

**FORT PAYNE CITY BOARD
OF EDUCATION**

**A Component Unit of The City of Fort Payne
Fort Payne, Alabama**

**AUDITED FINANCIAL STATEMENTS
September 30, 2014**

**MDA PROFESSIONAL GROUP, P.C.
Certified Public Accountants and Business Consultants
Fort Payne, Alabama**

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INDEPENDENT AUDITORS' REPORT

Fort Payne City Board of Education

Fort Payne, Alabama

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Fort Payne City Board of Education, a component unit of the City of Fort Payne, Alabama, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Fort Payne City 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.

Change in Accounting Principle

As discussed in Note 18 to the financial statements, in 2014 the Board adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Budgetary Comparison Schedule – General Fund on pages A through I and 35 through 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fort Payne City Board of Education's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

Fort Payne City Board of Education
Fort Payne, Alabama

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2015, on our consideration of the Fort Payne City Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Fort Payne Board of Education's internal control over financial reporting and compliance.

MDA Professional Group, P.C.

Fort Payne, Alabama
January 19, 2015

Management Discussion and Analysis

Introduction

This section of the Fort Payne City Board of Education's ("the Board") annual financial report presents Management's Discussion and Analysis ("MD&A") of the Board's financial performance and provides an overall review of the Board's financial activities for the fiscal year ended September 30, 2014. This report should be read in conjunction with the Board's financial statements and the accompanying notes which follow this section.

Financial Highlights

- As of September 30, 2014, the Board's unrestricted cash balances were \$7,996,515. This represents a decrease of approximately \$628,000 from the 2013 year. Approximately \$9,589,000 of the Board's net position is considered unreserved and is available for spending at the Board and management's discretion.
- For the year ended September 30, 2014, funding received from the state of Alabama foundation program, which is the primary source of revenue from the state, increased to \$15,838,138.
- Total revenues for the year ending September 30, 2014, were approximately \$28,000,000. Total expenditures exceeded total revenues by \$530,000.
- The school system's 2013-2014 K-12 Average Daily Membership was 3,003 students, a decrease of 7 students over the 2012-2013 school year.

Overview of the Financial Statements

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

Government-wide financial statements

The first two statements are government-wide financial statements — the *Statement of Net Position* and the *Statement of Activities*. These provide both long-term and short-term information about the Board's overall financial status. Although other governments may report governmental activities and business-type activities, the Board has no business-type activities.

Overview of the Financial Statements (Continued)

The *Statement of Net Position* presents information on all of the Board's assets and deferred outflows of resources less liabilities and deferred inflows of resources, which results in net position. The statement is designed to display the financial position of the Board and includes all of the Board's services including instruction, support, transportation and maintenance, and food services. Over time, increases and decreases in net position helps to determine whether the Board's financial position is improving or deteriorating.

The *Statement of Activities* provides information which shows how the Board's net position changed as a result of the year's activities. The statement uses the accrual basis of accounting, which is similar to the accounting used by private-sector businesses. All of the revenues and expenses are reported regardless of the timing of when cash is received or paid. The statement identifies the extent to which each expenditure function draws from general revenues of the Board (primarily local taxes) or is financed through charges for services (such as lunchrooms) and intergovernmental aid (primarily federal programs and state appropriations).

The government-wide financial statements are on pages 4 - 5 of this report.

Fund financial statements

The fund financial statements provide more detailed information about the Board's most significant funds — not the Board as a whole. A fund is a grouping of related accounts that is used to keep track of specific sources of funding and spending for particular purposes. The Board uses fund accounting to ensure and demonstrate fiscal accountability. Two kinds of funds — governmental funds and fiduciary funds — are presented in the fund financial statements.

Governmental funds - Most of the Board's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. The governmental funds statements — the *Balance Sheet* and the *Statement of Revenues, Expenditures and Changes in Fund Balances* — are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Board's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided that explains the relationship (or differences) between them.

Fiduciary funds - Fiduciary funds are used to account for assets held by the Board in a trustee capacity or as an agent for others. Activities from fiduciary funds are not included in the government-wide financial statements because the Board cannot use these assets for its operations. Fiduciary funds of the Board consist of agency funds that are reported in the *Statement of Fiduciary Assets and Liabilities* using an accrual basis of accounting. Agency funds held by the Board involve only the receipt, temporary investment, and remittance of resources to individuals, private organizations, or other governments in a purely custodial capacity (assets equal liabilities). The agency funds reported by the Board consist of student organization accounts such as clubs and classes.

The fund financial statements are on pages 6 - 8 of this report.

Overview of the Financial Statements (Continued)

Notes to the financial statements

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements follow the basic financial statements and are located on pages 11 – 33 of this report.

In addition to the basic financial statements and the accompanying notes, this report also presents certain *Required Supplementary Information* (“RSI”) other than the MD&A consisting of a budgetary comparison schedule for the general fund and each major special revenue fund that has a legally adopted annual budget.

Financial Analysis of the Board as a Whole

As noted earlier, the Board has no business-type activities. Consequently, all of the Board's net position is reported as Governmental Activities.

Summary of Net Position

	<u>2014</u>	<u>2013</u>
Current Assets	\$ 13,482,528	\$ 13,052,042
Capital Assets	<u>19,152,798</u>	<u>19,345,137</u>
<i>Total Assets</i>	<u>32,635,326</u>	<u>32,397,179</u>
Current Liabilities	2,054,505	1,703,697
Long-Term Liabilities	<u>1,761,247</u>	<u>2,010,409</u>
<i>Total Liabilities</i>	<u>3,815,752</u>	<u>3,714,106</u>
Net Position		
Invested in Capital Assets-Net of Related Debt	17,480,684	17,434,690
Restricted	1,750,147	1,619,034
Unrestricted	<u>9,588,743</u>	<u>9,629,349</u>
<i>Total Net Position</i>	<u>\$ 28,819,574</u>	<u>\$ 28,683,073</u>

The Board's assets exceeded liabilities by \$28,819,574 at September 30, 2014. The majority of the Board's net position is invested in capital assets (land, buildings, and equipment) owned by the Board. These assets are not available for future expenditures since they will not be sold. Unrestricted net position — the part of net position that can be used to finance day-to-day operations without constraints established by enabling legislation, debt covenants, or other legal requirements is \$9,588,743.

Financial Analysis of the Board as a Whole (Continued)

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

Change in Net Position

	<u>2014</u>	<u>2013</u>
REVENUES		
Program Revenues		
Charges for Services	\$ 1,032,159	\$ 1,076,406
Operating Grants	19,612,833	19,044,879
Capital Grants	1,407,022	1,168,283
General Revenues		
Local Property Taxes	2,980,292	2,969,126
Local Sales Taxes	935,574	915,579
Other Taxes	382,013	379,066
Local City Council Appropriations	520,563	518,488
Other General Revenues	<u>1,793,636</u>	<u>1,908,361</u>
	<u>28,664,092</u>	<u>27,980,188</u>
EXPENSES		
Instructional Services	16,153,372	15,790,914
Instructional Support Services	3,228,324	3,092,533
Operation and Maintenance	2,590,554	2,595,238
Student Transportation Services	1,179,374	1,104,660
Food Services	2,447,825	2,497,974
General Administrative Services	1,524,923	1,356,845
Other Expenses	<u>1,403,219</u>	<u>1,288,379</u>
	<u>28,527,591</u>	<u>27,726,543</u>
CHANGE IN NET POSITION	136,501	253,645
NET POSITION - BEGINNING OF YEAR	<u>28,683,073</u>	<u>28,429,428</u>
NET POSITION - END OF YEAR	<u><u>\$ 28,819,574</u></u>	<u><u>\$ 28,683,073</u></u>

Financial Analysis of the Board as a Whole (Continued)

Revenue by Source

	<u>2014</u>		<u>2013</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
State	\$ 16,920,350	59.03 %	\$ 16,303,831	58.27 %
Federal	3,717,759	12.97	3,584,737	12.81
Local	7,182,582	25.06	7,194,556	25.71
Other	843,401	2.94	897,064	3.21
	<u>\$ 28,664,092</u>	<u>100.00 %</u>	<u>\$ 27,980,188</u>	<u>100.00 %</u>

Program revenues are comprised of charges for services, operating grants and contributions, and capital grants and contributions. These revenues are the largest component (approximately 77% in 2014 and 76% in 2013) of total revenues. Charges for services include federal reimbursement for meals, student meal purchases, and local school revenues. Operating grants and contributions are approximately 89% of program revenues in 2014 and 2013, and 68% of total revenues in 2014 and 2013. The major source of revenue in this category is State Foundation program funds. Capital grants and contributions include state capital outlay funds and state funds to replace buses.

