Other Sources	22,831.50
Total Additions	<u>23,000.93</u>
<u>Deductions</u>	
Instruction	2,415.18
Instructional Support	389.51
Other	14,831.61
Total Deductions	<u>17,636.30</u>
Changes in Net Position	5,364.63
Net Position - Beginning of Year	<u>67,839.60</u>
Net Position - End of Year	<u>\$ 73,204.23</u>

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

Notes to the Financial Statements

For the Year Ended September 30, 2013

Note 1 – Summary of Significant Accounting Policies

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

A. Reporting Entity

The Board is governed by a separately elected board composed of five members elected by the qualified electors of the County. The Board is responsible for the general administration and supervision of the public schools for the educational interests of the County (with the exception of cities having a city board of education).

Generally accepted accounting principles (GAAP) require that the financial reporting entity consist of the primary government and its component units. Accordingly, the accompanying financial statements present the Board (a primary government).

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on the application of these criteria, there are no component units which should be included as part of the financial reporting entity of the Board.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

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.

Notes to the Financial Statements

For the Year Ended September 30, 2013

Fund Financial Statements

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

The Board reports the following major governmental funds:

- ◆ **General Fund** – The general fund is the primary operating fund of the Board. It is used to account for all financial resources except those required to be accounted for in another fund. The Board primarily receives revenues from the Education Trust Fund (ETF) and local taxes. Amounts appropriated from the ETF were allocated to the school board on a formula basis.

- ◆ **Special Revenue Fund** – This fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Various federal, state and local funding sources are included in this fund. Some of the significant federal funding sources include the federal funds that are received for Special Education, Title I, and the Child Nutrition Program in addition to various smaller grants, which are required to be spent for the purposes of the applicable federal grants. Also included in this fund are the public and non-public funds received by the local schools which are generally not considered restricted or committed. The proceeds from the county sales tax that are to be used exclusively for capital improvement, capital construction and maintenance purposes are also accounted for and reported in this fund.

- ◆ **Capital Projects Fund** – This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlay, including the acquisition or construction of capital facilities and other capital assets.

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

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

Notes to the Financial Statements

For the Year Ended September 30, 2013

The Board reports the following fiduciary fund types:

Fiduciary Fund Types

- ◆ *Private-Purpose Trust Funds* – These funds are used to report all trust agreements under which principal and income benefit individuals, private organizations, or other governments.

- ◆ *Agency Funds* – These funds are used to report assets held by the Board in a purely custodial capacity. The Board collects these assets and transfers them to the proper individual, private organizations, or other government.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

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

Notes to the Financial Statements
For the Year Ended September 30, 2013

D. Assets, Liabilities and Net Position/Fund Balances

1. Deposits and Investments

Cash includes cash on hand and demand deposits.

Statutes authorize the Board to invest in obligations of the U. S. Treasury, obligations of any state of the United States, general obligations of any Alabama county or city board of education secured by the pledged of the three-mill school tax and certificates of deposit.

Investments, which consist of certificates of deposit, are reported at fair value.

2. Receivables

Sales tax receivables are based on the amounts collected within 60 days after year-end.

Millage rates for property taxes are levied at the first regular meeting of the County Commission in February of each year. Property taxes are assessed for property as of October 1 of the preceding year based on the millage rates established by the County Commission. Property taxes are due and payable the following October 1 and are delinquent after December 31. Amounts receivable, net of estimated refunds and estimated uncollectible amounts, are recorded for the property taxes levied in the current year. However, since the amounts are not available to fund current year operations, the revenue is deferred and recognized in the subsequent fiscal year when the taxes are both due and collectible and available to fund operations.

Receivables due from other governments include amounts due from grantors for grants issued for specific programs and capital projects.

3. Inventories

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

4. Restricted Assets

Certain funds received from the State Department of Education for capital projects and improvements, as well as certain resources set aside for repayment of debt, included in cash and cash with fiscal agents on the balance sheet are considered restricted assets on the balance sheet because they are maintained separately and their use is limited. The Public School Capital Projects funding sources are used to report proceeds that are restricted for use in various construction projects. The Debt Service Fund is used to report resources set aside to pay the principal and interest on debt as it become due.

Notes to the Financial Statements
For the Year Ended September 30, 2013

5. Capital Assets

Capital assets, which include property and equipment, are reported in the government-wide financial statements. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Major outlays of capital assets and improvements are capitalized as projects are constructed.

