

**Enterprise City Board
of Education**

Financial Statements

For The Year Ended September 30, 2013

**Enterprise City Board of Education
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September 30, 2013**

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Enterprise City Board of Education (the "Board"), a component unit of the City of Enterprise, Alabama, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Board as of September 30, 2013, 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.

Emphasis of Matter Regarding Subsequent Event

This report is replacing the report previously issued on June 17, 2014. As shown in the Statement of Net Position, Statement of Activities, and Notes 8 and 15 of the Notes to Financial Statements, the Board has revised the report issued on June 17, 2014 to include the details and financial impact of a July 22, 2014 agreement between the Board and the City of Enterprise, Alabama. The Statement of Net Position has been adjusted to reflect the forgiveness of \$4,642,962 in notes payable and \$769,870 in accrued interest payable and the Statement of Activities has been adjusted to recognize the related income of \$5,412,832 presented as a Special Item.

Emphasis of Matter Regarding Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2013 the Board adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) Pronouncements; GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position; and 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 on pages 4 - 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The schedule of expenditures of

federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2014, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, L.L.C.

Certified Public Accountants

June 17, 2014 except for the Statement of Net Position, Statement of Activities, and Notes 8 and 15 in the Notes to Financial Statements as to which the date is July 22, 2014.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Introduction

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

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

Financial Highlights

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

On the government-wide financial statements:

- The assets of the Board exceeded its liabilities at the close of the 2013 fiscal year by \$128.73 million (net position). Of this amount, there is \$16.45 million in unrestricted net position. The net position invested in capital assets amounted to \$112.07 million. Restricted net position amounted to \$209 thousand. The government-wide financial statements are a long-term availability approach to analyzing the financial statements.
- The total cost of the Board's programs for the year was \$62.02 million. After taking away a portion of these costs paid from with charges for services, intergovernmental aid, interest earnings and other miscellaneous sources, the net cost that required funding from Enterprise City taxpayers was \$10.94 million.

On the fund financial statements:

- At the end of the current fiscal year, unassigned fund balance for the general fund was \$5.03 million.
- There was an overall increase of \$874 thousand in fund balance in governmental funds.
- The Board had a net decrease in its outstanding debt by \$679 thousand due to debt payments.

Overview of the Financial Statements

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

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

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

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

The fund financial statements provide more detailed information about the Board's most significant funds - not the Board as a whole. A fund is a grouping of related accounts that is used to keep track of specific sources of funding and spending for particular purposes. The Board uses fund accounting to ensure and demonstrate fiscal accountability. 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 budgetary comparison schedule for the general fund is prepared on a budgetary basis of accounting that differs from accounting principles generally accepted in the United States of America (GAAP). Note 2 to the financial statements includes a schedule explaining the differences between actual amounts as reported on the basis of budgeting and the GAAP basis of reporting. The governmental fund statements provide a detailed short-term view that helps readers determine whether there are more or fewer financial resources that can be spent in the near future to finance the Board's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information that explains the relationship (or differences) between them.

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

Financial Analysis of the Board as a Whole

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

Net Position - Governmental Activities

<i>September 30,</i>	2013 (in millions)	2012 (Restated) (in millions)
Assets		
Current and other assets	\$ 25.61	\$ 23.57
Capital assets, net of depreciation	127.81	129.04
Total assets	153.42	152.61

Deferred Outflows of Resources

Deferred loss on refunding	.26	.38
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Liabilities

Current liabilities	5.42	4.23
Noncurrent liabilities	15.30	21.34
Total liabilities	20.72	25.57

Deferred Inflows of Resources

Unavailable revenue - property taxes	4.24	4.10
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Net Position

Net investment in capital assets	112.07	107.53
Restricted	.21	11.32
Unrestricted	16.44	4.46
Total net position	\$ 128.72	\$ 123.31

The Board's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$128.72 million at the close of the fiscal year. The majority of the Board's net position are invested in capital assets (land, buildings, and equipment) owned by the Board. Since these capital assets are used in governmental activities, this portion of net position is not available for future spending or funding of operations. 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 – are \$16.44 million at the end of the year.

The following table of the Board's total revenues and expenditures condenses the results of operations for the fiscal year into a format where the reader can easily see total revenues of the Board for the year. It also shows the impact operations had on changes in net position as of September 30, 2013.