General revenues, primarily property and sales taxes, were \$6,612,078 and are used to provide for expenses not covered by program revenues.

The Boards total revenue increased by approximately \$684,000, to \$28,664,092 in fiscal year 2014. The primary reason for the increased revenue was an increase in state funding.

Instructional services expenses, primarily salaries and benefits for classroom teachers, are the largest expense function of the Board (approximately 57%).

- In addition to teacher salaries and benefits, instructional services include teacher aides, substitute teachers, textbooks, depreciation of instructional buildings, professional development, 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, school nurses, and professional development expenses.
- Operation and maintenance services include utilities, security services, janitorial services, maintenance services, and depreciation of maintenance vehicles.
- In addition to bus driver salaries and benefits, student transportation services include mechanics, bus aides, vehicle maintenance and repair expenses, vehicle fuel, depreciation of buses and bus shops, and fleet insurance.
- Food services include salaries and benefits for cooks, servers, lunchroom managers, and cashiers, as well as donated and purchased food, food preparation and service supplies, kitchen and lunchroom equipment, and depreciation of equipment and facilities.

Financial Analysis of the Board as a Whole (Continued)

- General administrative services include salaries and benefits for the superintendent, assistants, clerical and financial staff, and other personnel that provide system-wide support for the schools. Also included are legal expenses, liability insurance, training for Board members and general administrative staff, printing costs, and depreciation of central office equipment and facilities.
- Debt service includes interest, but not principal payments, on long-term debt issues and other expenses related to the issuance and continuance of debt issues.
- Other expenses include the salaries and benefits for adult and continuing education teachers, preschool teachers and aides, extended day personnel, and community education instructors. Also included are the materials, supplies, equipment, related depreciation, and other expenses for operating programs outside of those for educating students in the K through 12 instructional programs.

Expenses by Category

	<u>2014</u>		<u>2013</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Instruction	\$ 16,153,372	56.62 %	\$ 15,790,914	56.95 %
Instructional Support	3,228,324	11.32	3,092,533	11.15
Operation and Maintenance	2,590,554	9.08	2,595,238	9.36
Transportation	1,179,374	4.13	1,104,660	3.98
Food Services	2,447,825	8.58	2,497,974	9.01
Administrative	1,524,923	5.35	1,356,845	4.89
Other	811,470	2.84	687,519	2.48
Interest	71,186	0.25	82,372	0.30
Transfer to the City of Fort Payne	520,563	1.83	518,488	1.88
	<u>\$ 28,527,591</u>	<u>100.00 %</u>	<u>\$ 27,726,543</u>	<u>100.00 %</u>

In fiscal year 2014, the Board's net position increased by \$136,501 from the prior year. State foundation funds, the primary source of revenue from the state, were \$15,838,138 and \$15,532,072 in 2014 and 2013, respectively.

Financial Analysis of the Board's Funds

The analysis of governmental funds serves the purpose of looking at what resources came into the funds, how they were spent, and what is available for future expenditures. Did the Board generate enough revenue to pay for current obligations? What is available for spending at the end of the year? The financial performance of the Board as a whole is reflected in its governmental funds as well. At the end of the fiscal year, the Board's governmental funds reported combined ending fund balances of \$9,191,478. Of this amount, the unassigned fund balance of the general fund, which is available as of the end of the fiscal year for spending on future operations, was \$6,783,122.

Financial Analysis of the Board's Funds (Continued)

General Fund - The general fund is the primary operating fund of the Board. The general fund balance decreased by \$8,391. General fund revenues in 2014 increased \$465,409 from the prior year. General fund expenditures increased \$390,961 from the prior year.

Overall, the Board's governmental funds showed an increase in 2014 revenues from the prior year of approximately \$769,724, an increase in expenditures of approximately \$788,586 and reflected an excess in expenditures over revenues of \$530,086, before other financing sources and uses.

General Fund Budgetary Highlights

The original 2014 fiscal year budget was adopted on August 22, 2013. The original budget figures are amended when expected changes to revenues or expenditures exceed 10%. The Board revised the budget on April 24, 2014 to budget prior year carryover funds, budget program allocation changes, and to make other minor changes and corrections to the Board's budget.

Capital Assets and Debt Administration

Capital Assets - At September 30, 2014, the Board had approximately \$19.1 million invested in capital assets including land, buildings, equipment costing \$5,000 or more, vehicles, buildings and equipment under capital lease, and construction in progress. This amount is net of accumulated depreciation to date. Increases during the year represent additions to those categories, while decreases represent retirements of assets during the year and depreciation of depreciable assets for the year. Capital expenditures only include those expenditures for property and equipment that meet the Alabama State Department of Education's threshold for capitalization. These guidelines require capitalization, and subsequent depreciation, for equipment costing \$5,000 or more per item and for buildings and related improvements costing \$50,000 or more. Purchases of property and equipment costing less than these amounts are neither capitalized nor depreciated. During the year ended September 30, 2014, the school system spent approximately \$1,004,000 on property and equipment that did not meet these capitalization thresholds. These expenditures include items such as computers, video equipment, lunchroom equipment, and other furniture and equipment.

Capital Assets - Net of Depreciation

	<u>2014</u>	<u>2013</u>
Land and Land Improvements	\$ 969,809	\$ 969,809
Construction in Progress	-	-
Land Improvements - Exhaustible	489,745	514,320
Buildings and Improvements	15,304,919	15,664,611
Vehicles and Equipment	<u>2,388,325</u>	<u>2,196,397</u>
	<u>\$ 19,152,798</u>	<u>\$ 19,345,137</u>

Net capital assets decreased by \$192,339 for the 2014 fiscal year. Total capital expenditures were approximately \$790,000 in 2014. These capital additions consisted primarily of building and land improvements, buses, and equipment. These additions are reduced by the current year's depreciation expense of \$982,770.

Capital Assets and Debt Administration (Continued)

Long-Term Debt - At September 30, 2014, the Board had approximately \$1.7 million in warrants, notes, and other long-term debt outstanding. The reduction from the prior year reflected the annual principal requirements under the debt agreements:

Outstanding Long-Term Debt

	<u>Balance</u> <u>2013</u>	<u>Principal</u> <u>Additions</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>2014</u>
PSCA Leveraged Funds - 2009 issue	\$ 1,213,422	\$ -	\$ (179,319)	\$ 1,034,103
PSCA Leveraged Funds - 2012 issue	<u>796,987</u>	<u>-</u>	<u>(69,843)</u>	<u>727,144</u>
	<u>\$ 2,010,409</u>	<u>\$ -</u>	<u>\$ (249,162)</u>	<u>\$ 1,761,247</u>

Long-term debt activity for the year consisted of the following:

The Board continued to pay down its leveraged debt issued in 2009 and 2012, reducing the principal owed on this debt by approximately \$179,000 and \$70,000, respectively.

Economic Factors and Next Year's Budget

The following are known economic factors related to the City of Fort Payne which were considered going into the 2015 fiscal year.

- Fort Payne's population remains steady. The unemployment rate for Fort Payne and DeKalb County has decreased slightly since last year. Much of the Board's funding is determined by system student enrollment, so future funding could be impacted by any significant economic changes within the community.
- The primary factor affecting the Board's budget is the amount of funding received under the State of Alabama Department of Education's foundation program, which is based to some extent on student enrollment. Per pupil allocations, as well as the extent of state funding of other programs are influenced by the state of Alabama's economic outlook. For the 2015 fiscal year, the foundation program budget was \$15,991,553, an increase of approximately \$153,000 from increased funding for salaries and benefits.