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

	Capitalization Threshold	Estimated Useful Life
Land Improvements	\$50,000	20 years
Buildings	\$50,000	25-50 years
Building Improvements	\$50,000	7-30 years
Equipment and Furniture	\$ 5,000	5-20 years
Vehicles	\$ 5,000	8-15 years
Equipment Under Capital Lease	\$ 5,000	5-20 years

6. Long-Term Obligations

In the government-wide financial statements long-term debt is reported as liabilities in the governmental activities statement of net position.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Notes to the Financial Statements

For the Year Ended September 30, 2013

7. Net Position/Fund Equity

Net position is reported on the government-wide financial statements and is required to be classified for accounting and reporting purposes into the following net asset categories:

- ◆ **Net Investment in Capital Assets** – Capital assets minus accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets plus or minus any deferred outflows of resources and deferred inflows of resources that are attributable to those assets or related debt. Any significant unspent related debt proceeds and any deferred outflows or inflows at year-end related to capital assets are not included in this calculation.
- ◆ **Restricted** – Constraints imposed on net position by external creditors, grantors, contributors, laws or regulations of other governments, or law through constitutional provision or enabling legislation.
- ◆ **Unrestricted** – is the net amount of assets, deferred outflows or resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted portion of net position. Assignments and Commitments of unrestricted net position should not be reported on the face of the Statement of Net Position.

Fund balance is reported in governmental funds in the fund financial statements under the following five categories:

- A. Nonspendable fund balances include amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained in-tact. Examples of nonspendable fund balance reserves for which fund balance shall not be available for financing general operating expenditures include: inventories, prepaid items, and long-term receivables.
- B. Restricted fund balances consist of amounts that are subject to externally enforceable legal restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation.
- C. Committed fund balances consist of amounts that are subject to a purpose constraint imposed by formal action or resolution of the Board, which is the highest level of decision-making authority, before the end of the fiscal year and that require the same level of formal action to remove or modify the constraint.

Notes to the Financial Statements
For the Year Ended September 30, 2013

- D. Assigned fund balances consist of amounts that are intended to be used by the school system for specific purposes. The Board authorized the Superintendent or Chief School Financial Officer to make a determination of the assigned amounts of fund balance. Such assignments may not exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. Assigned fund balances require the same level of authority to remove the constraint.
- E. Unassigned fund balances include all spendable amounts not contained in the other classifications. This portion of the total fund balance in the general fund is available to finance operating expenditures.

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

Note 2 – Stewardship, Compliance, and Accountability

Budgets

Budgets are adopted on a basis of accounting consistent with accounting principles generally accepted in the United States of America (GAAP) for the General Fund and Special Revenue Fund with the exception of salaries and benefits, which are budgeted only to the extent expected to be paid rather than on the modified accrual basis of accounting. All other governmental funds adopt budgets on the modified accrual basis of accounting. Capital projects funds adopt project-length budgets. All appropriations lapse at fiscal year-end.

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

Notes to the Financial Statements

For the Year Ended September 30, 2013

Note 3 – Deposits and Investments

A. Deposits

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Board will not be able to cover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Board's deposits at year-end were entirely covered by federal depository insurance or by the Security for Alabama Funds Enhancement Program (SAFE Program). The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the *Code of Alabama 1975*, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance. All of the Board's investments were in certificates of deposit. These certificates of deposit are classified as "Deposits" in order to determine insurance and collateralization. However, they are classified as "Investments" on the financial statements.

B. Investment of Cash With Fiscal Agent

Statutes authorize the Board to invest in obligations of the U. S. Treasury, obligations of any state of the United States, general obligations of any Alabama county or city board of education secured by pledge of the three-mill school tax and other obligations as outlined in the *Code of Alabama 1975*, Section 19-3-120 and Section 19-3-120.1.

The Board does not have a formal investment policy.

As of September 30, 2013, the Board had the following investments in cash with fiscal agent accounts:

Investment	Maturities	Fair Value
Dreyfus Treasury Prime Cash Management Fund	Unknown	\$228,401.07

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

Notes to the Financial Statements

For the Year Ended September 30, 2013

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. GASB Statement 40 requires that governments provide information about the credit risk associated with their investments by disclosing the credit quality ratings of investment in debt securities as described by nationally recognized statistical rating organizations such as Standard & Poor’s, Moody’s Investors Service, and Fitch Rating, rating agencies, as the date of the financial statements. The Board does not have a formal investment policy requiring investments to be rated in the highest category rating. As of September 30, 2013, the Board’s investments in the Money Market Funds were rated AAAM by Standard and Poor’s and Aaa-mf by Moody’s.

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

Concentrations of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The Board does not have a formal investment policy that limits the amount of securities that can be held by counterparties.

