Report on the

Marion County
Board of Education

Marion County, Alabama

October 1, 2013 through September 30, 2014

Filed: September 4, 2015

Department of
Examiners of Public Accounts

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Ronald L. Jones, Chief Examiner

15-470

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Ronald L. Jones
Chief Examiner

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 Marion County Board of Education, Marion County, Alabama, for the period October 1, 2013 through September 30, 2014.

Respectfully submitted,

Laremy McNeill

Laremy McNeill
Examiner of Public Accounts

Sworn to and subscribed before me this
the 29 day of July, 2015.

Donna M. Berry
Notary Public 7-20-19

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SUMMARY

Marion County Board of Education
October 1, 2013 through September 30, 2014

The Marion County Board of Education (the “Board”) is governed by a five-member body elected by the citizens of Marion County. The members and administrative personnel in charge of governance of the Board are listed in Exhibit 12. The Board is the governmental agency that provides general administration and supervision for Marion County public schools, preschool through high school, with the exception of schools administered by the Winfield 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, 2014.

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 results of this report: Ryan Hollingsworth, Superintendent; Clint Green, Chief School Finance Officer; and Board Members: Rodney Fleming, L. C. Fowler, Belinda McRae, Jim Atkinson, and Beverly Burleson. The following individuals attended the exit conference, held at the offices of the Marion County Board of Education: Ryan Hollingsworth, Superintendent, and Clint Green, Chief School Finance Officer. Also in attendance were representatives of the Department of Examiners of Public Accounts: Robin Lakey, Audit Manager and Laremy McNeill, Examiner.

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Independent Auditor’s Report

Independent Auditor's Report

To: Members of the Marion 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 Marion County Board of Education, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Marion 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 Marion 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.

<u>Opinions</u>

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 Marion County Board of Education, as of September 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

<u>Emphasis of Matter</u>

As discussed in Note 13 to the financial statements, during the fiscal year ended September 30, 2014, the Marion County Board of Education adopted Governmental Accounting Standards Board (GASB) Statement Number 65, ***Items Previously Reported as Assets and Liabilities***. Our opinion is not modified with respect to this matter.

<u>Other Matters</u>

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying 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 Marion County Board of Education's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 11), as required by U. S. Office of Management and Budget Circular A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***, is presented for the purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with ***Government Auditing Standards***, we have also issued our report dated July 24, 2015, on our consideration of the Marion 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 Marion 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 24, 2015

Management's Discussion and Analysis
(Required Supplementary Information)

Marion County Board of Education
Management's Discussion and Analysis (MD&A)
September 30, 2014
(Required Supplementary Information)

Introduction

The Management's Discussion and Analysis (MD&A) of the Marion 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, 2014. The MD&A is intended to further clarify and enhance the user's understanding of the Board's financial performance as a whole. Please use it in conjunction with the Board's financial statements and notes to the financial statements, which immediately follow this analysis.

The MD&A is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999. This MD&A includes prior year comparative information as required by GASB Statement No.34.

User's Overview of the Financial Statements

The financial section of the Board's annual report consists of the Management's Discussion and Analysis (MD&A), the Independent Auditor's Report, the Basic Financial Statements, Required Supplementary Information, and Other Supplementary Information.

This discussion and analysis serves as an introduction to the Board's basic financial statements which are comprised of three components including, *government-wide financial statements*, *fund financial statements*, and *notes to the basic financial statements*.

The first two statements are *government-wide financial statements*. The *Statement of Net Position* and the *Statement of Activities* provide both long-term and short-term information about the Board's overall financial status. These statements report all assets and liabilities 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. This approach moves the financial reporting of the Board closer to the financial reporting methods used in the private sector.

The **Statement of Net Position** (Exhibit 1) presents information on all of the Board's assets (what it owns) and deferred outflows of resources less liabilities (what it owes) and deferred inflows of resources, which results in net position. The net position reported in this statement represents the accumulation of changes in net position for the current fiscal year and all fiscal years in the past combined. Over time, the increases and decreases in net position reported in this statement may serve as a useful indicator of whether the Board's financial position is improving or deteriorating.

The **Statement of Activities** (Exhibit 2) is most clearly related to an income statement. The statement uses the accrual basis of accounting where revenues and expenses are reported regardless of the timing of when cash is received or paid. The statement identifies the extent to which each expenditure function draws from general revenues of the Board, primarily local taxes, or is financed through charges for services, such as meals sold, and intergovernmental aid, such as federal, state, and municipal appropriations. 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 fund financial statements provide more detailed information about the Marion County Board of Education's most significant funds, not the Board as a whole. A fund is a grouping of related accounts that is used to keep track of specific sources of funding and spending for particular purposes. The Board uses fund accounting to ensure and demonstrate fiscal accountability. All of the funds of the Board can be classified into two categories: governmental funds and fiduciary funds.

Governmental funds statements report most of the Board's activities and focus on how money flows into and out of those funds and the expendable balances left at the end of the year. The governmental funds statements include the **Balance Sheet – Governmental Funds** (Exhibit 3) and the **Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds** (Exhibit 5). These statements are reported using the modified accrual method which measures cash and all other financial assets that can readily be converted into cash. The governmental fund statements provide a detailed short-term view that helps the user determine whether there are more or less financial resources that can be spent in the near future to finance the Board's programs. Because this information does not encompass the additional long-term focus of the government–wide statements, we provide additional information that reconciles them (Exhibit 4 and Exhibit 6).

The fiduciary funds statements include the **Statement of Fiduciary Net Position** (Exhibit 7) and the **Statement of Changes in Fiduciary Net Position** (Exhibit 8). These statements report on the activities of those funds in which the Marion County Board of Education serves only as a trustee or fiduciary. These funds are not available to the Board to finance its operations, and therefore, are 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 purpose. As exhibits 7 and 8 demonstrate, the activity is extremely small and attributed to the *Edward L. Pearce Scholarship Fund for Marion County High School* and the *Ann Ruble Needy Children Fund*.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements follow the basic financial statements and should be considered an integral part of the statements, not an appendage to them.

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

Financial Analysis of the Board as a Whole

The Marion County Board of Education has no business-type activities, therefore, all of the Board's net position is reported as Governmental Activities.

Marion County Board of Education
Net Position

	Governmental Activities	
	FY 2013	FY 2014
Current and other assets	$12,205,961.24	$13,310,520.21
Capital Assets	$19,000,978.72	$30,340,216.53
Total Assets	$31,206,939.96	$43,650,736.74
Deferred Outflows of Resources		$ 1,991.29
Current and other liabilities	$ 3,942,582.94	$ 2,242,927.08
Long-term liabilities	$ 2,018,311.00	$ 1,640,998.29
Total Liabilities	$ 5,960,893.94	$ 3,883,925.37
Deferred Inflows of Resources		$ 1,758,032.16
Net Position:		
Net investment in capital assets	$16,982,667.72	$28,701,209.53
Restricted	$ 2,442,496.15	$ 2,972,587.66
Non-restricted	$ 5,820,882.15	$ 6,336,973.31
Total Net Position	$25,246,046.02	$38,010,770.50

The Marion County Board of Education's assets exceeded liabilities by $38,010,770.50 at the close of the fiscal year. The majority of the Board's net assets are invested in capital assets (land, buildings, buses, and equipment) owned by the Board. These assets are not available for future expenditures since they will not be sold in the foreseeable future. Unrestricted net position is the part of net position that can be used to finance day-to-day operations without constraints established by enabling legislation, debt covenants, or other legal requirements. At the end of the fiscal year, unrestricted net position was $6,336,973.31.