Summary of Changes in Net Position From Operating Results

<i>Years ended September 30,</i>	2013	2012
	(in millions)	(Restated)
		(in millions)
Program Revenues		
Charges for services	\$ 5.42	\$ 5.38
Operating grants and contributions	41.81	37.23
Capital grants	2.11	2.03
General Revenues		
Local property taxes	4.45	4.34
Sales and use taxes	6.46	6.49
Other taxes	.03	.03
Other	1.74	2.91
Special Item	5.41	-
Total revenues and special item	67.43	58.41

Expenses

Instructional	34.61	32.36
Instructional support	9.83	9.18
Operation and maintenance	5.33	4.85
Transportation	3.42	3.32
Food service	4.28	3.95
General administration and central support	2.57	2.43
Interest on long-term debt	1.01	1.01
Other	.97	.79
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Total expenses	62.02	57.88
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Change in net position	5.41	.53
<hr/>		
Net Position – Beginning, as originally stated	123.31	128.02
Restatement of net position due to implementation of GASB 63 and 65	-	(.22)
Restatement of net position due to prior period adjustment for obligation to the City of Enterprise	-	(5.01)
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Net Position – Beginning, as restated	123.31	122.79
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Net Position – Ending	\$ 128.72	\$ 123.31

Revenue Analysis:

- Program revenues account for 80% of total revenues including capital grant revenue.
- Operating grants and contributions make up 85% of program revenues. The major sources of revenues in this category are state foundation program funds, state transportation operating funds, and state and federal funds restricted for specific programs.
- Capital grants and contributions include state capital outlay funds and state funds to replace buses.
- Charges for services include federal reimbursement for meals, student meal purchases, and local school revenues.
- General revenues, primarily property taxes and sales taxes, were used to provide \$12.67 million for expenses not covered by program revenues.
- Special item was comprised of \$5.41 million in forgiveness of debt including principal and accrued interest. The transaction is described in more detail in Note 15 of the Notes to Financial Statements.

Expense Analysis:

- Instructional services expenses, primarily salaries and benefits for classroom teachers, are the largest expense function of the Board. 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-related assets.
- 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 the bus shop, and fleet insurance.
- Food services includes salaries and benefits for cooks, servers, lunchroom managers, and cashiers, as well as donated and purchased food, food preparation and service supplies, kitchen and lunchroom equipment, and depreciation of equipment and facilities.
- General administrative services include salaries and benefits for the superintendent, assistants, clerical and financial staff, and other personnel that provide system-wide support for the schools. Also included are legal expenses, liability insurance, training for board members and general administrative staff, printing costs, and depreciation of central office equipment and facilities.
- Other expenses include the salaries and benefits for adult and continuing education teachers, preschool teachers and aides, extended day personnel, and the community education instructor. Also included are the materials, supplies, equipment, related depreciation, and other expenses for operating programs outside of those for educating students in the K through 12 instructional programs.
- Debt service includes interest, but not principal payments, on long-term debt issues and other expenses related to the issuance and continuance of debt issues.

Performance of School Board Funds

Governmental Funds – As noted earlier, the Board uses fund accounting to control and manage resources in order to ensure compliance with finance-related legal requirements. Using funds to account for resources for particular purposes helps the reader to determine whether the Board is being accountable for the resources provided by taxpayers and other entities, and it may also help to provide more insight into the Board’s overall financial health.

The focus of the Board’s governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Board’s financial requirements. (Note that the relationship between the *fund financial statements* and the *government-wide financial statements* are reconciled on pages 14 and 16.) 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 balance of \$16.78 million.

General Fund – The general fund is the chief operating fund of the Board. The general fund balance increased by \$1.24 million this year. This is primarily due to the following reasons:

- Collection of Indirect costs from the Child Nutrition Program of .29 million.
- Increase in state funding.
- State EMA reimbursements for prior year’s expenditures related to the 2007 tornado of 1.03 million.

Insurance Loss Recovery Fund – This fund is used to account for funds received from covered capital losses. The fund balance of this fund decreased \$.36 million during fiscal year due to capital and other expenditures during the fiscal year.

Capital Projects-Local Fund - The capital projects-local fund is used to account for local financial resources paid on behalf of the Board for the acquisition or construction of major

capital facilities. This fund accounts for the proceeds of the local district 7 mil ad valorem tax used for school construction projects. The fund balance of this fund decreased \$1.38 million during fiscal year 2013. This decrease is due to expenditures for large capital projects ongoing during the fiscal year.

Public School Fund – The public school fund is used to account for financial resources used to acquire, repair or construct major capital facilities. During the fiscal year, all funds were used on ongoing capital projects.