Note 4 – 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:

	Unavailable	Unearned
Ad Valorem Taxes	\$5,297,489.69	\$630,790.77
Total Deferred/Unearned Revenue for Governmental Funds	\$5,297,489.69	\$630,790.77

Notes to the Financial Statements

For the Year Ended September 30, 2013

Note 5 – Capital Assets

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

	Balance 10/01/2012	Additions (*)	Retirements (*)	Balance 09/30/2013
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land and Land Improvements	\$ 1,406,535.40	\$	\$ (4,105.00)	\$ 1,402,430.40
Construction in Progress	382,359.16	657,028.74	(382,359.16)	657,028.74
Total Capital Assets, Not Being Depreciated	1,788,894.56	657,028.74	(386,464.16)	2,059,459.14
Capital Assets Being Depreciated:				
Land Improvements - Exhaustible	1,203,764.59			1,203,764.59
Buildings	44,393,582.17	650,273.00	(946,085.00)	44,097,770.17
Building Improvements	11,162,495.66	296,166.76	(786,254.00)	10,672,408.42
Equipment and Furniture	9,544,271.81	1,717,463.88	(338,868.79)	10,922,866.90
Total Capital Assets Being Depreciated	66,304,114.23	2,663,903.64	(2,071,207.79)	66,896,810.08
Less Accumulated Depreciation for:				
Land Improvements - Exhaustible	(549,318.26)	(50,188.23)		(599,506.49)
Buildings	(18,177,550.95)	(850,228.93)	329,189.00	(18,698,590.88)
Building Improvements	(4,584,906.48)	(475,958.15)	483,985.50	(4,576,879.13)
Equipment and Furniture	(7,183,487.58)	(647,465.07)	260,055.07	(7,570,897.58)
Total Accumulated Depreciation	(30,495,263.27)	(2,023,840.38)	1,073,229.57	(31,445,874.08)
Total Capital Assets Being Depreciated, Net	35,808,850.96	640,063.26	(997,978.22)	35,450,936.00
Total Governmental Activities Capital Assets, Net	\$ 37,597,745.52	\$ 1,297,092.00	\$(1,384,442.38)	\$ 37,510,395.14

(*) Amounts include reclassifications from Construction in Progress to Buildings and Building Improvements for \$382,359.16.

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

	Current Year Depreciation
Governmental Activities:	
Instruction	\$1,361,588.73
Instructional Support	53,550.26
Operation and Maintenance	65,946.27
Auxiliary Services:	
Student Transportation	434,128.38
Food Service	92,869.64
General Administration and Central Support	15,757.10
Total Depreciation Expense - Governmental Activities	\$2,023,840.38

Notes to the Financial Statements

For the Year Ended September 30, 2013

Note 6 – Defined Benefit Pension Plan

A. Plan Description

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

Substantially all employees of the Board are members of the Teachers' Retirement System. Membership is mandatory for covered or eligible employees of the Board. Benefits vest after 10 years of creditable service.

The provisions of Act Number 2012-377, Acts of Alabama, established a new defined benefit plan tier for employees (Tier 2). Tier 2 employees are those hired on or after January 1, 2013. Employees who were hired before January 1, 2013 are considered to be Tier 1 employees.

Vested Tier 1 employees may retire with full benefits at age 60 or after 25 years of service. Vested Tier 2 employees may retire after completing at least 10 years of service at the age of 62. Retirement benefits are calculated by two methods with the retiree receiving payment under the method which yields the highest monthly benefit. The methods are (1) Minimum Guaranteed, or (2) Formula, of which the Formula method usually produces the highest monthly benefit. Under this method Tier 1 retirees are allowed 2.0125% of their average final salary (best three of the last ten years) for each year of service, whereas Tier 2 retirees are allowed 1.6500% of their average final salary (best five of the last ten years) for each year of service with a benefit cap of 80% of the average final salary. Retirees may also elect to receive a reduced retirement allowance (*Special Privileges at Retirement*) in order to provide an allowance to a designated beneficiary after the member's death. Disability retirement benefits are calculated in the same manner. Pre-retirement death benefits in the amount of the annual salary for the fiscal year preceding death are provided to plan members.