Estimated Capital Needs - As of September 30, 2014, the Board's Five-Year Capital Plan, included approximately \$12.6 million in estimated capital needs throughout the system. These needs have been prioritized to help determine which projects will receive funding in the near future and include a variety of maintenance, improvement, and construction projects.

Economic Factors and Next Year's Budget (Continued)

Student Enrollment – The latest student enrollment figure as of the twenty-day report in the 2014-2015 school year was 3,082 students. This represents an increase in enrollment of approximately 78 students over the 2013-2014 school year. Enrollment for each of the last four years is shown below:

Average Daily Membership	Fiscal Year
3,004	2013-2014
3,009	2012-2013
3,024	2011-2012
2,947	2010-2011

Medical and Retirement Costs - Employee health insurance is provided through the Public Education Employees' Health Insurance Program (PEEHIP). PEEHIP employer costs were \$714 per employee per month in fiscal years 2014 and 2013. The employer contribution rate to the Teachers' Retirement System (TRS) for fiscal year 2014 was 11.71 percent for Tier 1 Employees and 11.08 percent for Tier 2 employees. The rate was 10.08 percent for fiscal year 2013 through December 31, 2012, then it became 10.08 percent for Tier 1 Employees and 9.44 percent for Tier 2 employees for the rest of the fiscal year. The Board must use local funds to pay the salary-related benefit costs not paid by state and federal funds.

CONTACTING THE SCHOOL BOARD'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Board's finances and to show the Board's accountability for the money it receives. If you have any questions about this report or need additional financial information please contact the Board's central office by calling 256-845-0915 or write to P.O. Box 681029, Fort Payne, AL 35968.

FORT PAYNE CITY BOARD OF EDUCATION

STATEMENT OF NET POSITION

SEPTEMBER 30, 2014

	<u>Governmental Activities</u>
ASSETS	
Cash	\$ 7,996,515
Investments	9,504
Receivables	3,388,496
Inventories	83,416
Prepaid Expenses	4,658
Restricted Assets:	
Cash	1,497,609
Receivables	502,330
Capital Assets, Net of Accumulated Depreciation:	
Land and Land Improvements	969,809
Buildings and Improvements	15,304,919
Land Improvements - Exhaustible	489,745
Vehicles, Equipment, and Furniture	<u>2,388,325</u>
TOTAL ASSETS	<u><u>\$ 32,635,326</u></u>
LIABILITIES	
Accounts Payable and Accrued Liabilities	\$ 56,867
Salaries and Benefits Payable	1,948,235
Accrued Interest	23,163
Unearned Revenues	26,240
Noncurrent Liabilities:	
Due Within One Year	245,711
Due in More Than One Year - Net	<u>1,515,536</u>
TOTAL LIABILITIES	<u>3,815,752</u>
NET POSITION	
Invested in Capital Assets, Net of Related Debt	17,480,684
Restricted for:	
Other Purposes	1,750,147
Unrestricted	<u>9,588,743</u>
TOTAL NET POSITION	<u>28,819,574</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 32,635,326</u></u>

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

FORT PAYNE CITY BOARD OF EDUCATION

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position Total Governmental Activities
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					
Instruction	\$ 16,153,372	\$ 438,286	\$ 16,373,021	\$ 1,299,022	\$ 1,956,957
Instructional Support	3,228,324	2,077	494,551	-	(2,731,696)
Operation and Maintenance	2,590,554	-	-	-	(2,590,554)
Student Transportation Services	1,179,374	8,927	752,420	108,000	(310,027)
Food Services	2,447,825	473,714	1,644,662	-	(329,449)
General Administrative Services	1,524,923	-	138,701	-	(1,386,222)
Other	811,470	109,155	209,478	-	(492,837)
Interest and Fiscal Charges	71,186	-	-	-	(71,186)
Transfer to the City of Fort Payne	520,563	-	-	-	(520,563)
Total Governmental Activities	<u>\$ 28,527,591</u>	<u>\$ 1,032,159</u>	<u>\$ 19,612,833</u>	<u>\$ 1,407,022</u>	<u>(6,475,577)</u>
General Revenues:					
Taxes:					
Property Taxes for General Purposes					2,980,292
Local Sales Tax					935,574
Other Sales and Use Taxes					382,013
City Council Appropriations					520,563
Investment Earnings					3,399
Other General Revenues					1,790,237
Total General Revenues					<u>6,612,078</u>
Change in Net Position					136,501
Net Position - Beginning of Year, As Restated					<u>28,683,073</u>
Net Position - End of Year					<u>\$ 28,819,574</u>

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

FORT PAYNE CITY BOARD OF EDUCATION

BALANCE SHEET - GOVERNMENTAL FUNDS

SEPTEMBER 30, 2014

	General Fund	Other Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash	\$ 7,426,755	\$ 569,760	\$ 7,996,515
Investments	9,504	-	9,504
Receivables	3,388,121	375	3,388,496
Inventory	-	83,416	83,416
Prepaid Expenses	4,658	-	4,658
Restricted Assets:			
Cash	-	1,497,609	1,497,609
Receivables	-	502,330	502,330
TOTAL ASSETS	<u><u>\$ 10,829,038</u></u>	<u><u>\$ 2,653,490</u></u>	<u><u>\$ 13,482,528</u></u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable and Accrued Liabilities	\$ 41,863	\$ 15,004	\$ 56,867
Salaries and Benefits Payable	1,655,756	208,548	1,864,304
Unearned Revenues	-	26,240	26,240
Total Liabilities	<u>1,697,619</u>	<u>249,792</u>	<u>1,947,411</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue	<u>2,343,639</u>	<u>-</u>	<u>2,343,639</u>
Total Deferred Inflows of Resources	<u>2,343,639</u>	<u>-</u>	<u>2,343,639</u>
Fund Balances:			
Nonspendable	4,658	83,416	88,074
Restricted	-	1,875,849	1,875,849
Committed	-	570,135	570,135
Unassigned	<u>6,783,122</u>	<u>(125,702)</u>	<u>6,657,420</u>
Total Fund Balances	<u>6,787,780</u>	<u>2,403,698</u>	<u>9,191,478</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u><u>\$ 10,829,038</u></u>	<u><u>\$ 2,653,490</u></u>	<u><u>\$ 13,482,528</u></u>

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

FORT PAYNE CITY BOARD OF EDUCATION

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION

SEPTEMBER 30, 2014

Total Fund Balances - Governmental Funds	\$ 9,191,478
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	19,152,798
Unavailable revenue is deferred to future periods in governmental funds, but reported as revenues in the governmental activities.	2,343,639
Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:	
Accrued Vacation	(83,931)
Accrued Interest on Long-Term Debt	(23,163)
Long-Term Debt	<u>(1,761,247)</u>
Total Net Position - Governmental Activities	<u>\$ 28,819,574</u>

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

FORT PAYNE CITY BOARD OF EDUCATION

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
State	\$ 15,655,888	\$ 1,264,462	\$ 16,920,350
Federal	190,022	3,527,737	3,717,759
Local	5,051,440	2,154,805	7,206,245
Other	124,589	84,822	209,411
	<u>21,021,939</u>	<u>7,031,826</u>	<u>28,053,765</u>
EXPENDITURES			
Instruction	13,637,002	2,051,799	15,688,801
Instructional Support	2,882,431	338,020	3,220,451
Operation and Maintenance	2,007,013	460,293	2,467,306
Student Transportation Services	965,447	59,374	1,024,821
Food Services	-	2,379,292	2,379,292
General Administration Services	1,101,351	255,188	1,356,539
Capital Outlay	333,445	456,986	790,431
Debt Service			
Principal Payments	-	234,507	234,507
Interest Payments	-	89,670	89,670
Transfer to the City of Fort Payne	-	520,563	520,563
Other Expenditures	339,476	471,994	811,470
	<u>21,266,165</u>	<u>7,317,686</u>	<u>28,583,851</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(244,226)</u>	<u>(285,860)</u>	<u>(530,086)</u>
OTHER FINANCING SOURCES (USES)			
Insurance Loss Recoveries	449,979	-	449,979
Indirect Cost	184,011	-	184,011
Transfers From Other Funds	46,787	483,018	529,805
Transfers to Other Funds	(444,942)	(84,863)	(529,805)
	<u>235,835</u>	<u>398,155</u>	<u>633,990</u>
Net Changes In Fund Balances	(8,391)	112,295	103,904
Fund Balances - Beginning of Year	<u>6,796,171</u>	<u>2,291,403</u>	<u>9,087,574</u>
Fund Balances - End of Year	<u>\$ 6,787,780</u>	<u>\$ 2,403,698</u>	<u>\$ 9,191,478</u>