Budgetary Highlights of Major Funds

The original 2013 fiscal year budget, adopted on July 31, 2012, was based on a bare bones approach that reflected only guaranteed revenues and necessary expenditures. The original budget was amended once during the year on May 13, 2013. The amendment was necessary to amend the budgeted 2013 federal allocations, budget federal carryover funds, reflect actual beginning fund balances, add revenue and expenditures for fund sources not reflected in the original budget, to update capital projects budget for a bid awarded on the Holly Hill lunchroom project, to add expenditures to Child Nutrition for equipment purchases approved by the State Department, and budget for additional expenditures not reflected in the original budget. In summary, the final budget is reasonable based on the financial activity of the Board.

General Fund – The comparison of the general fund original budget to the final amended budget is on page 17. Because actual revenues exceeded actual expenses there was an overall increase in the general fund.

Capital Asset and Debt Administration

Capital Assets - The Board's investment in capital assets for its governmental activities at September 30, 2013 totaled \$127.81 million, net of accumulated depreciation. The capital asset activity for the year is detailed in note 6 to the financial statements. 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 assets were decreased (depreciated) by \$3.18 million during fiscal year 2013. The Board expended available resources to acquire \$6.06 million in capital asset additions during the year.

Long-Term Debt - At year-end, the Board owed \$16.01 million in warrants, net of unamortized premiums. Of this amount, \$4.37 million was owed on the 2009C Pool Bonds, and \$11.59 million on the 2010 Warrants. More information with regard to the Board's long-term debt is presented in Note 8 to the financial statements.

Factors Bearing on the Board's Future

Funding – The rolling reserve act took effect in FY'13. A 15-year average will provide a stable funding base to establish a cap on state Education Trust Fund (ETF) appropriations. The process first builds reserves to allow repayment of the \$437 million debt owed to the state's Alabama Trust Fund by the constitutional deadline and then directs reserves to a stabilization fund. The stabilization fund will enable the state to reliably provide funding when revenue growth fails to meet projections in any given year. The long-term stability will allow school boards, administrators and teachers to serve students consistently.

County and City Sales Tax – City sales tax revenues increased by 1.1% while County Sales tax decreased slightly by 1.1% for FY'13.

Property Tax – Due to rising property values and completed new construction, property taxes overall increased by 2.6%. A portion of the special district property tax is earmarked for debt payment on the Capital Outlay Warrants Series 2010.

Student Enrollment – The latest student enrollment figure, as of the 2013-2014 twenty day (after Labor Day) report was 6,686.95 students. This indicates an increase in enrollment of 2.1%, or 137.75 students over the prior year and an increase of 24.2%, or 1,448.26 students over the last 10 years. State foundation program funds, our largest source of funds, are tied to student enrollment numbers. Because this funding is based on prior year enrollment numbers, we expect state foundation funding to increase for FY'15 at least \$630,000.

Medical and Retirement Costs – Employee health insurance is provided through the Public Education Employees' Health Insurance Program (PEEHIP). PEEHIP employer cost is \$714 per employee per month for fiscal year 2013. Employer contributions to the Teachers Retirement System (TRS) increased to 11.71% and 11.08% for Tier 1 and Tier 2 employees, respectively, for fiscal year 2014. 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, contact Brian Stewart, Chief School Financial Officer, P.O. Box 311790, Enterprise, AL 36331-1790, or by calling (334) 347-9531 during regular office hours, Monday through Friday, from 8:00 A.M. to 4:00 P.M.

**Enterprise City Board of Education
Statement of Net Position
September 30, 2013**

	Governmental Activities
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Assets	
Cash and cash equivalents	\$ 8,725,540
Investments	10,343,887
Receivables	6,104,033
Inventories	105,078
Restricted assets:	
Cash and cash equivalents	333,530
Capital assets, not being depreciated	5,890,541
Capital assets, net of depreciation	121,922,191
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Total assets	153,424,800
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Deferred Outflows of Resources	
Deferred loss on refunding	263,074
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Liabilities	
Accounts payable	954,272
Salaries and benefits payable	3,552,977
Accrued interest payable	124,688
Unearned revenue	80,448
Long-term liabilities	
Due and payable within one year	701,683
Due and payable after one year	15,304,997
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Total liabilities	20,719,065
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Deferred Inflows of Resources	
Unavailable revenue - property taxes	4,241,516
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Net Position	
Net investment in capital assets	112,069,126
Restricted for debt service	208,842
Unrestricted	16,449,325
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Total net position	\$ 128,727,293
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See accompanying notes to financial statements.

**Enterprise City Board of Education
Statement of Activities
For The Year Ended September 30, 2013**

Functions / Programs	Expenses
Instructional services	\$ 34,613,153
Instructional support services	9,834,677
Operation and maintenance services	5,330,537
Student transportation services	3,423,144
Food services	4,278,834
General administrative services	2,565,689
Interest and fiscal charges	1,009,505
Other expenses	968,217
Total	\$ 62,023,756

See accompanying notes to financial statements.