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

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

Notes to the Financial Statements
For the Year Ended September 30, 2013

B. Funding Policy

Tier 1 employees are required to contribute 7.5 percent of their salary to the Teachers' Retirement System, whereas Tier 2 employees are required to contribute 6 percent of their salary. The Board is required to contribute the remaining amounts necessary to fund the actuarially determined contributions to ensure sufficient assets will be available to pay benefits when due. Each year the Teachers' Retirement System recommends to the Legislature the contribution rate for the following fiscal year, with the Legislature setting this rate in the annual appropriation bill. The percentages of the contributions and the amount of contributions made by the Board and the Board's employees equal the required contributions for each year as follows:

Fiscal Year Ended September 30,	2013	2012	2011
Total Percentage of Covered Payroll (Tier 1)	17.58%	17.25%	17.51%
Total Percentage of Covered Payroll (Tier 2)	15.44%		
Contributions:			
Percentage Contributed by the Board (Tier 1)	10.08%	10.00%	12.51%
Percentage Contributed by the Employees (Tier 1)	7.50%	7.25%	5.00%
Percentage Contributed by the Board (Tier 2)	9.44%		
Percentage Contributed by the Employees (Tier 2)	6.00%		
Contributed by the Board	\$3,901,131.43	\$3,860,309.20	\$4,999,542.81
Contributed by Employees	2,900,306.17	2,798,724.17	1,998,218.55
Total Contributions	<u>\$6,801,437.60</u>	<u>\$6,659,033.37</u>	<u>\$6,997,761.36</u>

Note 7 – Other Postemployment Benefits (OPEB)

A. Plan Description

The Board contributes to the Alabama Retired Education Employees' Health Care Trust (the "Trust"), a cost-sharing multiple-employer defined benefit postemployment healthcare plan. The Trust provides health care benefits to state and local school system retirees and was established in 2007 under the provisions of Act Number 2007-16, Acts of Alabama, as an irrevocable trust fund. Responsibility for general administration and operations of the Trust is vested with the Public Education Employees' Health Insurance Board (PEEHIB) members. The *Code of Alabama 1975*, Section 16-25A-4, provides the PEEHIB with the authority to amend the benefit provisions in order to provide reasonable assurance of stability in future years. The Trust issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at the Public Education Employees' Health Insurance Plan website, <http://www.rsa-al.gov/PEEHIP/peehip.html> under the Trust Fund Financials tab. The Plan's financial report for fiscal year 2013 will be available at the end of January 2014.

Notes to the Financial Statements

For the Year Ended September 30, 2013

B. Funding Policy

The Public Education Employees' Health Insurance Fund (PEEHIF) was established in 1983 under the provisions of Act Number 83-455, Acts of Alabama, to provide a uniform plan of health insurance for current and retired employees of state educational institutions. The plan is administered by the PEEHIB. Any Trust fund assets used in paying administrative costs and retiree benefits are transferred to and paid from the PEEHIF. The PEEHIB periodically reviews the funds available in the PEEHIF and if excess funds are determined to be available, the PEEHIB authorizes a transfer of funds from the PEEHIF to the Trust. Retirees are required to contribute monthly as follows:

	Fiscal Year 2013
Individual Coverage – Non-Medicare Eligible	\$151.00
Individual Coverage – Medicare Eligible	\$ 10.00
Family Coverage – Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	\$391.00
Family Coverage – Non-Medicare Eligible Retired Member and Dependent Medicare Eligible	\$250.00
Family Coverage – Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	\$250.00
Family Coverage – Medicare Eligible Retired Member and Dependent Medicare Eligible	\$109.00
Surviving Spouse – Non-Medicare Eligible	\$671.00
Surviving Spouse – Non-Medicare Eligible and Dependent Non-Medicare Eligible	\$860.00
Surviving Spouse – Non-Medicare Eligible and Dependent Medicare Eligible	\$829.00
Surviving Spouse – Medicare Eligible	\$317.00
Surviving Spouse – Medicare Eligible and Dependent Non-Medicare Eligible	\$506.00
Surviving Spouse – Medicare Eligible and Dependent Medicare Eligible	\$475.00

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

Notes to the Financial Statements
For the Year Ended September 30, 2013

The Board is required to contribute at a rate specified by the State for each active employee. The Board's share of premiums for retired Board employees health insurance is included as part of the premium for active employees. The following shows the required contributions in dollars and the percentage of that amount contributed for Board retirees:

Fiscal Year Ended September 30,	Active Health Insurance Premiums Paid by Board	Amount of Premium Attributable to Retirees	Percentage of Active Employee Premiums Attributable to Retirees	Total Amount Paid Attributable to Retirees	Percentage of Required Amount Contributed
2013	\$714.00	\$216.90	30.38%	\$2,593,310.26	100%
2012	\$714.00	\$228.85	32.05%	\$2,718,931.99	100%
2011	\$752.00	\$198.94	26.45%	\$2,468,683.49	100%

Each year the PEEHIB certifies to the Governor and to the Legislature the contribution rates based on the amount needed to fund coverage for benefits for the following fiscal year and the Legislature sets the premium rate in the annual appropriation bill. This results in a pay-as-you-go funding method.