The Marion County Board of Education's total revenues and expenditures are reflected in the following chart:

Marion County Board of Education
Changes in Net Position

	Governmental Activities FY 2013	FY 2014
Revenues		
Program Revenues:		
Charges for services	$ 2,933,248.38	$ 3,135,010.14
Operating grants and contributions	$22,532,533.80	$22,463,910.11
Capital grants and contributions	$ 1,163,335.04	$ 7,158,936.35
General Revenues:		
Property taxes	$ 1,842,174.92	$ 2,102,350.35
Sales tax	$ 1,436,919.21	$ 1,449,933.25
Miscellaneous taxes	$ 150,488.15	$ 130,123.84
Non-restricted grants and contributions	$ 158,198.07	$ 154,615.55
Interest	$ 483,185.08	$ 63,478.44
Miscellaneous	$ 2,687,286.23	$ 1,216,122.70
Extraordinary Item:		
Insurance Proceeds	$ 0.00	$ 6,926,631.54
Total Revenues and Extraordinary items	$33,387,368.88	$44,801,112.27
Expenses		
Instructional services	$17,695,241.80	$19,108,791.91
Instructional support services	$ 4,174,862.38	$ 4,181,012.42
Operations & maintenance services	$ 2,113,175.34	$ 2,296,651.72
Student transportation services	$ 2,126,515.96	$ 2,232,372.67
Food services	$ 2,176,782.75	$ 2,172,350.70
General administrative services	$ 1,015,913.06	$ 1,036,085.74
Other expenses	$ 1,689,666.94	$ 951,565.99
Interest and fiscal charges	$ 59,024.90	$ 57,556.64
Total expenses	$31,051,183.13	$32,036,387.79
Change in net position	$ 2,336,185.75	$12,764,724.48
Net position, beginning	$22,909,860.27	$25,246,046.02
Net position, ending	$25,246,046.02	$38,010,770.50

Program revenues are the largest component of total revenues (73%).

- Charges for services include USDA reimbursements for meals served; lunch, breakfast and À la carte sales; and local school revenues.
- Operating grants and contributions contribute 69% of program revenues and 50% of total revenues. The major sources of revenues in this category are State Foundation Program funds, State Transportation Operations funds, and State and Federal funds restricted for specific programs.
- Capital grants and contributions include State Capital Outlay funds, and State Fleet Renewal funds.

General revenues of $5,116,624.13 consist mainly of local property taxes and sales taxes and are used to cover expenses not covered by program revenues

Instructional services, primarily salaries and benefits for classroom teachers, are the largest expenditure function of the Board representing 60% of total expenditures.

- In addition to teacher salaries and benefits, instructional services include teacher aides, substitute teachers, textbooks, depreciation of instructional buildings, and classroom instructional materials, supplies, and equipment.
- Instructional support services include salaries and benefits for school principals, assistant principals, librarians, counselors, school secretaries, school bookkeepers, speech therapists, nurses, and professional development expenses.
- Operation and maintenance services include utilities, security services, janitorial services, maintenance services, and depreciation of maintenance vehicles.
- In addition to bus driver salaries and benefits, student transportation services include mechanics, bus aides, vehicle maintenance and repair expenses, tires, vehicle fuel, depreciation of buses and bus shops, and fleet insurance.
- Food services include salaries and benefits for cooks, servers, lunchroom assistant managers, and managers, as well as USDA donated and purchased food, food preparation and service supplies, kitchen and lunchroom equipment and maintenance, and depreciation of equipment and facilities.
- General administrative services include salaries and benefits for the superintendent, supervisory staff, 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.
- Debt service includes interest and principal payments on long-term debt issues and other expenses related to the issuance and continuance of debt issues.
- Other expenses include the salaries and benefits for adult and continuing education programs, preschool teachers and aides, extended day personnel, and community education programs. Also included are the materials, supplies, equipment, related depreciation, and other expenses for operating programs outside of those for educating students in kindergarten through the twelfth grade.

Financial Analysis 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 contained in exhibits 3 through 8.

Governmental Funds – The focus of the Board's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Board's financial requirements. 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 Marion County Board of Education's governmental funds reported combined ending fund balances of $9,309,560.97.

General Fund – The General Fund is the primary operating fund of the Board. During Fiscal Year 2014, expenditures in the General Fund exceeded revenues by $6,416,468.53. The excess of expenditures over revenues was almost entirely due to the construction of the new school at Hackleburg. As construction continued in earnest during the year, the cash on hand from insurance proceeds received in FY2013 from the Alabama Department of Finance - Risk Management Section (Risk Management) were expended. An additional $6,926,631.54 in insurance proceeds were received from Risk Management during FY2014 and classified as an Extraordinary Item. By the end of the fiscal year all but $458,569.53 of those proceeds had been expended on construction of the new school with the balance being held to cover a classroom furniture contract expected to be completed by the end of FY2015. The net effect of Other Financing Sources on the General Fund was a negative offset to the fund balance in the amount of $75,810.74, due to normal business operations including, among other items, a State mandated transfer to the Child Nutrition Program of $423,337.10 and the receipt of Indirect Cost charges to Federal Programs of $124,066.37. After netting Other Financing Sources and Extraordinary Items with the results of normal operations, the General Fund balance increased by $434,352.27 from the previous fiscal year.

Special Revenue Fund **-** This fund accounts for all transactions related to Federal programs including the Child Nutrition Program as well as both public and non-public local school expenditures. Instruction and Instructional support expenditures are primarily driven by the Special Education and Title I programs and include salaries and benefits for both teachers and aides, as well as, materials, equipment, and professional development costs. Food Service expenditures include all costs associated with the preparation of student meals with the exception of lunchroom building repairs and construction. Capital Outlay expenditures from the Special Revenue Fund included the purchase of a new "cook hold" oven at the Phillips lunchroom ($7,265.00), a new commercial lawnmower at Hamilton Elementary ($6,799.00) and FEMA expenditures for the construction of the new Hackleburg campus ($644,541.43). FY2014 Special Revenue Fund expenditures exceeded program revenues by $240,127.32. This deficiency was mostly offset by the net Other Financing Sources which included a General Fund transfer of $423,337.10 to cover CNP payroll fringe benefits and raises as mandated by the State. The net effect of operations and Other Financing Sources was to decrease the Special Revenue fund balance by $6,458.62.

Capital Projects Fund – The Capital Projects Fund is used to account for the proceeds received from the State and mandated local tax matching funds for the acquisition or construction of major capital facilities and equipment or to service related capital asset debt. While the Capital Projects Fund included some minor expenditures for routine building maintenance, garbage removal services, and diesel fuel as allowed under the State Department of Education's flexible spending guidelines, almost all of the activity in the fund was due to the construction of the new school at Hackleburg. The Governor appropriated $5,350,000.00 for the Hackleburg project during FY2014 which represented 74% of total revenues in the Capital Projects Fund. Hackleburg construction expenditures of $5,296,659.06 made up 80% of total expenditures from the Capital Projects Fund.

Capital Asset and Debt Administration

Capital Assets – As of September 30, 2014 the Marion County Board of Education had invested $30,340,216.53 in a broad range of capital assets. Capital Assets are any land, buildings, school furniture or fixtures, buses, instructional equipment, computer equipment, vehicles, custodial equipment, lunchroom equipment and athletic equipment with an acquisition cost of $5,000.00 or more and a life expectancy exceeding one year. The following table provides additional information of the Board's capital assets.