	Program Revenues			Net (Expenses) Revenues and Changes In Net Position Governmental Activities
	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	
\$ 513,853	\$ 29,382,204	\$ 404,547	\$ (4,312,549)	
954,738	6,569,064	67,682	(2,243,193)	
405,457	1,968,808	931,405	(2,024,867)	
191,460	2,375,125	329,189	(527,370)	
3,032,198	193,132	-	(1,053,504)	
23,316	1,027,831	380,515	(1,134,027)	
-	-	-	(1,009,505)	
301,853	297,492	-	(368,872)	
\$ 5,422,875	\$ 41,813,656	\$ 2,113,338	(12,673,887)	

General Revenues

Taxes:

Property taxes for general purposes	2,615,710
Property taxes for specific purposes	1,834,164
Local sales tax	6,456,596
Other taxes	33,669
Investment earnings	77,879
Miscellaneous	1,659,927

Special Item - forgiveness of debt 5,412,832

Total general revenues and special item	18,090,777
Change in net position	5,416,890
Net position - beginning, as previously stated	128,724,805
Prior period adjustments	(5,414,402)
Net position - beginning, as restated	123,310,403
Net position - ending	\$ 128,727,293

**Enterprise City Board of Education
Balance Sheet - Governmental Funds
September 30, 2013**

	General Fund	Insurance Loss Recovery Fund
Assets		
Cash and cash equivalents	\$ 3,646,199	\$ 833,602
Investments	2,274,945	4,288,113
Receivables	3,619,673	-
Due from other funds	1,756,592	-
Inventories	-	-
Restricted assets:		
Cash and cash equivalents	-	-
Total assets	\$ 11,297,409	\$ 5,121,715
Liabilities		
Accounts payable	\$ 593,637	\$ -
Due to other funds	8,107	-
Salaries and benefits payable	3,198,091	-
Unearned revenue	-	-
Total liabilities	3,799,835	-
Deferred Inflows of Resources		
Unavailable revenue - property taxes	2,462,791	-
Fund Balances		
Non-spendable	-	-
Restricted	-	-
Assigned	-	5,121,715
Unassigned	5,034,783	-
Total fund balances	5,034,783	5,121,715
Total liabilities, deferred inflows of resources, and fund balances	\$ 11,297,409	\$ 5,121,715

See accompanying notes to financial statements.

Local Capital Projects Fund	Public School Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ 620,094	\$ 1,349,018	\$ 2,276,627	\$ 8,725,540
2,780,829	-	1,000,000	10,343,887
1,778,725	30,584	675,051	6,104,033
-	-	8,107	1,764,699
-	-	105,078	105,078
333,530	-	-	333,530
\$ 5,513,178	\$ 1,379,602	\$ 4,064,863	\$ 27,376,767
\$ 181,301	\$ -	\$ 179,334	\$ 954,272
-	1,379,602	376,990	1,764,699
-	-	354,886	3,552,977
-	-	80,448	80,448
181,301	1,379,602	991,658	6,352,396
1,778,725	-	-	4,241,516
-	-	105,078	105,078
333,530	-	-	333,530
3,219,622	-	2,968,127	11,309,464
-	-	-	5,034,783
3,553,152	-	3,073,205	16,782,855
\$ 5,513,178	\$ 1,379,602	\$ 4,064,863	\$ 27,376,767

**Enterprise City Board of Education
Reconciliation of Balance Sheet of Governmental
Funds to Statement of Net Position
For The Year Ended September 30, 2013**

Amounts reported for governmental activities in the Statement of Net Position on page 11 are different because:

Total fund balance - governmental funds	\$	16,782,855
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

The cost of capital assets is	\$ 160,080,694	
Accumulated depreciation is	(32,267,962)	127,812,732
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Long-term liabilities, including bonds payable, bond discounts, deferred loss on refunding and accrued interest payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.

Accrued interest payable	(124,688)	
Deferred loss on refunding	263,074	
Current portion of long-term debt	(701,683)	
Non-current portion of long-term debt	(15,304,997)	(15,868,294)
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Total net position - governmental activities	\$	128,727,293
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See accompanying notes to financial statements.