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

FORT PAYNE CITY BOARD OF EDUCATION

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 Changes in Fund Balances - Total Governmental Funds \$ 103,904

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

Governmental funds report capital outlay as expenditures. However, in the Statement
of Activities, the cost of those assets are allocated over their estimated useful lives and
reported as depreciation expense. The amount by which capital outlays exceeded
depreciation expense in the current period is as follows:

Capital Outlays	\$ 790,431	
Depreciation Expense	<u>(982,770)</u>	(192,339)

Repayment of debt principal is an expenditure in the governmental funds, but the
repayment reduces long-term liabilities in the Statement of Net Position and does
not affect the Statement of Activities. 234,507

The City of Fort Payne pays principal and interest payments on behalf of the Board. This
repayment is an expenditure in the governmental funds. 520,563

The City of Fort Payne pays principal and interest payments on behalf of the Board. This
repayment is revenue in the governmental funds. (520,563)

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

Amortization of Premium on Long-Term Debt	14,657
Change in Unavailable Revenue	(23,663)
Change in Accrued Interest on Long-Term Debt	3,827
Change in Accrued Benefits Payable	<u>(4,392)</u>

Change in Net Position of Governmental Activities \$ 136,501

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

FORT PAYNE CITY BOARD OF EDUCATION

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

SEPTEMBER 30, 2014

	<u>Agency Funds</u>
ASSETS	
Cash and Cash Equivalents	<u>\$ 106,714</u>
TOTAL ASSETS	<u><u>\$ 106,714</u></u>
LIABILITIES	
Amounts Due to Other Parties	<u>\$ 106,714</u>
TOTAL LIABILITIES	<u><u>\$ 106,714</u></u>

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

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Fort Payne City Board of Education (the Board) is governed by a board composed of five members who are appointed by the City of Fort Payne to five-year terms. The Board is responsible for the general administration and supervision of the public schools for the City of Fort Payne.

The financial statements of the Board, a component unit of the City of Fort Payne, Alabama, have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the Board's accounting policies are described below.

REPORTING ENTITY

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

The Board is a legally separate agency of the state of Alabama. However, for financial reporting, the Board is considered a component unit of the City of Fort Payne, Alabama, due to the following reasons:

- (1) The City appoints the five members of the governing body of the Board.
- (2) The City issued bonds for the construction of facilities for the Board and the City is obligated for the debt.

BASIS OF PRESENTATION

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities display information about the Board. These statements include the financial activities of the overall government, 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 non-exchange transactions. Although other governments may report both governmental activities and business-type activities, the Board has no business-type activities.

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GOVERNMENT-WIDE FINANCIAL STATEMENTS (Continued)

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) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and (b) charges to recipients of goods or services offered by the programs. Revenues that are not classified as program revenues, including all local taxes, are presented as general revenues.

FUND FINANCIAL STATEMENTS

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

The Board reports the following major governmental fund:

General Fund

This is the Board's primary operating fund. It accounts for all financial resources, except those required to be accounted for in another fund. The Board's general fund primarily receives revenues from the Education Trust Fund (ETF) appropriated by the Alabama legislature, and from local taxes. The State Department of Education allocates amounts appropriated from the ETF to the school board on a formula basis.

The Board reports the following governmental fund types in the "Other Governmental Funds" column:

Special Revenue Funds

Special Revenue Funds account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative action.

Debt Service Funds

Debt Service Funds account for the accumulation of resources for, and the payment of, the Board's principal and interest payments on long-term debt.

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FUND FINANCIAL STATEMENTS (Continued)

Capital Projects Funds

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

Fiduciary funds are used to report assets held in a trust or agency capacity for others and, therefore, cannot be used to support the Board's programs. The Board's agency funds generally account for assets held by the Board in a purely custodial capacity. The Board collects these assets and transfers them to the proper individual or organization.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the cash flows take place. Non-exchange 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 property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Governmental fund statements are reported using a current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when 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 reported in the governmental funds to be available if the revenues are collected within thirty (30) days after the end of the current fiscal year end. Revenues from state and federal funds are considered available if transactions eligible for reimbursement have taken place. Expenditures generally are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

When both restricted and unrestricted resources are available for use, it is the Board's practice to use restricted resources first, then unrestricted resources as they are needed. When an expenditure is incurred for the purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the practice of the Board that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts. No formal policy regarding the order in which resources are used has been approved by the Board.

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BUDGETARY INFORMATION

1. Budgetary Basis of Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and other governmental funds. The capital projects funds are appropriated on a project-length basis and often span a period of more than one year.

The appropriated budget is prepared by fund, department, and function. The Board may transfer unencumbered appropriations within a department. The Board members' approval is necessary for transfers of unencumbered appropriations between departments and funds. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level. Special revenue funds are budgeted at the function level. Appropriations, except remaining project appropriations and encumbrances, lapse at the end of the fiscal year.

2. Excess of Expenditures over Appropriations

For the year ended September 30, 2014, expenditures in the general fund's finance division exceeded appropriations by \$113,870. This was due to the use of estimates and planned purchases of capital assets that were approved by the Board.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statement and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

ASSETS, LIABILITIES, AND NET ASSETS/FUND BALANCES

DEPOSITS AND INVESTMENTS

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity date within three months of the date acquired by the Board. Investments consist of shares of publicly traded stock that were donated to the Board, and are valued at fair value.

The State Attorney General has issued a legal opinion that boards of education may not put public funds at risk by investing in companies not insured by the federal government.

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

RECEIVABLES

Accounts receivable for taxes are shown net of any applicable allowance for uncollectible accounts. Property taxes are assessed for property as of October 1 of each year based on the millage rate established by the DeKalb County Commission. Property taxes are due and payable the following October 1 and are delinquent after December 31. Receivable amounts are recorded for 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 subsequent fiscal years when the taxes are both due and collectible and available to fund operations.

INVENTORIES

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

CAPITAL ASSETS

Capital assets, which include property and equipment, are reported in the applicable governmental activities column 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 the asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Major capital outlays for capital assets and improvements are capitalized as projects are completed.

Depreciation on all assets is recorded in the statement of activities 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:

	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
Land Improvements - Exhaustible	\$ 50,000	20 years
Buildings and Improvements	50,000	50 years
Equipment and Furniture	5,000	5-20 years
Vehicles	5,000	5-10 years

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Board doesn't have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position and or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents and acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The board has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting this category. Accordingly, the item, unavailable property tax revenue, is reported only in the governmental funds balance sheet. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other liabilities are reported as liabilities in the applicable governmental activities statement of net position. Premiums and discounts are deferred and amortized over the life of the bonds. The debt is reported net of the applicable discount or premium.

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 the debt issued is reported as other financing sources. Premiums received on debt are reported as other financing sources. The debt service funds are used to liquidate the annual principal payments on outstanding obligations.

COMPENSATED ABSENCES

The Board has accrued a liability for leave pay which has been earned but not taken by Board employees. Leave that is expected to be liquidated with expendable available resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. All eligible unused leave is accrued when earned by the employee in the government-wide financial statements.