Marion County Board of Education
Capital Assets
Fiscal Year Ended September 30, 2014

	FY2013	FY2014
Land	$ 411,148.00	$ 411,148.00
Land Improvements	$ 443,931.90	$ 443,931.90
Construction in Progress	$ 5,469,178.54	$17,790,931.40
Buildings and Building Improvements	$23,666,713.37	$23,656,713.37
Vehicles, Equipment and Furniture	$ 5,256,208.38	$ 5,288,135.47
Less: Accumulated Depreciation	($16,246,201.47)	($17,250,643.61)
Total Capital Assets, Net of Depreciation	$19,000,978.72	$30,340,216.53

Because of the long term capital project at Hackleburg, no new projects were started during the year. Highlights from FY2014 include the following projects:

- The bus shop at Brilliant was condemned and demolished for safety reasons. The fully depreciated salvage value of $10,000.00 was written off and is reflected in the Buildings and Building Improvements section.
- The Board purchased a new commercial lawnmower for Marion County High School for $6,538.09 in an internal zero percent financing arrangement with the school whereby monthly payments are made to the Board to avoid external financing interest charges to the school.
- A new high resolution multi camera security system was installed at the Marion County Alternative School for $11,325.00.
- The new school at Hackleburg was fully under construction at the end of the fiscal year. Construction costs of $12,321,752.86 were paid in FY2014 bringing the project's cost to date to $17,790,931.40. Completion of the project is expected to occur during FY2015 with a final cost of just over $24,000,000.00.

Long Term Debt – At year end, the Marion County Board of Education had $1,640,998.29 in long-term debt. The Board's long term debt consists of a 2007 ten-year local bus loan that was modified during FY2013 to reflect a lower interest rate, and three leveraged refunding pooled bond issues made through the State in 2009, 2011, and 2012. The leveraged refunding bonds issued by the State in 2009 and 2011 were for refinancing of the 2001-A leveraged pool bonds. The leveraged refunding bonds issued by the State in 2012 were for refinancing of the 2002-A leveraged pool bonds. All leveraged bonds are managed by the State of Alabama and payments are made through an annual retaining of State Capital Outlay funding computed and withheld by the State Department of Education.

Marion County Board of Education
Long-Term Debt
Fiscal Year Ended September 30, 2014

Description	FY 2013 Debt outstanding	FY 2014 Debt outstanding	Due within within one year
2009B Refunding Pool Bonds*	$ 52,387.29	$ 44,497.51	$ 10,897.31
2011B Refunding Pool Bonds	$ 36,260.00	$ 36,260.00	$ 0.00
2012A Refunding Pool Bonds	$ 636,036.43	$ 581,036.56	$ 57,170.36
Long-Term Notes **	$1,293,627.28	$ 979,204.22	$ 320,659.12
Total	$2,018,311.00	$1,640,998.29	$ 388,726.79

* Net of all premiums and deferred losses associated with issuance.

** Long-Term Notes includes a 10 year 3.89% fixed rate loan issued by First National Bank of Hamilton, AL, for school bus fleet replacement that was modified in FY2013 to reflect a rate of 1.89% going forward in lieu of refinancing.

Budgetary Highlights

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 original 2014 fiscal year budget was adopted by the Marion County Board of Education on September 11, 2013 and the amended budget was approved by the Board on November 20, 2013. Generally, a conservative approach is taken toward planning operating revenues. Local tax trends are studied and the state of the local economy is used in the budgeting of local revenues. Expenses are conservatively budgeted based on minimum program requirements and the availability of federal, state, and local revenues.

The General Fund original budget was amended very slightly during the fiscal year. Expected State revenues were revised upward 2.5% from the original budget. This increase was due to the Board receiving a large Career Tech Grant from the State after the original budget had been submitted. Actual State revenues came in just under the final budgeted amount due to the reimbursement nature of the multi-year grant of which only a small portion had been expended by the end of FY2014. Budgeted Local revenues in the General Fund were amended during the year to reflect funds that were previously held in reserve by the Medicaid Outreach program being received by the Board. The Other revenues amendment was for e-Rate reimbursements received late in the year. A combination of overly conservative budgeting and the economy remaining healthy resulted in actual local revenues coming in 19% above the revised estimate. The budget for Instructional expenditures was revised upward nearly 5% in anticipation of the above mentioned multi-year Career Tech Grant but actual expenditures did not materialize by the end of the fiscal year. The General Fund expenditure budget for Operations and Maintenance was revised upward for a parking lot at Marion County High School and revised electricity cost estimates. Actual expenditures were 9% over final estimates due in part to utility costs being higher than the revised estimate. The largest disparity between original budgeted expenditures and actual expenditures in the General Fund came in the area of Capital Outlay. A large expenditure for construction at Hackleburg was planned in the initial FY2014 budget from insurance proceeds in the General Fund. By the end of the year the budget was amended to reflect an expectation that insurance proceeds would be supplemented by an appropriation from the Governor through the Capital Outlay Fund.

Weather delays caused the project completion date to be extended into FY2015 and actual expenditures were in line with the lower revised budget. The reduction in expected insurance proceeds in lieu of a State appropriation is also reflected in the difference between the budget and actual for Other Financing Sources.

The Special Revenue Fund original budget was also amended during the year. Federal revenues were revised upward due to the fact that carry over funds from FY2013 had not been determined at the time the original budget was submitted. Actual Federal revenues in the Special Revenue Fund were much less than the amended budget due primarily to the timing of FEMA revenues resulting from the 2011 loss at Hackleburg. The budget for Special Revenue Fund expenditures was revised slightly during the year to reflect FY2013 carry over amounts that were not approved by the State at the time of the original budget. Actual expenditures were less than the revised budgeted expenditures reflecting the portion of FY2014 Federal allocations that were carried over to the next year. Food service actual expenditures were 12% lower than projections due to a large amount of commercial kitchen equipment for the new school at Hackleburg being budgeted but not expended by the end of the year. The largest discrepancy between budgeted and actual expenditures in the Special Revenue Fund came from the Capital Outlay portion of the budget. Federal Emergency Management Agency (FEMA) assistance on the Hackleburg project was originally expected to come during the FY2014 year and the original budget was planned at $4,600,000.00 and then later revised down to $4,000,000.00. Construction delays and negotiations between Risk Management and FEMA delayed federal assistance and Capital Outlay expenditures from the Special Revenue Fund were pushed into the next fiscal year. The total budget for Other Financing Sources in the Special Revenue Fund was amended upward by 42% during the year. Almost the entire increase was due to a revision of the proposed transfers to the Child Nutrition Program to comply with State guidelines. The original budget for Transfers In from the Board to the Child Nutrition Program were based on actual transfers from FY2013. Later in the year the budget was revised to reflect the formula mandated by the State Department of Education based on actual fringe benefits and raises. Actual Other Financing Sources results differed from budgeted amounts because the Board generally does not budget transfers inside and between local schools due to the immaterial nature of the transfers.

Economic Factors and Next Year's Budget

The following economic factors are of importance when looking forward to the Board's financial operations in Fiscal Year 2015.