Note 8 – Short-Term Debt

During the year, the Local Schools borrowed money for various projects and equipment purchases. Short-term debt activity for the year ended September 30, 2013, was as follows:

	Beginning Balance	Proceeds	Repaid	Ending Balance
Notes Payable	\$166,823.25	\$	\$54,033.32	\$112,789.93

Note 9 – Long-Term Debt

The Board issued \$3,780,000.00 in Capital Outlay School Refunding Warrants, Series 2010, dated May 1, 2010 to currently refund and redeem the Board's outstanding Capital Outlay School Warrants, Series 1998. Interest rates for the various scheduled maturities range from 2.0% to 3.25%. Payments on the Series 2010 warrants are made by the debt service fund with local taxes.

Notes to the Financial Statements
For the Year Ended September 30, 2013

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

	Debt Outstanding October 1, 2012	Issued/ Increased	Repaid/ Decreased	Debt Outstanding September 30, 2013	Amounts Due Within One Year
Capital Outlay School Warrants Series 2010	\$3,285,000.00	\$	\$375,000.00	\$2,910,000.00	\$380,000.00
Deferred Loss on Refunding	(66,650.64)		(66,650.64)		
Totals	<u>\$3,218,349.36</u>	<u>\$</u>	<u>\$308,349.36</u>	<u>\$2,910,000.00</u>	<u>\$380,000.00</u>

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

Fiscal Year Ending	Capital Outlay School Refunding Warrants Series 2010		Total Principal and Interest Requirements to Maturity
	Principal	Interest	
September 30, 2014	\$ 380,000.00	\$ 74,512.50	\$ 454,512.50
2015	385,000.00	66,862.50	451,862.50
2016	400,000.00	58,012.50	458,012.50
2017	415,000.00	47,306.25	462,306.25
2018	430,000.00	35,150.00	465,150.00
2019-2020	900,000.00	29,300.00	929,300.00
Totals	<u>\$2,910,000.00</u>	<u>\$311,143.75</u>	<u>\$3,221,143.75</u>

Pledged Revenues

The Board issued Series 2010 Tax Anticipation Warrants which are pledged to be repaid from the proceeds of a special sales tax levied by the Lauderdale County Commission pursuant to the provisions of Act Number 548, Acts of Alabama 1975. The warrant proceeds were used to refund the Series 1998 warrants. Future revenues in the amount of \$3,221,143.75 are pledged to repay the principal and interest on the warrants at September 30, 2013. Proceeds from the special sales tax in an amount of \$4,304,534.12 were received by the Board during the fiscal year ended September 30, 2013, of which \$457,062.50 was used to pay principal and interest on the warrants. The Series 2010 Tax Anticipation Warrants will mature in fiscal year 2020.

Notes to the Financial Statements
For the Year Ended September 30, 2013

Bond Issuance Costs, Deferred Charges on Refunding

The Board had bond issuance costs and deferred charges on refunding in connection with the issuance of its Series 2010 Warrants which were being amortized using the straight-line method over a period of 10 years.

	Issuance Costs	Deferred Amounts on Refunding
Total Issuance Costs and Deferred Amounts on Refunding	\$103,990.66	\$88,867.53
Amortized Previous Years	25,997.65	22,216.89
Balance Issuance Costs and Deferred Amounts on Refunding	77,993.01	66,650.64
Amount Amortized Current Year	77,993.01	66,650.64
Balance Issuance Costs and Deferred Amounts on Refunding	<u>\$</u>	<u>\$</u>

Note 10 – Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board has insurance for its buildings and contents through the State Insurance Fund (SIF) part of the State of Alabama, Department of Finance, Division of Risk Management, which operates as a common risk management and insurance program for state owned properties and county boards of education. The Board pays an annual premium based on the amount of coverage requested. The SIF is self-insured up to \$3.5 million per occurrence and purchases commercial insurance for claims in excess of \$3.5 million. Errors and omissions insurance is purchased from the Alabama Risk Management for Schools (ARMS), a public entity risk pool. The ARMS collects the premiums and purchases excess insurance for any amount of coverage requested by pool participants in excess of the coverage provided by the pool. Automobile insurance is purchased from a local carrier. Employee health insurance is provided through the Public Education Employees' Health Insurance Fund (PEEHIF), administered by the Public Education Employees' Health Insurance Board (PEEHIB). The Fund was established to provide a uniform plan of health insurance for current and retired employees of state educational institutions and is self-sustaining. Monthly premiums for employee and dependent coverage are determined annually by the plan's actuary and are based on anticipated claims in the upcoming year, considering any remaining fund balance on hand available for claims. The Board contributes a specified amount monthly to the PEEHIF for each employee of state educational institutions. The Board's contribution is applied against the employees' premiums for the coverage selected and the employee pays any remaining premium.