Professional and support personnel are provided two days of personal leave per year with pay. The state provides funding, at the substitute rate, for up to two days of personal leave per employee per year. Professional employees are paid, at the Board's substitute rate, for up to two days of unused personal leave. Because unused personal leave cannot be carried over to succeeding years, no liability for unpaid leave is accrued in the financial statements.

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

COMPENSATED ABSENCES (Continued)

Certain twelve-month employees are allowed 12 days of vacation per year with pay. Because unused vacation is awarded on a fiscal year of July through June, and vacation days were due to certain twelve-month employees as of and for the year ended September 30, 2014, a liability for this vacation liability was recorded both at the fund level and the government wide level.

Professional and support personnel earn non-vesting sick leave at the rate of one day per month worked. The maximum number of days employees are allowed to accumulate is calculated by the number of months worked each year multiplied by the total years of service. Employees may use their entire accrued sick leave balance as membership service in determining the total years of creditable service in the teachers' retirement system, with no additional cost to the Board. Because employees do not receive compensation for unused sick leave at termination, no liability is recorded on the financial statements.

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 in the following categories:

Invested in Capital Assets, Net of Related Debt - Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. Any significant unspent related debt proceeds at year-end related to capital assets are reported as restricted funds.

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 - Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of the Board.

Fund equity is reported in the fund financial statements as fund balance. The following classifications of fund equity are reported in the fund financial statements:

Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form; or (b) legally or contractually required to be maintained intact.

Restricted – This classification includes amounts that have constraints placed on the use of resources imposed either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) by law through constitutional provisions or enabling legislation.

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NET POSITION/FUND EQUITY (Continued)

Committed – This classification includes amounts that can only be used for specific purposes. It is the practice of the Board to present assets in this classification pursuant to constraints imposed by formal action of the Board before the end of the fiscal year, and to require the same level of formal action to remove the constraint. However, no formal policy regarding this action has been approved by the Board.

Assigned – This classification includes amounts that are intended to be used for specific purposes, but are neither restricted nor committed. It is the practice of the Board to allow the Superintendent or the Chief School Finance Officer to make a determination of the assigned amounts of fund balances, and also to allow the Superintendent or the Chief School Finance Officer to remove the constraint. Such assignments may not exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. No formal policy regarding the assignment of fund balances to this classification has been approved by the Board. No amounts were reported as assigned as of September 30, 2014.

Unassigned – This classification is the residual classification for the general fund, and represents the fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NET POSITION/FUND EQUITY (Continued)

The following table presents the detail of the fund balance classifications presented in the aggregate in the fund financial statements:

	General Fund	Other Governmental Funds		Total
		Special Revenue Funds	Capital Projects Funds	
Fund Balances:				
Nonspendable:				
Inventory and Prepaids	\$ 4,658	\$ 83,416	\$ -	\$ 88,074
Total Nonspendable	4,658	83,416	-	88,074
Restricted for:				
Grant Expenditures	-	659,456	-	659,456
Capital Projects	-	-	1,216,393	1,216,393
Total Restricted	-	659,456	1,216,393	1,875,849
Committed to:				
Local Schools	-	570,135	-	570,135
Unassigned:	6,783,122	(125,702)	-	6,657,420
Total Fund Balances	<u>\$ 6,787,780</u>	<u>\$ 1,187,305</u>	<u>\$ 1,216,393</u>	<u>\$ 9,191,478</u>

The following table presents the individual nonmajor funds with deficit fund balances presented as unassigned fund balance:

Title I, Part A	\$ 65,648
Special Education IDEA Part B	46,811
Title II, Part A	8,713
Title III	3,532
Pre-School Special Education IDEA Part B	998
	<u>\$ 125,702</u>

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

SUBSEQUENT EVENTS

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through January 19, 2015, which is the date the financial statements were available to be issued.

NOTE 2 - DEPOSITS

At September 30, 2014, the Board's deposits were 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 provisions of Alabama law. Under the SAFE Program, all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, which is mandatory, each qualified public depository (QPD) 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 FDIC insurance. If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance. All deposits of the Board are held in a certified QPD.

NOTE 3 – RECEIVABLES

Unrestricted receivables at September 30, 2014, consist of the following:

	General	Other Governmental Funds	Total
Property Tax Revenues	\$ 2,407,363	\$ -	\$ 2,407,363
City of Fort Payne - Property Taxes	775,984	-	775,984
Other Sales and Use Taxes	76,382	-	76,382
City of Fort Payne - Alcohol Taxes	64,480	-	64,480
Tennessee Valley Authority	27,751	-	27,751
Medicaid Reimbursements	20,000	-	20,000
Other Local Revenue	6,244	-	6,244
E-Rate Reimbursements	5,000	-	5,000
Drivers Education	2,920	-	2,920
Other State Revenue	1,997	-	1,997
	<u>\$ 3,388,121</u>	<u>\$ -</u>	<u>\$ 3,388,121</u>

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 3 – RECEIVABLES (Continued)

Restricted receivables at September 30, 2014, consist of the following:

	<u>Other Governmental Funds</u>
State of Alabama	
Child Nutrition Program	\$ 279,853
IDEA, Part B	92,273
Title I, Part A	76,818
Title III	18,468
Title II, Part A	10,498
Career and Technical Education - BASIC Grant	9,867
Dependent Care	6,095
Capital Outlay Funding	5,509
EDP	1,949
Title VI, Part B	1,000
	<u>\$ 502,330</u>

NOTE 4 – INVESTMENTS

Investments consist of shares of BBVA Compass stock donated to the Board. During 2014, the net increase in fair value of investments was \$649. This amount is reported at fair value.

NOTE 5 - UNEARNED REVENUE

Governmental funds defer revenue recognition in connection with resources that have been received, but not yet earned. At September 30, 2014, the components of deferred revenue reported in the governmental funds were as follows:

	<u>Unearned</u>
State Program Revenues	<u>\$ 26,240</u>

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 6 – CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements / Reclassifications</u>	<u>Ending Balance</u>
Capital Assets, Not Being Depreciated:				
Land	\$ 969,809	\$ -	\$ -	\$ 969,809
	<u>969,809</u>	<u>-</u>	<u>-</u>	<u>969,809</u>
Capital Assets, Being Depreciated:				
Buildings and Improvements	24,871,619	171,590	-	25,043,209
Land Improvements-Exhaustible	2,356,927	42,682	-	2,399,609
Vehicles, Equipment, and Furniture	5,215,517	576,159	128,705	5,662,971
	<u>32,444,063</u>	<u>790,431</u>	<u>128,705</u>	<u>33,105,789</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	9,207,008	531,282	-	9,738,290
Land Improvements-Exhaustible	1,842,607	67,257	-	1,909,864
Vehicles, Equipment, and Furniture	3,019,120	384,231	128,705	3,274,646
Total Accumulated Depreciation	<u>14,068,735</u>	<u>982,770</u>	<u>128,705</u>	<u>14,922,800</u>
Total Capital Assets, Being Depreciated, Net	<u>18,375,328</u>	<u>(192,339)</u>	<u>-</u>	<u>18,182,989</u>
Total Capital Assets, Net	<u>\$ 19,345,137</u>	<u>\$ (192,339)</u>	<u>\$ -</u>	<u>\$ 19,152,798</u>

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

Instruction	\$ 481,332
Student Transportation Services	154,503
Food Services	68,583
Operation and Maintenance	62,962
Instructional Support	23,470
General and Administrative	<u>191,920</u>
 Total Depreciation Expense - Governmental Activities	 <u>\$ 982,770</u>

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 7 – INTERFUND BALANCES AND ACTIVITY

The composition of interfund transfers for the fiscal year ended September 30, 2014, is as follows:

	Transfers Out		
	General Fund	Other Governmental Funds	Total
Transfers In:			
General Fund	\$ -	\$ 46,787	\$ 46,787
Other Governmental Funds	444,942	38,076	483,018
	<u>\$ 444,942</u>	<u>\$ 84,863</u>	<u>\$ 529,805</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt services from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary operations.