- Employer matching retirement costs will be 11.71% of gross payroll next year for Tier 1 and 11.05% of gross payroll for Tier 2 employees.
- Employer paid health insurance costs will increase from $8,568 per qualified employee in FY2014 to $9,360.00 in FY2015.
- Average Daily Membership (ADM) is the main factor in determining State allocations for the following fiscal year. Attendance during the first twenty school days following the Labor Day holiday is averaged to determine the following year's funded ADM. Information from the State Department of Education indicates allocated classroom teacher units will increase for Marion County in FY2015 by .27 units.

Fiscal Year	Funded Student ADM	Change from Prior Year
1999	3,968.71	
2000	3,952.61	(16.10)
2001	3,868.17	(84.44)
2002	3,838.63	(29.54)
2003	3,831.99	(6.64)
2004	3,777.28	(54.71)
2005	3,668.98	(108.30)
2006	3,657.15	(11.83)
2007	3,717.45	+60.30
2008	3,707.30	(10.15)
2009	3,692.30	(15.00)
2010	3,747.00	+54.70
2011	3,645.40	(101.60)
2012	3,590.45	(54.95)
2013	3,524.05	(66.40)
2014	3,442.70	(81.35)
2015	3,437.15	(5.55)

- The second largest single source of local revenues, county sales tax, decreased from the previous year by $17,229.82. Collections were also slightly lower than FY2008, the high point prior to the recent recession. The slight decrease from FY2013 may only indicate a leveling off of the local economy instead of another downturn as evidenced by initial FY2015 collections available at the time of this report. The Board's financial condition is heavily affected by both the local and State economies.

Fiscal Year	Total Sales Tax Revenue *
1999	$1,370,380.45
2000	$1,341,337.67
2001	$1,250,505.52
2002	$1,170,061.22
2003	$1,010,132.21
2004	$1,141,541.10
2005	$1,280,184.95
2006	$1,380,895.84
2007	$1,391,390.87
2008	$1,439,755.52
2009	$1,301,356.14
2010	$1,251,938.91
2011	$1,318,736.30
2012	$1,371,464.26
2013	$1,443,381.37
2014	$1,426,151.55

(* Sales tax figures from Alabama Dept. of Education Supplemental Report 2)

- The ad valorem tax structure of Marion County changed in FY2014. Two of the three local ad valorem taxes, the 4 Mill County-Wide Tax and the 3 Mill District II Tax, expired at the end of FY2013. The Amendment 778 Ad Valorem Tax by default changed from 3 mills to 10 mills under state law when the other two taxes expired due to a state-wide requirement that all public education systems in Alabama receive 10 mills of local Ad Valorem support. The resulting 10 mill Amendment 778 Ad Valorem Tax has now become the single largest component of local revenue for FY2014 and future years.

Contacting the School Board's Financial Management

This financial report is designated 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 questions about this report or need additional financial information, contact Ryan Hollingsworth, Superintendent, or Clint Green, Chief Financial Officer, Marion County Schools, 188 Winchester Drive, Hamilton, Alabama, 35570 or call (205) 921-3191 during regular office hours, Monday through Friday, from 8:00 a.m. to 4:00 p.m., CST.

Basic Financial Statements

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Statement of Net Position
September 30, 2014

		Governmental Activities
Assets		
Cash	$	10,254,779.48
Investments		14,105.26
Ad Valorem Property Taxes Receivable		1,758,032.16
Receivables (Note 4)		1,223,104.58
Inventories		60,498.73
Capital Assets (Note 5):		
Nondepreciable		18,202,079.40
Depreciable, Net		12,138,137.13
Total Assets		43,650,736.74
Deferred Outflows of Resources		
Loss on Refunding of Debt		1,991.29
Total Deferred Outflows of Resources		1,991.29
Liabilities		
Unearned Revenue		59,803.07
Salaries and Benefits Payable		2,183,124.01
Long-Term Liabilities:		
Portion Payable Within One Year:		
Notes Payable		320,659.12
Bonds Payable		67,076.92
Premium on Refunding		990.75
Portion Payable After One Year:		
Notes Payable		658,545.10
Bonds Payable		591,332.11
Premium on Refunding		2,394.29
Total Liabilities		3,883,925.37
Deferred Inflows of Resources		
Unavailable Revenue - Property Taxes		1,758,032.16
Total Deferred Inflows of Resources		1,758,032.16
Net Position		
Net Investment in Capital Assets		28,701,209.53
Restricted for:		
Debt Service		
Capital Projects		2,095,841.87
Other Purposes		876,745.79
Unrestricted		6,336,973.31
Total Net Position	$	38,010,770.50

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

Statement of Activities
For the Year Ended September 30, 2014

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions
Governmental Activities			
Instruction	$ 19,108,791.91	$ 698,679.59	$ 15,064,639.44
Instructional Support	4,181,012.42	150,058.58	3,503,987.04
Operation and Maintenance	2,296,651.72	221,093.22	1,195,861.71
Auxiliary Services:			
Student Transportation	2,232,372.67	53,330.78	1,600,997.13
Food Service	2,172,350.70	1,618,548.76	112,552.61
General Administrative and Central Support	1,036,085.74		671,198.61
Interest and Fiscal Charges	57,556.64		
Other Expenses	951,565.99	393,299.21	314,673.57
Total Governmental Activities	$ 32,036,387.79	$ 3,135,010.14	$ 22,463,910.11

General Revenues:
Taxes:
Property Taxes for General Purposes
Local Sales Tax
Other Taxes
Grants and Contributions not Restricted for Specific Programs
Investment Earnings
Miscellaneous
Extraordinary Item - Insurance Proceeds (Note 12)
Total General Revenues and Extraordinary Item

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.

Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position Total Governmental Activities
$ 6,032,778.91	$ 2,687,306.03
16,699.00	(510,267.80)
511,470.18	(368,226.61)
562,035.71	(16,009.05)
	(441,249.33)
34,314.58	(330,572.55)
	(57,556.64)
1,637.97	(241,955.24)
$ 7,158,936.35	721,468.81
	2,102,350.35
	1,449,933.25
	130,123.84
	154,615.55
	63,478.44
	1,216,122.70
	6,926,631.54
	12,043,255.67
	12,764,724.48
	25,246,046.02
	$ 38,010,770.50

Balance Sheet
Governmental Funds
September 30, 2014

	General Fund	Special Revenue Fund
Assets		
Cash	$ 7,181,573.90	$ 1,490,091.11
Investments		14,105.26
Ad Valorem Property Taxes Receivable	1,758,032.16	
Receivables (Note 4)	127,152.31	583,224.87
Inventories		60,498.73
Total Assets	9,066,758.37	2,147,919.97
Liabilities, Deferred Inflow of Resources and Fund Balances		
Liabilities		
Unearned Revenues		59,803.07
Salaries and Benefits Payable	2,108,273.38	74,850.63
Total Liabilities	2,108,273.38	134,653.70
Deferred Inflow of Resources		
Unavailable Revenue - Property Taxes	1,758,032.16	
Fund Balances		
Nonspendable:		
Inventories		60,498.73
Restricted for:		
Capital Projects		
Child Nutrition Program		816,247.06
Assigned to:		
Operating Reserve	2,337,411.34	
Local Schools		1,136,520.48
Unassigned	2,863,041.49	
Total Fund Balances	5,200,452.83	2,013,266.27
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 9,066,758.37	$ 2,147,919.97