Notes to the Financial Statements
For the Year Ended September 30, 2013

Settled claims resulting from these risks have not exceeded the Board's coverage in any of the past three fiscal years.

The Board does not have insurance coverage of job-related injuries. Board employees who are injured while on the job are entitled to salary and fringe benefits of up to ninety working days in accordance with the *Code of Alabama 1975*, Section 16-1-18.1(d). Any unreimbursed medical expenses and costs which the employee incurs as a result of an on-the-job injury may be filed for reimbursement with the State Board of Adjustment.

Note 11 – Interfund Transfers

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

	Transfers Out		Totals
	General Fund	Special Revenue Fund	
Transfers In:			
General Fund	\$	\$219,368.53	\$ 219,368.53
Special Revenue Fund	1,761,038.29	500.00	1,761,538.29
Totals	\$1,761,038.29	\$219,868.53	\$1,980,906.82

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

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Required Supplementary Information

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended September 30, 2013***

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>
	<u>Original</u>	<u>Final</u>	
<u>Revenues</u>			
State	\$ 45,448,152.00	\$ 45,496,527.53	\$ 45,910,671.93
Federal			158,263.02
Local	12,844,761.17	12,844,761.17	13,290,406.63
Other			414,569.27
Total Revenues	<u>58,292,913.17</u>	<u>58,341,288.70</u>	<u>59,773,910.85</u>
<u>Expenditures</u>			
Current:			
Instruction	37,643,113.21	37,667,776.21	37,472,879.49
Instructional Support	8,156,121.05	8,179,833.58	8,979,894.61
Operation and Maintenance	4,836,234.87	4,836,234.87	5,108,959.69
Auxiliary Services:			
Student Transportation	3,669,262.75	3,669,262.75	3,765,760.24
General Administration and Central Support	2,382,350.89	2,382,350.89	2,100,011.47
Other	319,681.23	319,681.23	335,180.65
Capital Outlay			96,640.00
Total Expenditures	<u>57,006,764.00</u>	<u>57,055,139.53</u>	<u>57,859,326.15</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,286,149.17</u>	<u>1,286,149.17</u>	<u>1,914,584.70</u>
<u>Other Financing Sources (Uses)</u>			
Indirect Cost	100,195.92	100,195.92	96,609.69
Transfers In	332,300.08	332,300.08	219,368.53
Sale of Capital Assets			202,471.50
Transfers Out	(1,793,610.37)	(1,793,610.37)	(1,761,038.29)
Total Other Financing Sources (Uses)	<u>(1,361,114.37)</u>	<u>(1,361,114.37)</u>	<u>(1,242,588.57)</u>
Net Change in Fund Balances	(74,965.20)	(74,965.20)	671,996.13
Fund Balances - Beginning of Year	<u>11,998,721.06</u>	<u>13,696,684.07</u>	<u>13,696,684.07</u>
Fund Balances - End of Year	<u>\$ 11,923,755.86</u>	<u>\$ 13,621,718.87</u>	<u>\$ 14,368,680.20</u>

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	\$	\$ 45,910,671.93
		158,263.02
		13,290,406.63
		414,569.27
		<u>59,773,910.85</u>
(1)	(197,584.70)	37,670,464.19
(1)	(18,813.24)	8,998,707.85
(1)	(162.95)	5,109,122.64
(1)	(17,380.11)	3,783,140.35
(1)	(3,595.93)	2,103,607.40
(1)	(9,742.03)	344,922.68
		96,640.00
	<u>(247,278.96)</u>	<u>58,106,605.11</u>
	<u>(247,278.96)</u>	<u>1,667,305.74</u>
		96,609.69
		219,368.53
		202,471.50
		<u>(1,761,038.29)</u>
		<u>(1,242,588.57)</u>
	(247,278.96)	424,717.17
(2)	<u>(4,221,794.13)</u>	<u>9,474,889.94</u>
	<u>\$ (4,469,073.09)</u>	<u>\$ 9,899,607.11</u>

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended September 30, 2013***

Explanation of Differences between Actual Amounts on Budgetary Basis and Actual Amounts GAAP Basis:

- (1) Salaries of Teachers and other personnel with contracts of less than 12 months are paid over a 12 month period. Expenditures for salaries (and related fringe benefits) are budgeted based on the amount that will be paid from the budgeted revenues. However, salaries (and related benefits) earned but not paid are reported as expenditures on the financial statements.