Due To/Due From component unit and the primary government:

Receivable Entity

Component Unit:
 General Fund \$ 840,464

The amounts receivable from the City of Fort Payne, Alabama are comprised of \$775,984 of property taxes and \$64,480 of alcohol taxes. These amounts are collected by the City and remitted to the Board. The property taxes are utilized by the City of Fort Payne to service outstanding obligations of the Board, held in the name of the City (SEE NOTE 15). The property taxes portion of the receivable represents the excess amount of property tax revenue collected by the City over the amount of debt service required to be paid by the City.

NOTE 8 - OPERATING LEASES

The Board is committed under various annual leases for office equipment. These leases are considered for accounting purposes to be operating leases. Leases are renewed annually with no lease having a term greater than one year. Lease expenditures for the year ended September 30, 2014, amounted to \$42,203.

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 9 – LONG-TERM DEBT

Long-term debt consists of the following at September 30, 2014:

During 2010, the Board participated in the refinancing of the 1999 series Special Pool Loan with the State of Alabama School Board to issue \$1,869,493 of Capital Improvement Pool Bonds at a premium of approximately \$49,000. The proceeds were used for the defeasance of the 1999 series Special Pool Loan. The bonds mature annually through May 2019. Interest varies between 3.00 % and 5.00% and is payable semiannually on each May 1 and November 1.	\$ 1,009,713
During 2012, the Board participated in the refinancing of the 2002 series Special Pool Loan with the State of Alabama School Board to issue \$757,820 of Capital Improvement Pool Bonds at a premium of approximately \$107,000. The proceeds were used for the defeasance of the 2002 series Special Pool Loan. The bonds mature annually through March 2024. Interest varies between 3.00% and 5.00%, and is payable semiannually on March 1 and September 1.	<u>639,238</u>
	1,648,951
Unamortized Premium on 2009 Capital Improvement Pool Bonds	24,390
Unamortized Premium on 2012 Capital Improvement Pool Bonds	<u>87,906</u>
	<u>\$ 1,761,247</u>

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 9 – LONG-TERM DEBT (Continued)

<u>Fiscal Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Debt Service</u>
2015	245,711	78,502	324,213
2016	256,734	67,738	324,472
2017	269,184	55,158	324,342
2018	282,840	41,610	324,450
2019	298,998	27,375	326,373
2020-2024	<u>295,484</u>	<u>26,213</u>	<u>321,697</u>
	<u>\$ 1,648,951</u>	<u>\$ 296,596</u>	<u>\$ 1,945,547</u>

The City of Fort Payne (the City) has issued special tax revenue bonds to provide financial assistance to the Board for the acquisition and construction of new school facilities. The City is liable for the payment of the bonds, which are paid through city tax revenues. Accordingly, this debt is reflected in the financial statements of the City rather than the Board's financial statements. However, under the terms of an agreement with the City, the Board is responsible for the portion of debt service payments which exceed the earmarked tax revenues collected by the City. For the year ended September 30, 2014, the City collected tax revenues in excess of the debt service payments. Under the terms of the agreement, the City was liable to transfer the excess collections of \$775,984 to the Board.

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 9 – LONG-TERM DEBT (Continued)

Long-term liability activity for the year ended September 30, 2014, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
PSCA leveraged funds - 2009 issue, payable in annual installments of \$232,000 including interest at varying rates.	1,183,711	-	173,998	1,009,713	182,814
Unamortized Premium on 2009 PSCA issue.	29,711	-	5,321	24,390	-
PSCA leveraged funds - 2012 issue, payable in annual installments of approximately \$91,000 including interest at varying rates.	699,747	-	60,509	639,238	62,897
Unamortized Premium on 2002 PSCA issue.	<u>97,240</u>	<u>-</u>	<u>9,334</u>	<u>87,906</u>	<u>-</u>
	<u>\$ 2,010,409</u>	<u>\$ -</u>	<u>\$ 249,162</u>	<u>\$ 1,761,247</u>	<u>\$ 245,711</u>

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 10 - DEFINED BENEFIT PENSION PLAN

Plan Description

The Board contributes to the Teachers' Retirement Systems 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 are members of the Teachers' Retirement System. Membership is mandatory for covered or eligible employees. Benefits vest after 10 years of creditable service. Vested employees may retire with full benefits at age 60 or after 25 years of service. Retirement benefits are calculated by two methods with the retiree receiving payment under the method that yields the higher monthly benefit. The methods are (1) Minimum Guaranteed, or (2) Formula, of which the Formula method usually produces the higher monthly benefit. Under this method retirees are allowed 2.0125% of their average final salary (best three of the last ten years) for each year of service. Disability retirement benefits are calculated in the same manner. A Pre-retirement death benefit in the amount of the annual salary for the fiscal year preceding death is 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, 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, 135 South Union Street, Montgomery, Alabama 36130-2150.

Information necessary to complete the required supplemental information section for defined benefit pension plans is no longer provided by the Retirement Systems of Alabama on a unit basis for individual school boards. Due to the lack of actuarial information, the required supplemental information for defined benefit pension plans is not included in these financial statements.

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 10 - DEFINED BENEFIT PENSION PLAN (Continued)

Funding Policy

Employees are required by state statute to contribute a stated 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 Alabama 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:

Tier 1 Employees:

Fiscal Year Ended September 30	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contributions			
Percentage Contributed by the Board	11.71%	10.08%	11.16%
Percentage Contributed by Employees	<u>7.50%</u>	<u>7.50%</u>	<u>7.50%</u>
 Total Percentage of Covered Payroll	 <u>19.21%</u>	 <u>17.58%</u>	 <u>18.66%</u>
 Amount Contributed by the Board	 \$ 1,550,718	 \$ 1,340,728	 \$ 1,318,788
Amount Contributed by Employees	<u>993,201</u>	<u>997,567</u>	<u>956,117</u>
 Total Amount of Contributions	 <u>\$ 2,543,919</u>	 <u>\$ 2,338,295</u>	 <u>\$ 2,274,905</u>

Tier 2 Employees:

Fiscal Year Ended September 30	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contributions			
Percentage Contributed by the Board	11.08%	9.44%	0.00%
Percentage Contributed by Employees	<u>6.00%</u>	<u>6.00%</u>	<u>0.00%</u>
 Total Percentage of Covered Payroll	 <u>17.08%</u>	 <u>15.44%</u>	 <u>0.00%</u>
 Amount Contributed by the Board	 \$ 58,932	 \$ 8,401	 \$ -
Amount Contributed by Employees	<u>31,913</u>	<u>5,341</u>	<u>-</u>
 Total Amount of Contributions	 <u>\$ 90,845</u>	 <u>\$ 13,742</u>	 <u>\$ -</u>

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 11 - RETIREE HEALTH PLAN

Plan Description

The Board contributes to the Alabama Retired Education Employees' Health Care Trust (Trust), a cost-sharing multiple-employer defined benefit healthcare plan administered by the Public Education Employees' Health Insurance Board (PEEHIB). The Trust provides health care benefits to state and local school system retirees. Responsibility for the general administration and operations of the Trust is vested in its trustees who consist of the PEEHIB members. Active and retiree health insurance benefits are paid through the Public Education Employees' Health Insurance Fund (PEEHIF). PEEHIF was established in 1983 under the provisions of 83-455 of the Alabama Legislature to provide a uniform plan of health care insurance for employees and retired employees of state educational institutions. 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 for the plan. The Teachers' Retirement System of Alabama (TRS) has been appointed as the administrator of the PEEHIF and, consequently, serves as the administrator of the Trust.

The Public Education Employees' Health Insurance Plan (PEEHIP) offers a basic hospital/medical plan that provides basic medical coverage for up to 365 days of care during each hospital confinement. The basic hospital/medical plan also provides for physicians' benefits, outpatient care, prescription drugs, and mental health benefits.

Also available through the PEEHIP is an option to enroll in a health maintenance organization (HMO) in lieu of the basic hospital/medical plan. The HMO generally provides the same coverage as the basic hospital/medical plan.