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

Capital Projects Fund	Total Governmental Funds
$ 1,583,114.47	$ 10,254,779.48
	14,105.26
	1,758,032.16
512,727.40	1,223,104.58
	60,498.73
2,095,841.87	13,310,520.21
	59,803.07
	2,183,124.01
	2,242,927.08
	1,758,032.16
	60,498.73
2,095,841.87	2,095,841.87
	816,247.06
	2,337,411.34
	1,136,520.48
	2,863,041.49
2,095,841.87	9,309,560.97
$ 2,095,841.87	$ 13,310,520.21

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Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
September 30, 2014

Total Fund Balances - Governmental Funds (Exhibit 3)			$ 9,309,560.97
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 (Note 5).			30,340,216.53
Losses on refunding of debt are reported as deferred outflows of resources and are not available to pay for current-period expenditures and therefore are deferred on the Statement of Net Position.			1,991.29
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 or Payable Within One Year	Amounts Due or Payable After One Year	
Notes Payable	$ 320,659.12	$ 658,545.10	
Bonds Payable	68,067.67	593,726.40	
Total Long-Term Liabilities	$ 388,726.79	$ 1,252,271.50	(1,640,998.29)
Total Net Position - Governmental Activities (Exhibit 1)			$ 38,010,770.50

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, 2014

	General Fund	Special Revenue Fund
Revenues		
State	$ 19,500,252.73	$
Federal	5,918.93	4,305,925.26
Local	3,863,845.16	2,702,746.73
Other	140,308.19	53,723.72
Total Revenues	23,510,325.01	7,062,395.71
Expenditures		
Current:		
Instruction	15,553,907.99	2,444,413.75
Instructional Support	3,610,892.74	554,383.93
Operation and Maintenance	1,646,210.94	315,389.77
Auxiliary Services:		
Student Transportation	1,784,555.11	50,613.78
Food Service		2,207,620.08
General Administrative and Central Support	758,748.69	293,992.91
Other	174,062.61	777,503.38
Capital Outlay	6,398,415.46	658,605.43
Debt Service:		
Principal Retirement		
Interest and Fiscal Charges		
Total Expenditures	29,926,793.54	7,302,523.03
Excess (Deficiency) of Revenues Over Expenditures	(6,416,468.53)	(240,127.32)
Other Financing Sources (Uses)		
Indirect Cost	124,066.37	
Transfers In	270,919.41	504,588.11
Other Financing Sources	33,791.59	
Transfers Out	(504,588.11)	(270,919.41)
Total Other Financing Sources (Uses)	(75,810.74)	233,668.70
Extraordinary Item		
Insurance Proceeds (Note 12)	6,926,631.54	
Net Changes in Fund Balances	434,352.27	(6,458.62)
Fund Balances - Beginning of Year	4,766,100.56	2,019,724.89
Fund Balances - End of Year	$ 5,200,452.83	$ 2,013,266.27

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

Capital Projects Fund	Total Governmental Funds
$ 7,081,328.42	$ 26,581,581.15
	4,311,844.19
186,640.00	6,753,231.89
	194,031.91
7,267,968.42	37,840,689.14
575,682.45	18,574,004.19
10,875.97	4,176,152.64
248,878.49	2,210,479.20
80,722.79	1,915,891.68
	2,207,620.08
	1,052,741.60
	951,565.99
5,296,659.06	12,353,679.95
378,896.09	378,896.09
57,964.55	57,964.55
6,649,679.40	43,878,995.97
618,289.02	(6,038,306.83)
	124,066.37
	775,507.52
	33,791.59
	(775,507.52)
	157,857.96
	6,926,631.54
618,289.02	1,046,182.67
1,477,552.85	8,263,378.30
$ 2,095,841.87	$ 9,309,560.97

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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, 2014

Net Change in Fund Balances - Total Governmental Funds (Exhibit 5)		$ 1,046,182.67
Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) 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 exceeds depreciation expense in the period.		
Capital Outlays	$ 12,353,679.95	
Depreciation Expense	(1,011,627.74)	
		11,342,052.21
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.		378,896.09
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.		
Loss on Disposition of Capital Assets		(2,814.40)
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 Premiums and Deferred Loss on Refunding	$ (407.91)	
Total		407.91
Change in Net Position of Governmental Activities (Exhibit 2)		$ 12,764,724.48

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

Statement of Fiduciary Net Position
September 30, 2014

		Private-Purpose Trust Funds
Assets		
Investments	$	14,904.19
Total Assets		14,904.19
Net Position		
Held in Trust for Other Purposes	$	14,904.19

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, 2014

		Private-Purpose Trust Funds
Additions		
Interest	$	46.24
Total Additions		46.24
Changes in Net Position		46.24
Net Position - Beginning of Year		14,857.95
Net Position - End of Year	$	14,904.19

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

Note 1 – Summary of Significant Accounting Policies

The financial statements of the Marion 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.

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.

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 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, the Child Nutrition Program, and Disaster Grants - Public Assistance, 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.

- ***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 fiduciary fund type:

Fiduciary Fund Type

- ***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.

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, claims and judgments, and compensated absences, 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.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources 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. The Board's investments, which consist only of certificates of deposit, are reported at cost.

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 the repayment of debt, included in cash on the balance sheet are considered restricted assets because they are maintained separately and their use is limited. The Capital Projects Fund is used to report proceeds that are restricted for use in various construction projects and the purchase of school buses.

5. Capital Assets

Capital assets, which include property, equipment, and vehicles, 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	5 – 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. Deferred Outflows of Resources

Deferred outflows of resources is reported in the Statement of Net Position. Deferred outflows of resources are defined as a consumption of net position by the government that is applicable to a future reporting period. Deferred outflows of resources increase net position, similar to assets.

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium. Bond issuance costs are reported as an expense in the period incurred.

In the fund financial statements, governmental fund types recognize bond premiums, 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. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Deferred Inflows of Resources

Deferred inflows of resources are reported in the government-wide and fund financial statements. Deferred inflows of resources are defined as an acquisition of net position/fund equity by the government that is applicable to a future reporting period. Deferred inflows of resources decrease net position/fund equity, similar to liabilities.

9. 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 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*** – Amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted 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 for 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.

D. Assigned fund balances consist of amounts that are intended to be used by the school system for specific purposes. The Board or its designee makes the 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 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. Also, sales taxes are budgeted only to the extent expected to be received rather than on the modified accrual basis of accounting. The Special Revenue Fund budgets on a basis of accounting consistent with GAAP 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. 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.

Note 3 – Deposits and Investments

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.