Net Decrease in Fund Balance - Budget to GAAP

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

\$ (247,278.96)

\$ (247,278.96)

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Special Revenue Fund
For the Year Ended September 30, 2013***

	Budgeted Amounts		Actual Amounts Budgetary Basis
	Original	Final	
Revenues			
Federal	\$ 6,255,385.14	\$ 7,001,475.93	\$ 6,523,637.26
Local	5,658,882.71	5,658,882.71	5,686,499.61
Other	280,687.53	280,687.53	128,705.02
Total Revenues	12,194,955.38	12,941,046.17	12,338,841.89
Expenditures			
Current:			
Instruction	4,861,382.86	5,357,648.87	5,070,923.01
Instructional Support	1,210,197.93	1,349,951.27	1,284,600.71
Operation and Maintenance	525,797.99	525,797.99	503,618.88
Auxiliary Services:			
Student Transportation	109,119.26	121,068.44	46,779.32
Food Service	4,749,995.86	4,749,995.86	4,931,259.30
General Administration and Central Support	138,557.12	153,120.12	164,726.11
Other	966,707.53	1,050,266.79	940,486.10
Capital Outlay			297,539.75
Debt Service:			
Principal Retirement	64,650.62	64,650.62	
Interest and Fiscal Charges	10,037.49	10,037.49	
Total Expenditures	12,636,446.66	13,382,537.45	13,239,933.18
Excess (Deficiency) of Revenues Over Expenditures	(441,491.28)	(441,491.28)	(901,091.29)
Other Financing Sources (Uses)			
Transfers In	1,714,623.46	1,714,623.46	1,761,538.29
Transfers Out	(253,313.17)	(253,313.17)	(219,868.53)
Other Fund Uses	(19,227.49)	(19,227.49)	
Total Other Financing Sources (Uses)	1,442,082.80	1,442,082.80	1,541,669.76
Net Change in Fund Balances	1,000,591.52	1,000,591.52	640,578.47
Fund Balances - Beginning of Year	3,543,083.15	3,540,139.77	3,229,006.37
Fund Balances - End of Year	\$ 4,543,674.67	\$ 4,540,731.29	\$ 3,869,584.84

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	\$	\$ 6,523,637.26
		5,686,499.61
		128,705.02
		<u>12,338,841.89</u>
		5,070,923.01
		1,284,600.71
		503,618.88
		46,779.32
(1)	3,140.40	4,928,118.90
		164,726.11
		940,486.10
		297,539.75
	<u>3,140.40</u>	<u>13,236,792.78</u>
	<u>3,140.40</u>	<u>(897,950.89)</u>
		1,761,538.29
		(219,868.53)
		<u>1,541,669.76</u>
	3,140.40	643,718.87
(2)	<u>(133,276.61)</u>	<u>3,095,729.76</u>
	<u>\$ (130,136.21)</u>	<u>\$ 3,739,448.63</u>

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Special Revenue Fund
For the Year Ended September 30, 2013***

Explanation of Differences between Actual Amounts on Budgetary Basis and Actual Amounts GAAP Basis:

- (1) Salaries of Teachers and other personnel with contracts of less than 12 months are paid over a 12 month period. Expenditures for salaries (and related fringe benefits) are budgeted based on the amount that will be paid from the budgeted revenues. However, salaries (and related benefits) earned but not paid are reported as expenditures on the financial statements.

Net Increase in Fund Balance - Budget to GAAP

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

\$ 3,140.40

\$ 3,140.40

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Supplementary Information

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2013***

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
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**U. S. Department of Agriculture
Passed Through Alabama Department Education**

Child Nutrition Cluster:		
National School Lunch Program:		
Cash Assistance	10.555	N/A
Non-Cash Assistance (Commodities)	10.555	N/A
Sub-Total National School Lunch Program		
School Breakfast Program - Cash Assistance	10.553	N/A
Total U. S. Department of Agriculture		

**U. S. Department of the Interior
Passed Through the Lauderdale County Commission**

Payments in Lieu of Taxes	15.226	N/A
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**U. S. Department of Education
Passed Through Alabama Department of Education**

Title I Grants to Local Educational Agencies (M)	84.010	N/A
Special Education Cluster:		
Special Education - Grants to States	84.027	N/A
Special Education - Preschool Grants	84.173	N/A
Sub-Total Special Education Cluster (M)		
Career and Technical Education - Basic Grants to States	84.048	N/A
Education for Homeless Children and Youth	84.196	N/A
Improving Teacher Quality State Grants (M)	84.367	N/A
Total U. S. Department of Education		

**Social Security Administration
Passed Through Alabama Department of Education**

Social Security-Disability Insurance	96.001	N/A
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Total Expenditures of Federal Awards