Optional plans which may be selected in addition to or in lieu of the basic hospital/medical plan or HMO include: Hospital Indemnity, Cancer, Dental, and Vision. The Hospital Indemnity Plan provides a per day benefit for hospital confinement, maternity, intensive care, cancer, and convalescent care. The Cancer Plan provides a per day benefit for each hospital confinement related to cancer only. The Dental Plan covers diagnostic and preventative services as well as basic and major services based on reasonable and customary charges up to \$1,000 per year per person with dependent coverage (\$1,250 per year per person with employee coverage only). The Vision Plan covers annual eye examinations as well as the cost of either eyeglasses or contact lenses.

The Alabama Retired Education Employees' plan issues a stand-alone financial report that may be obtained at the PEEHIP website <http://www.rsa-al.gov/PEEHIP/peehip.html> under the Trust Fund Statements tab.

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 11 - RETIREE HEALTH PLAN (Continued)

Funding Policy

Code of Alabama, Section 16-25A-8 provides the authority to set the contribution requirements for plan members and employers. The code section provides the PEEHIB explicit authority to set the plan member contribution rate. Additionally, the code section requires that on or before January 1 preceding each regular meeting of the legislature, the PEEHIB shall certify to the governor and the legislature the amount or amounts necessary to fund coverage for benefits for the following fiscal year for employees and retired employees as a monthly premium per active member per month. The legislature then sets the premium rate in the annual appropriation bill.

Required monthly contribution rates for the fiscal year ended September 30, 2014, are as follows:

Retired Member Rates

- Individual Coverage/Non-Medicare Eligible - \$151
- Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - \$391
- Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible - \$250
- Individual Coverage/Medicare Eligible Retired Member - \$10
- Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependents - \$250
- Family Coverage/Both Retired Member and Dependent are Medicare Eligible - \$109
- For employees that retire on or after October 1, 2005, and before January 1, 2012, other than for disability, 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 by 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. Additionally, non-Medicare eligible employees who retire on or after January 1, 2012 are required to pay 1% more for each year less than age 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. However, 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 five year period.
- Tobacco surcharge - \$28 per month

Surviving Spouse Rates

- Surviving Spouse Non-Medicare Eligible - \$679
- Surviving Spouse Non-Medicare Eligible and Dependent Non-Medicare Eligible - \$870
- Surviving Spouse Non-Medicare Eligible and Dependent Medicare Eligible - \$839
- Surviving Spouse Medicare Eligible - \$318
- Surviving Spouse Medicare Eligible and Dependent Non-Medicare Eligible - \$516
- Surviving Spouse Medicare Eligible and Dependent Medicare Eligible - \$485

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 11 - RETIREE HEALTH PLAN (Continued)

Participating school systems are contractually required to contribute at a rate assessed each year by the legislature, currently \$220.09 per employee per month. The legislature sets the employer contribution rate based on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities of the plan over a period not to exceed thirty years. The Board's contribution to the PEEHIP for the year ended September 30, 2014, was \$870,961, which equaled the required contribution for the year.

NOTE 12 - MEDICARE PART D RETIREE DRUG SUBSIDY

The PEEHIP receives reimbursements from the federal government for continuing prescription drug coverage for Medicare beneficiaries. GASB Technical Bulletin 2006-1 *Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D* states that "An RDS (retiree drug subsidy) payment from the federal government to a defined benefit OPEB (Other Post Employment Benefit) plan that is administered as a qualifying trust (or equivalent arrangement) is an on-behalf payment for fringe benefits, as discussed in paragraph 7 of Statement 24. Employer members of the OPEB plan should recognize revenue and expense or expenditure for the payment in accordance with the recognition and measurement requirements of paragraph 8b pertaining to an employer that is legally responsible for contributions to the OPEB plan." The amount of revenue and expenditure recognized for the year ended September 30, 2014, for on-behalf payments for the Medicare Part D Retiree Drug Subsidy was \$128,333.

NOTE 13 - 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), Alabama Department of Finance, Division of Risk Management, a public entity risk pool, which operates as a common risk management and insurance program for state-owned properties and boards of education. The Board pays an annual premium based on the amount of coverage. The SIF is self-insured up to \$3 million per occurrence and purchases commercial insurance for claims in excess of \$3 million. Errors and omissions insurance is purchased from the Alabama Risk Management for Schools (ARMS), a public entity risk pool. The ARMS collects the premiums and purchases commercial insurance for the amount of coverage requested by pool participants. The Board purchases commercial insurance for fidelity bonds and vehicles. Settled claims in the past three years have not exceeded the commercial insurance coverage.

The State Board of Adjustment is a state agency with which people can file claims against the Board to collect reimbursement for damages when all other means have been exhausted. The Board does not have insurance coverage for job-related injuries. Claims for employee job-related injuries may be filed with the State Board of Adjustment. The Board of Adjustment determines if a claim is valid and determines the proper amount of compensation. Payments are made from state-appropriated funds at no cost to the Board. No such claims or related settlements have occurred in the past three years.

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 14 - PAYMENTS OR SERVICES FURNISHED BY OTHER AGENCIES

Certain payments or services are furnished by the State of Alabama and the City of Fort Payne on behalf of the Board. Included in these items are payments for bond issue proceeds, donated fixed assets, utilities and payments on city bond issues for school purposes. These payments or services are reflected as revenues on the Board's financial statements in the applicable funds for which they apply. Also, the City of Fort Payne holds legal title to some of the Board's land and buildings, and the related amounts are not reported in the accompanying financial statements. As of September 30, 2014, the Board utilized such land and buildings with aggregate costs of \$6,000 and \$1,452,557, respectively.

NOTE 15 - CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds or the general fund. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Board expects such amounts, if any, to be immaterial.

On October 1, 1996, the Board entered into a "Funding Agreement" with the City of Fort Payne whereby the Board would receive \$7,350,000 from the proceeds of the City's issue of General Obligation Warrants, Series 1996. Under the Agreement, the Board agreed to pay its pro rata share of the debt service on the Series 1996 Warrants. The Board's portion of debt repayment on the Series 1996 Warrants is 73.8% of the City's debt service obligation. Although the Agreement stipulates the Board is to remit payments monthly, the obligations are actually paid from a 7.5 mil tax designated for school system use that is collected by the City. The City remits to the Board any collections that are in excess of the debt service due from the Board for that year. The Board remits to the City any debt service costs that are in excess of collections by the City for that year. During the year ended September 30, 2005, the City refinanced and defeased this bond issue. The balance outstanding at the time was \$6,232,410. The Board's portion of the new warrants was \$4,490,000 at September 30, 2014. The new warrants mature on May 1, 2026.

NOTE 16 - DONATED FOOD PROGRAM

The commodities received from the federal government in connection with the donated food program are reflected in the accompanying financial statements. The total assigned value of commodities donated and consumed for the year was \$123,380.

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE 17 - DEFERRED COMPENSATION PLANS

The Board offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Section 457. The deferred compensation plan RSA-1 is administered by the Retirement Systems of Alabama and the American Fidelity annuity plans are administered by the Public Employees Benefit Services Corporation (PEBSCO) and Alabama Education Association (AEA). The RSA-1 plan is available to all Board employees participating in the Teachers' Retirement System. Participation in either plan is optional and permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency. All amounts of compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to those amounts, are solely the property of the employees. The plans' assets and liabilities are no longer reported on the Board's financial statements for the RSA-1 and PEBSCO plans.

NOTE 18 – ACCOUNTING CHANGES AND ACCOUNTING STANDARDS

In June 2011, the GASB issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and Statement No. 65 “Items Previously Reported as Assets and Liabilities”. Statement No. 63 provides guidance for deferred outflows of resources and deferred inflows of resources. The requirements of this Statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government’s net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The objective of Statement No. 65 is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or to recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues).