Note 4 – Receivables

On September 30, 2014, receivables for the Board’s individual major funds are as follows:

	General Fund	Special Revenue Fund	Capital Projects Fund	Total
Receivables:				
Taxes	$127,152.31	$	$	$ 127,152.31
Accounts		245,089.15		245,089.15
Intergovernmental		338,135.72	512,727.40	850,863.12
Total Receivables	$127,152.31	$583,224.87	$512,727.40	$1,223,104.58

Note 5 – Capital Assets

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

	Balance 10/01/2013	Additions	Retirements	Balance 9/30/2014
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	$ 411,148.00	$	$	$ 411,148.00
Construction in Progress	5,469,178.54	12,321,752.86		17,790,931.40
Total Capital Assets, not Being Depreciated	5,880,326.54	12,321,752.86		18,202,079.40
Capital Assets Being Depreciated:				
Building and Building Improvements	23,666,713.37		(10,000.00)	23,656,713.37
Land Improvements - Exhaustible	443,931.90			443,931.90
Equipment and Vehicles	5,256,208.38	31,927.09		5,288,135.47
Total Capital Assets Being Depreciated	29,366,853.65	31,927.09	(10,000.00)	29,388,780.74
Less Accumulated Depreciation for:				
Building and Building Improvements	(12,452,610.28)	(612,847.61)	7,185.60	(13,058,272.29)
Land Improvements - Exhaustible	(141,868.57)	(20,383.30)		(162,251.87)
Equipment and Vehicles	(3,651,722.62)	(378,396.83)		(4,030,119.45)
Total Accumulated Depreciation	(16,246,201.47)	(1,011,627.74)	7,185.60	(17,250,643.61)
Total Capital Assets, Being Depreciated, Net	13,120,652.18	(979,700.65)	(2,814.40)	12,138,137.13
Governmental Activities Capital Assets, Net	$ 19,000,978.72	$11,342,052.21	$ (2,814.40)	$ 30,340,216.53

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

	Current Year Depreciation Expense
Governmental Activities:	
Instruction	$ 534,787.72
Instructional Support	4,859.78
Operation and Maintenance	86,172.52
Auxiliary Services:	
Food Service	69,326.73
Student Transportation	316,480.99
Total Depreciation Expense - Governmental Activities	$1,011,627.74

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.

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 to the Teachers' Retirement System. 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,	2014	2013	2012
Total Percentage of Covered Payroll (Tier 1)	19.21%	17.58%	17.25%
Total Percentage of Covered Payroll (Tier 2)	17.08%	15.44%	
Contributions:			
Percentage Contributed by the Board (Tier 1)	11.71%	10.08%	10.00%
Percentage Contributed by the Employees (Tier 1)	7.50%	7.50%	7.25%
Percentage Contributed by the Board (Tier 2)	11.08%	9.44%	
Percentage Contributed by the Employees (Tier 2)	6.00%	6.00%	
Contributed by the Board	$1,900,753.90	$1,663,006.68	$1,538,514.72
Contributed by Employees	1,211,600.96	1,236,762.51	1,115,420.32
Total Contributions	$3,112,354.86	$2,899,769.19	$2,653,935.04

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 Educations Employees' Health Insurance Plan website, http://www.rsa-al.gov under the Trust Fund Financials tab.

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 2014
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	$679.00
Surviving Spouse – Non-Medicare Eligible and Dependent Non-Medicare Eligible	$870.00
Surviving Spouse – Non-Medicare Eligible and Dependent Medicare Eligible	$839.00
Surviving Spouse – Medicare Eligible	$318.00
Surviving Spouse – Medicare Eligible and Dependent Non-Medicare Eligible	$516.00
Surviving Spouse – Medicare Eligible and Dependent Medicare Eligible	$485.00

For employees that 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 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 premium no longer applies, 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 use tobacco.

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
2014	$714.00	$220.09	30.83%	$1,059,789.54	100%
2013	$714.00	$216.90	30.38%	$1,072,683.90	100%
2012	$714.00	$228.85	32.05%	$1,146,130.11	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 – Construction and Other Significant Commitments

The Board obligated $20,809,723.00 for significant construction contracts for the Hackleburg School and Athletic Facilities that were destroyed in a tornado in 2011. The Board paid $5,469,178.54 in construction costs in fiscal year 2013 and $12,321,752.86 in fiscal year 2014, resulting in a remaining obligation of $3,018,791.60 at September 30, 2014.

Note 9 – Long-Term Debt

During a prior fiscal year, the Board issued a long-term note payable in the amount of $2,900,000.00 to provide funds for the acquisition of forty-one 2008 model school buses and to refinance a portion of the 2006 note in the amount of $298,302.50.

During fiscal year 2002, the Board, as part of a pooled bond issuance with other school systems within the State of Alabama, issued Capital Improvement Pool Bonds, Series 2001A and Series 2002A in anticipation of their Public School Fund allocations, which are received from the Alabama Department of Education. The Alabama Department of Education withholds the required debt service payments from the Board's Public School Fund allocation. The proceeds from these bonds provided funds for the acquisition, construction and renovation of school facilities. The Board also, as part of a pooled bond issuance with other school systems within the State of Alabama, issued Capital Improvement Pool Refunding Bonds, Series 2009-B in the fiscal year ending September 30, 2010, to provide funds for the refunding of a portion of the Capital Improvement Pool Bonds, Series 2001-A. In fiscal year 2011 the Board, as part of a pooled bond issuance with other school systems within the State of Alabama, issued Capital Improvement Pool Refunding Bonds, Series 2011-B to provide funds for the refunding of the remaining portion of the Capital Improvement Pool Bonds, Series 2001-A.

In fiscal year 2012, the Board, as part of a pooled bond issuance with other school systems within the State of Alabama, issued Capital Improvement Pool Refunding Bonds, Series 2012-A to provide funds for the refunding of the Capital Improvement Pool Bonds, Series 2002-A.

The following is a summary of long-term debt transactions for the Board for the year ended September 30, 2014:

	Debt Outstanding 10/1/2013	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 9/30/2014	Amounts Due Within One Year
Governmental Activities					
Bonds Payable:					
Series 2009-B Capital Improvement Pool Bonds	$ 50,585.63	$	$ (9,473.16)	$ 41,112.47	$ 9,906.56
Series 2011-B Refunding Capital Improvement Pool Bonds	36,260.00			36,260.00	
Series 2012-A Refunding Capital Improvement Pool Bonds	636,036.43		(54,999.87)	581,036.56	57,170.36
Premium on 2009-B Refunding	4,375.79		(990.75)	3,385.04	990.75
Total Bonds Payable	727,257.85		(65,463.78)	661,794.07	68,067.67
Other Liabilities:					
Long-Term Notes Payable	1,293,627.28		(314,423.06)	979,204.22	320,659.12
Total Other Liabilities	1,293,627.28		(314,423.06)	979,204.22	320,659.12
Governmental Activities Long-Term Liabilities	$2,020,885.13	$	$(379,886.84)	$1,640,998.29	$388,726.79

Payments on the Capital Improvement Pool Bonds, Series 2009B, 2011B, and 2012A are made by the bonds and warrants fund with Public School Funds withheld from the Board's allocation from the Alabama Department of Education. The long-term notes payable are paid by the Capital Projects and Fleet Renewal funds.

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

	Long-Term Note Payable		Capital Improvement Pool Refunding Bonds Series 2011-B	
Fiscal Year Ending	Principal	Interest	Principal	Interest
September 30, 2015	$320,659.12	$18,760.03	$	$ 1,813.00
2016	326,769.18	12,649.97		1,813.00
2017	331,775.92	6,146.73		1,813.00
2018				1,813.00
2019			9,930.00	1,813.00
2020-2024			26,330.00	1,991.00
Totals	$979,204.22	$37,556.73	$36,260.00	$11,056.00

Deferred Outflows on Refunding and Premiums

The Board has deferred charges on refunding in connection with the issuance of its PSCA Series 2009B Refunding Capital Improvement Pool Bonds, which are being amortized using the straight-line method over a period of nine years.