(M) = Major Program

N/A = Not Applicable or Not Available

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

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
10/01/2012-09/30/2013	\$ 1,788,878.36	\$ 1,788,878.36	\$ 1,788,878.36	\$ 1,788,878.36
10/01/2012-09/30/2013	283,688.17	283,688.17	283,688.17	283,688.17
	<u>2,072,566.53</u>	<u>2,072,566.53</u>	<u>2,072,566.53</u>	<u>2,072,566.53</u>
10/01/2012-09/30/2013	453,660.81	453,660.81	453,660.81	453,660.81
	<u>2,526,227.34</u>	<u>2,526,227.34</u>	<u>2,526,227.34</u>	<u>2,526,227.34</u>
10/01/2012-09/30/2013	1,625.50	1,625.50	1,625.50	1,625.50
10/01/2012-09/30/2013	1,916,370.17	1,916,370.17	1,693,259.22	1,693,259.22
10/01/2012-09/30/2013	2,357,725.71	2,357,725.71	2,014,386.31	2,014,386.31
10/01/2012-09/30/2013	30,581.00	30,581.00	30,581.00	30,581.00
	<u>2,388,306.71</u>	<u>2,388,306.71</u>	<u>2,044,967.31</u>	<u>2,044,967.31</u>
10/01/2012-09/30/2013	92,935.00	92,935.00	92,935.00	92,935.00
10/01/2012-09/30/2013	10,000.00	10,000.00	10,000.00	10,000.00
10/01/2012-09/30/2013	310,025.91	310,025.91	310,025.91	310,025.91
	<u>4,717,637.79</u>	<u>4,717,637.79</u>	<u>4,151,187.44</u>	<u>4,151,187.44</u>
10/01/2012-09/30/2013	2,360.00	2,360.00	2,360.00	2,360.00
	<u>\$ 7,247,850.63</u>	<u>\$ 7,247,850.63</u>	<u>\$ 6,681,400.28</u>	<u>\$ 6,681,400.28</u>

***Notes to the Schedule of Expenditures
of Federal Awards
For the 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 Lauderdale County Board of Education and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

Additional Information

Board Members and Administrative Personnel
October 1, 2012 through September 30, 2013

Board Members		Term Expires
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Hon. Chad Holden	Chairman	2016
Hon. Barbara Cornelius	Vice-Chairman	2016
Hon. Dan Beavers	Member	2014
Hon. Jerry Fulmer	Member	2018
Hon. Daniel Patterson	Member	2016
Hon. Ralph Thompson	Member	2012

Administrative Personnel

Mrs. Jennifer Gray	Superintendent	2016
Mr. William Valentine	Superintendent	2012
Mr. Larry L. Vance, CPA	Chief School Financial Officer	Indefinite

***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***

Independent Auditor's Report

To: Members of the Lauderdale County Board of Education, Superintendent and Chief School Financial Officer

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards*** issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lauderdale County 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 July 25, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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 over financial reporting that might be material weakness 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.

***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***

Compliance and Other Matters

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

Purpose of this Report

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



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

Montgomery, Alabama

July 25, 2014

***Report on Compliance for Each Major Federal Program and
Report on Internal Control Over Compliance Required by
OMB Circular A-133***

Independent Auditor's Report

To: Members of the Lauderdale County Board of Education, Superintendent and Chief School Financial Officer

Report on Compliance for Each Major Federal Program

We have audited the Lauderdale County 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 Examiner's Results Section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's 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 a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Board's compliance.

***Report on Compliance for Each Major Federal Program and
Report on Internal Control Over Compliance Required by
OMB Circular A-133***

Opinion on Each Major Federal Program

In our opinion, the Board complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 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 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 the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be 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.

***Report on Compliance for Each Major Federal Program and
Report on Internal Control Over Compliance Required by
OMB Circular A-133***

The purpose of this report on internal control over compliance is solely to describe the scope of our testing on 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.



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

Montgomery, Alabama

July 25, 2014

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2013

Section I – Summary of Examiner's Results

Financial Statements

Type of opinion 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 Section 510(a) of OMB Circular A-133? _____ Yes X No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.010	Title I Grants to Local Educational Agencies
84.027 and 84.173	Special Education Cluster
84.367	Improving Teacher Quality State Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000.00

Auditee qualified as low-risk auditee? _____ Yes X No

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2013

Section II – Financial Statement Findings (GAGAS)

Ref. No.	Type of Finding	Finding/Noncompliance	Questioned Costs
		No matters were reportable.	

Section III – Federal Awards Findings and Questioned Costs

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
			No matters were reportable.	