The implementation of Statement No. 65 resulted in the reclassification of beginning net position of the governmental activities in the government-wide financial statements. The prior year unavailable property tax revenue was reclassified as revenue of a prior period and resulted in the adjustment below:

Net position at September 30, 2013	\$ 26,315,774
Change in reporting for unavailable property tax revenue	<u>2,367,299</u>
Net position at September 30, 2013, restated	<u><u>\$ 28,683,073</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

FORT PAYNE CITY BOARD OF EDUCATION

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Budgeted Amounts		Actual Amounts Budgetary Basis	Budget to GAAP Differences Over (Under)		Actual Amounts GAAP Basis
	Original	Final				
REVENUES						
State	\$ 15,596,119	\$ 15,734,215	\$ 15,655,888	\$ -	\$ 15,655,888	
Federal	57,480	57,480	190,022	-	190,022	
Local	4,587,910	4,588,710	5,051,440	-	5,051,440	
Other	85,000	85,000	124,589	-	124,589	
	<u>20,326,509</u>	<u>20,465,405</u>	<u>21,021,939</u>	<u>-</u>	<u>21,021,939</u>	
EXPENDITURES						
Instruction	13,492,667	13,691,774	13,284,511	(1) 352,491	13,637,002	
Instructional Support	2,650,112	2,673,458	2,830,404	(1) 52,027	2,882,431	
Operation and Maintenance	1,621,856	1,683,722	2,006,084	(1) 929	2,007,013	
Student Transportation Services	993,420	1,155,397	952,028	(1) 13,419	965,447	
General Administration Services	1,164,173	1,164,173	1,101,784	(1) (433)	1,101,351	
Other Expenditures	350,217	351,017	325,155	(1) 14,321	339,476	
Capital Outlay	-	-	333,445	-	333,445	
	<u>20,272,445</u>	<u>20,719,541</u>	<u>20,833,411</u>	<u>432,754</u>	<u>21,266,165</u>	
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>54,064</u>	<u>(254,136)</u>	<u>188,528</u>	<u>(432,754)</u>	<u>(244,226)</u>	
OTHER FINANCING SOURCES (USES)						
Insurance Loss Recoveries	-	-	449,979	-	449,979	
Indirect Cost	-	-	184,011	-	184,011	
Transfers From Other Funds	167,210	203,765	46,787	-	46,787	
Transfers to Other Funds	(570,000)	(423,027)	(444,942)	-	(444,942)	
	<u>(402,790)</u>	<u>(219,262)</u>	<u>235,835</u>	<u>-</u>	<u>235,835</u>	
Net Changes In Fund Balances	(348,726)	(473,398)	424,363	(432,754)	(8,391)	
Fund Balances - Beginning of Year	<u>6,796,171</u>	<u>6,796,171</u>	<u>6,796,171</u>	<u>-</u>	<u>6,796,171</u>	
Fund Balances - End of Year	<u>\$ 6,447,445</u>	<u>\$ 6,322,773</u>	<u>\$ 7,220,534</u>	<u>\$ (432,754)</u>	<u>\$ 6,787,780</u>	

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

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

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2014

BUDGETS

Annual budgets are adopted for all governmental funds. State law requires Alabama school boards to prepare and submit to the state superintendent of education the annual budget adopted by the local board of education. All annual appropriations lapse at fiscal year end. In accordance with the regulations of the State Board of Education, the due date for submission of the budget for the 2013-2014 fiscal year was September 15, 2013. The Board approved its original annual budget on August 22, 2013, and submitted the budget to the state by September 15, 2013.

Neither the city superintendent of education nor the Board can submit any budget for operations of the school system that shows expenditures in excess of income estimated to be available plus any balances on hand. The superintendent with the approval of the board has the authority to make changes within the approved budget provided that a deficit is not incurred by such changes. The superintendent may approve amendments to program budgets without board approval.

SUPPLEMENTARY INFORMATION

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Certified Public Accountants and Business Consultants

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INDEPENDENT AUDITOR'S 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*

Fort Payne City Board of Education
Fort Payne, Alabama

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Fort Payne City Board of Education (the Board), a component unit of the City of Fort Payne, Alabama, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated January 19, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

MDA Professional Group, P.C.

Fort Payne, Alabama
January 19, 2015

SINGLE AUDIT ACT INFORMATION

FORT PAYNE CITY BOARD OF EDUCATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Federal CFDA Number	Pass-through Grantor Number	Federal Expenditures
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed through State Department of Education:			
<i>Special Education Cluster:</i>			
Special Education Grants to States - IDEA, Part B	84.027	159	\$ 773,090
Special Education-Preschool Grants - IDEA, Part B	84.173	159	12,225
<i>Subtotal Special Education Cluster</i>			<u>785,315</u>
Title I - Part A Grants to Local Education Agencies	84.010	159	820,009
Title VI-B Rural & Low Income	84.358	159	55,816
BASIC Grant - Career and Technical Education	84.048	159	38,037
English Language Acquisition Grants, Title III	84.365	159	78,655
Improving Teacher Quality Grants, Title II, Part A	84.367	159	93,995
Advance Placement Fee Program	84.330	159	360
<i>Subtotal Other Department of Education Grants</i>	84.394	159	<u>1,086,872</u>
<i>TOTAL U.S. DEPARTMENT OF EDUCATION</i>			<u>1,872,187</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed through State Department of Education:			
<i>Child Nutrition Cluster:</i>			
School Breakfast Program	10.553	159	336,145
National School Lunch Program - Cash Assistance	10.555	159	983,933
National School Lunch Program - Snacks	10.555	159	11,738
National School Lunch Program - Non-Cash Assistance	10.555	159	123,380
<i>Subtotal Child Nutrition Cluster</i>			<u>1,455,196</u>
U.S.D.A. Fresh Fruits and Vegetables Program	10.582	159	80,227
<i>TOTAL U.S. DEPARTMENT OF AGRICULTURE</i>			<u>1,535,423</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Passed through the State Department of Education:			
Dependent Care	93.575	159	6,095
Social Security-Disability Insurance	96.001	159	540
<i>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</i>			<u>6,635</u>
<u>U.S. DEPARTMENT OF DEFENSE</u>			
Direct Program:			
Army ROTC	Unknown	Unknown	61,149
<i>TOTAL U.S. DEPARTMENT OF DEFENSE</i>			<u>61,149</u>
<u>APPALACHIAN REGIONAL COMMISSION</u>			
Direct Program:			
Appalachian Regional Development Grant - HIPPY	23.011	AL-176217-C3-13	14,392
Appalachian Regional Development Grant - ICE Grant	23.002	AL-17767	100,000
<i>TOTAL APPALACHIAN REGIONAL COMMISSION</i>			<u>114,392</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 3,589,786</u>

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

SCHEDULE OF EXPENDITURES AND FEDERAL AWARDS (Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2014

BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance of the Fort Payne City Board of Education (Board). The Board receives federal awards both directly from federal agencies and indirectly through pass-through entities. Federal program expenditures included in the accompanying schedule are 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*.

MAJOR PROGRAMS

Major programs are identified in the Summary of Auditors' Results section of the Schedule of Findings and Questioned Costs.

FOOD DISTRIBUTION

Nonmonetary assistance is reported in the Schedule of Expenditures of Federal Awards at fair market value of the commodities received and disbursed.

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

Fort Payne City Board of Education
Fort Payne, Alabama

Report on Compliance for Each Major Federal Program

We have audited the Fort Payne City Board of Education (Board'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 each of the Board's major federal programs for the year ended September 30, 2014. The Board's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

MDA Professional Group, P.C.

FORT PAYNE CITY BOARD OF EDUCATION
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2014

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of audit reports issued:	unmodified
Internal control over financial reporting:	
Material weakness identified	no
Significant Deficiencies identified	no
Noncompliance material to financial statements noted	no

FEDERAL AWARDS

Internal control over major programs:	
Material weakness identified	no
Significant Deficiencies identified	none reported
Type of auditors' 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 Circular A-133	no

Identification of major programs

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>		
10.553/10.555	Child Nutrition Cluster		
23.002	Appalachian Regional Development - ICE		
Dollar threshold used to distinguish between Type A and Type B programs		\$	300,000
Auditee qualified as low-risk auditee			yes

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.