	Deferred Outflows on Refunding	Premium
Total Deferred Outflows on Refunding and Premium	$ 4,662.64	$ 7,925.98
Amount Amortized Prior Years	(2,088.51)	(3,550.19)
Balance Deferred Outflows on Refunding and Premium	2,574.13	4,375.79
Current Amount Amortized	(582.84)	(990.75)
Balance Deferred Outflows on Refunding and Premium	$ 1,991.29	$ 3,385.04

Pledged Revenues

The Board issued Series 2009-B Refunding Capital Improvement Pool Bonds which are pledged to be repaid from their allocation of public school funds received from the State of Alabama. The proceeds were used to refund a portion of the 2001-A Capital Improvement Pool Bonds. Future revenues in the amount of $47,830.70 are pledged to repay the principal and interest on the bonds at September 30, 2014. Pledged funds in the amount of $12,067.30 were used to pay principal and interest on the bonds during the fiscal year ended September 30, 2014. This amount represents 1.40 percent of the Board’s public school fund allocation. The Series 2009-B bonds will mature in fiscal year 2018.

Capital Improvement Pool Bonds Series 2012-A		PSCA Refunding Capital Improvement Pool Bonds Series 2009B		Total Principal and Interest Requirements
Principal	Interest	Principal	Interest	to Maturity
$ 57,170.36	$ 26,317.89	$ 9,906.56	$2,120.48	$ 436,747.44
59,427.65	23,985.93	10,334.00	1,625.14	436,604.87
61,988.81	21,247.66	10,827.04	1,108.44	434,907.60
65,201.11	18,067.91	10,044.87	1,864.17	96,991.06
68,587.06	14,723.22			95,053.28
268,661.57	23,825.96			320,808.53
$581,036.56	$128,168.57	$41,112.47	$6,718.23	$1,821,112.78

The Board issued Series 2011-B Refunding Capital Improvement Pool Bonds which are pledged to be repaid from their allocation of public school funds received from the State of Alabama. The proceeds were used to refund the remaining portion of the 2001-A Capital Improvement Pool Bonds. Future revenues in the amount of $47,316.00 are pledged to repay the principal and interest on the bonds at September 30, 2014. Pledged funds in the amount of $1,813.00 were used to pay interest on the bonds during the fiscal year ended September 30, 2014. This amount represents less than 1 percent of the Board’s public school fund allocation for pooled bond payments. The Series 2011-B bonds will mature in fiscal year 2021.

The Board issued Series 2012-A Refunding Capital Improvement Pool Bonds which are pledged to be repaid from their allocation of public school funds received from the State of Alabama. The proceeds were used to refund the 2002-A Capital Improvement Pool Bonds. Future revenues in the amount of $709,205.13 are pledged to repay the principal and interest on the bonds at September 30, 2014. Pledged funds in the amount of $83,561.19 were used to pay principal and interest on the bonds during the fiscal year ended September 30, 2014. This amount represents 9.7 percent of the Board’s public school fund allocation for pooled bond payments. The Series 2012-A bonds will mature in fiscal year 2024.

Prior Year Defeasance of Debt

In prior years, the Board defeased the certificates of participation relating to the Qualified Zone Academy Bonds (QZAB), Series 2005. The Board deposited funds into an irrevocable trust with an escrow agent to provide for the future debt service payments on the QZAB certificates when they mature on July 12, 2021. Accordingly, the trust account assets and the liability for the defeased debt are not included on the Board’s financial statements. At September 30, 2014, the total of $1 million of the QZAB certificates outstanding is considered defeased.

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. Automobile liability insurance is purchased through a private carrier. Errors and omissions insurance is purchased from the Alabama Trust for Board of Education (ATBE), a public entity risk pool. The ATBE 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. 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.

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 Transactions

Interfund Transfers

The amounts of interfund transfers during the fiscal year ended September 30, 2014, were as follows:

	Transfers Out		
	General Fund	Special Revenue Fund	Total
Transfers In:			
General Fund	$	$270,919.41	$270,919.41
Special Revenue Fund	504,588.11		504,588.11
Totals	$504,588.11	$270,919.41	$775,507.52

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

Note 12 – Extraordinary Item

On April 27, 2011, severe storms, straight line winds and tornadoes struck Marion County (including Hackleburg) causing extensive damage to buildings and other facilities belonging to the Marion County Board of Education. Insurance proceeds in the amount of $6,926,631.54 relating to this event were received in fiscal year 2014.

Note 13 – Reclassifications

During the fiscal year ended September 30, 2014, the Marion County Board of Education adopted the GASB Statement Number 65, ***Items Previously Reported as Assets and Liabilities***, (GASB 65) that established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources (expenses/expenditures) or inflows of resources (revenues), certain items that were previously reported as assets and liabilities. The implementation of GASB 65 resulted in the reclassification of certain items previously reported as assets and liabilities by the Board.

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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, 2014

	Budgeted Amounts		Actual Amounts
	Original	Final	Budgetary Basis
Revenues			
State	$ 19,443,672.80	$ 19,934,953.60	$ 19,500,252.73
Federal	11,615.00	11,615.00	5,918.93
Local	3,143,450.85	3,224,450.85	3,840,063.46
Other	54,260.00	92,673.11	140,308.19
Total Revenues	22,652,998.65	23,263,692.56	23,486,543.31
Expenditures			
Current:			
Instruction	14,737,384.60	15,415,733.16	15,041,413.95
Instructional Support	3,573,085.82	3,551,298.98	3,540,406.42
Operation and Maintenance	1,287,200.95	1,494,023.01	1,630,598.09
Auxiliary Services:			
Student Transportation	1,650,900.85	1,758,689.86	1,753,928.35
General Administrative and Central Support	783,209.19	806,572.24	760,245.66
Other	162,984.97	165,569.86	171,125.28
Capital Outlay	15,510,000.00	6,469,340.68	6,398,415.46
Total Expenditures	37,704,766.38	29,661,227.79	29,296,133.21
Excess (Deficiency) of Revenues Over Expenditures	(15,051,767.73)	(6,397,535.23)	(5,809,589.90)
Other Financing Sources (Uses)			
Indirect Cost	120,396.73	126,056.89	124,066.37
Transfers In	7,992.19	9,140.47	270,919.41
Other Financing Sources	15,010,000.00	8,010,000.00	33,791.59
Transfers Out	(293,514.75)	(413,906.89)	(504,588.11)
Total Other Financing Sources (Uses)	14,844,874.17	7,731,290.47	(75,810.74)
Extraordinary Items			
Insurance Proceeds (Note 12)			6,926,631.54
Net Changes in Fund Balances	(206,893.56)	1,333,755.24	1,041,230.90
Fund Balances - Beginning of Year	6,129,386.27	6,129,386.27	6,127,291.84
Fund Balances - End of Year	$ 5,922,492.71	$ 7,463,141.51	$ 7,168,522.74

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	$	$ 19,500,252.73
		5,918.93
(1)	23,781.70	3,863,845.16
		140,308.19
	23,781.70	23,510,325.01
(2)	(512,494.04)	15,553,907.99
(2)	(70,486.32)	3,610,892.74
(2)	(15,612.85)	1,646,210.94
(2)	(30,626.76)	1,784,555.11
(2)	1,496.97	758,748.69
(2)	(2,937.33)	174,062.61
		6,398,415.46
	(630,660.33)	29,926,793.54
	(606,878.63)	(6,416,468.53)
		124,066.37
		270,919.41
		33,791.59
		(504,588.11)
		(75,810.74)
		6,926,631.54
	(606,878.63)	434,352.27
(3)	(1,361,191.28)	4,766,100.56
	$ (1,968,069.91)	$ 5,200,452.83

Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual - General Fund For the Year Ended September 30, 2014

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

The Board budgets on the modified accrual basis of accounting except as shown below:

(1) The Board budgets sales taxes when they are received, rather than on the modified accrual basis (GAAP).

(2) The Board budgets for salaries and benefits only to the extent they are expected to be paid in the current fiscal period, rather than on the modified accrual basis (GAAP).

Net Decrease in Fund Balance - Budget to GAAP

(3) 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 Balance because of the cumulative effect of transactions such as those described above.

$	23,781.70
	(630,660.33)
$	(606,878.63)

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Special Revenue Fund
For the Year Ended September 30, 2014

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis
Revenues			
Federal	$ 7,477,548.00	$ 7,955,477.30	$ 4,305,925.26
Local	2,831,353.45	2,831,403.45	2,702,746.73
Other	48,480.00	48,480.00	53,723.72
Total Revenues	10,357,381.45	10,835,360.75	7,062,395.71
Expenditures			
Current:			
Instruction	2,519,967.85	2,707,474.07	2,444,413.75
Instructional Support	604,080.91	773,813.68	554,383.93
Operation and Maintenance	349,648.69	312,176.99	315,389.77
Auxiliary Services:			
Student Transportation	40,389.35	57,249.77	50,613.78
Food Service	2,533,464.69	2,491,335.88	2,187,262.51
General Administrative and Central Support	278,579.12	357,091.39	293,992.91
Other	708,195.07	732,041.63	777,503.38
Capital Outlay	4,600,000.00	4,000,000.00	658,605.43
Total Expenditures	11,634,325.68	11,431,183.41	7,282,165.46
Excess (Deficiency) of Revenues Over Expenditures	(1,276,944.23)	(595,822.66)	(219,769.75)
Other Financing Sources (Uses)			
Transfers In	293,514.75	413,906.89	504,588.11
Other Financing Sources	34.31	34.31	
Transfers Out	(7,992.19)	(9,140.47)	(270,919.41)
Total Other Financing Sources (Uses)	285,556.87	404,800.73	233,668.70
Net Change in Fund Balances	(991,387.36)	(191,021.93)	13,898.95
Fund Balances - Beginning of Year	2,025,158.11	2,025,158.11	2,074,217.95
Fund Balances - End of Year	$ 1,033,770.75	$ 1,834,136.18	$ 2,088,116.90

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	$	$ 4,305,925.26
		2,702,746.73
		53,723.72
		7,062,395.71
		2,444,413.75
		554,383.93
		315,389.77
		50,613.78
(1)	(20,357.57)	2,207,620.08
		293,992.91
		777,503.38
		658,605.43
	(20,357.57)	7,302,523.03
	(20,357.57)	(240,127.32)
		504,588.11
		(270,919.41)
		233,668.70
	(20,357.57)	(6,458.62)
(2)	(54,493.06)	2,019,724.89
	$ (74,850.63)	$ 2,013,266.27

Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual - Special Revenue Fund For the Year Ended September 30, 2014

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

(1) The Board budgets for salaries and benefits only to the extent they are expected to be paid in the current fiscal period, rather than on the modified accrual basis (GAAP).

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 (Exhibit 5) because of the cumulative effect of transactions such as those described above.

$	(20,357.57)
$	(20,357.57)

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Supplementary Information

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2014

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
U. S. Department of Education		
Direct Program		
Impact Aid	84.041	N/A
Passed Through Alabama Department of Education		
Career and Technical Education - Basic Grants to States	84.048	N/A
Title I Grants to Local Educational Agencies	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)		
Rural Education	84.358	N/A
Improving Teacher Quality State Grants	84.367	N/A
Twenty-First Century Community Learning Centers	84.287	N/A
Total U. S. Department of Education		
U. S. Department of Agriculture		
Passed Through Alabama Department of Education		
Child Nutrition Cluster:		
National School Lunch Program:		
Cash Assistance	10.555	N/A
Non-Cash Assistance (Commodities)	10.555	N/A
National School Lunch Program Sub-Total		
School Breakfast Program	10.553	N/A
Total Child Nutrition Cluster (M)		
U. S. Department of Homeland Security		
Passed Through Alabama Emergency Management Agency		
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (M)	97.036	N/A
Social Security Administration		
Passed Through Alabama Department of Education		
Social Security - Disability Insurance	96.001	N/A
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 Total	Budget Federal Share	Revenue Recognized	Expenditures
10/01/2013 - 09/30/2014	$ 4,718.93	$ 4,718.93	$ 4,718.93	$ 4,718.93
10/01/2013 - 09/30/2014	56,359.00	56,359.00	56,359.00	56,359.00
10/01/2013 - 09/30/2014	1,272,004.73	1,272,004.73	1,160,020.63	1,160,020.63
10/01/2013 - 09/30/2014	1,090,072.59	1,090,072.59	778,073.12	778,073.12
10/01/2013 - 09/30/2014	10,724.00	10,724.00	10,724.00	10,724.00
	1,100,796.59	1,100,796.59	788,797.12	788,797.12
10/01/2013 - 09/30/2014	63,183.00	63,183.00	63,183.00	63,183.00
10/01/2013 - 09/30/2014	220,063.98	220,063.98	187,539.09	187,539.09
10/01/2013 - 09/30/2014	125,000.00	125,000.00	125,000.00	125,000.00
	2,842,126.23	2,842,126.23	2,385,617.77	2,385,617.77
10/01/2013 - 09/30/2014	937,479.54	937,479.54	937,479.54	937,479.54
10/01/2013 - 09/30/2014	117,560.70	117,560.70	117,560.70	117,560.70
	1,055,040.24	1,055,040.24	1,055,040.24	1,055,040.24
10/01/2013 - 09/30/2014	225,444.75	225,444.75	225,444.75	225,444.75
	1,280,484.99	1,280,484.99	1,280,484.99	1,280,484.99
10/01/2013 - 09/30/2014	644,541.43	644,541.43	644,541.43	644,541.43
10/01/2013 - 09/30/2014	1,200.00	1,200.00	1,200.00	1,200.00
	$ 4,768,352.65	$ 4,768,352.65	$ 4,311,844.19	$ 4,311,844.19

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended September 30, 2014

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Marion 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, 2013 through September 30, 2014

Board Members		**Term Expires**
Hon. Belinda McRae	President	2016
Hon. Rodney Fleming	Vice-President	2014
Hon. Jim Atkinson	Member	2018
Hon. L. C. Fowler	Member	2016
Hon. Beverly Burleson	Member	2018
Administrative Personnel		
Hon. Ryan Hollingsworth	Superintendent	2016
Mr. Clint Green	Chief School Finance Officer	

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 Marion 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 Marion County Board of Education, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Marion County Board of Education's basic financial statements and have issued our report thereon dated July 24, 2015.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charges 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 weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Ronald L. Jones
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

July 24, 2015

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 Marion County Board of Education, Superintendent and Chief School Financial Officer

Report on Compliance for Each Major Federal Program

We have audited the Marion County Board of Education's 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 the Marion County Board of Education's major federal programs for the year ended September 30, 2014. The Marion County Board of Education'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 Marion County Board of Education's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States; and OMB Circular A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Marion County Board of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Marion County Board of Education'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 Marion County Board of Education complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2014.

Report on Internal Control Over Compliance

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charges 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 24, 2015

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
10.553 and 10.555	Child Nutrition Cluster
84.027 and 84.173	Special Education Cluster
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000.00	
Auditee qualified as low-risk auditee?	______ Yes	__X__ No

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.	