**Enterprise City Board of Education
Statement of Revenues, Expenditures and Changes
in Fund Balances - Governmental Funds
For The Year Ended September 30, 2013**

	General Fund	Insurance Loss Recovery Fund
Revenues		
State revenues	\$ 34,904,653	\$ -
Federal revenues	1,474,990	-
Local revenues	9,361,952	33,613
Other revenues	145,881	-
Total revenues	45,887,476	33,613
Expenditures		
Instructional services	27,872,677	300,000
Instructional support services	7,571,591	-
Operation and maintenance	3,645,770	8,886
Student transportation services	2,768,752	-
Food services	-	-
General administrative services	1,471,666	-
Capital outlay	28,738	79,889
Debt service:		
Principal	-	-
Interest	-	-
Other expenditures	209,372	-
Total expenditures	43,568,566	388,775
Excess (deficiency) of revenues over (under) expenditures	2,318,910	(355,162)
Other Financing Sources (Uses)		
Indirect cost	287,605	-
Transfers in	359,469	-
Transfers out	(1,745,020)	-
Other financing sources	17,245	-
Total other financing sources (uses)	(1,080,701)	-
Net change in fund balances	1,238,209	(355,162)
Fund Balances - beginning, as previously reported	3,699,145	5,476,877
Prior period adjustments	97,429	-
Fund Balances - beginning, restated	3,796,574	5,476,877
Fund Balances - ending	\$ 5,034,783	\$ 5,121,715

See accompanying notes to financial statements.

Local Capital Projects Fund	Public School Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 1,379,602	\$ 729,780	\$ 37,014,035
-	-	7,151,096	8,626,086
1,859,108	-	4,567,336	15,822,009
-	-	402,558	548,439
1,859,108	1,379,602	12,850,770	62,010,569
11,105	-	3,668,123	31,851,905
-	67,683	1,969,340	9,608,614
40,530	931,404	596,292	5,222,882
183,185	-	527,050	3,478,987
-	-	4,332,188	4,332,188
7,789	380,515	612,944	2,472,914
2,029,257	-	-	2,137,884
490,000	-	186,575	676,575
474,650	-	213,253	687,903
3,375	-	758,841	971,588
3,239,891	1,379,602	12,864,606	61,441,440
(1,380,783)	-	(13,836)	569,129
-	-	-	287,605
-	-	1,745,020	2,104,489
-	-	(359,469)	(2,104,489)
-	-	-	17,245
-	-	1,385,551	304,850
(1,380,783)	-	1,371,715	873,979
4,933,935	-	1,798,919	15,908,876
-	-	(97,429)	-
4,933,935	-	1,701,490	15,908,876
\$ 3,553,152	\$ -	\$ 3,073,205	\$ 16,782,855

**Enterprise City Board of Education
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds To
Statement of Activities
For The Year Ended September 30, 2013**

Amounts reported for governmental activities in the Statement of Activities on page 12 are different because:

Total net change in fund balances - governmental funds	\$	873,979
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Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the period.

Capital outlays	\$ 2,880,514	
Depreciation expense	(4,108,782)	(1,228,268)

Accrued interest and the amortization of bond discounts and premiums of debt are reported as expenses in the Statement of Activities. However, these expenses do not require the use of current financial resources, and therefore, are not reported as expenditures in the governmental funds.

Interest	(199,343)	
Amortization	(118,885)	(318,228)

Revenue recognized for forgiveness of debt reported in the Statement of Activities does not represent current financial resources and are not reported as revenues in the fund financial statements.

5,412,832

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

Principal payments on long-term debt		676,575
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Change in net position of governmental activities	\$	5,416,890
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See accompanying notes to financial statements.

**Enterprise City Board of Education
Statement of Revenues, Expenditures and Changes in Fund
Budget and Actual - General Fund
For The Year Ended September 30, 2013**

	<u>Budgeted Amounts</u>	
	Original	Final
Revenues		
State revenues	\$ 33,382,112	\$ 33,510,174
Federal revenues	1,198,400	1,198,400
Local revenues	8,354,790	8,375,915
Other revenues	77,760	93,070
Total revenue	43,013,062	43,177,559
Expenditures		
Instructional services	25,835,045	25,939,511
Instructional support services	7,177,269	7,213,123
Operation and maintenance	3,990,666	4,011,766
Student transportation services	2,682,392	2,768,462
General administrative services	1,640,495	1,668,995
Capital outlay	30,000	35,745
Other expenditures	262,084	289,396
Total expenditures	41,617,951	41,926,998
Excess revenues over expenditures	1,395,111	1,250,561
Other Financing Sources (Uses)		
Indirect cost	100,000	100,000
Transfers in	342,115	352,258
Transfers out	(1,686,007)	(1,696,150)
Other financing sources	-	-
Total other financing sources (uses)	(1,243,892)	(1,243,892)
Excess Revenues and Other Sources Over Expenditures and Other Uses	151,219	6,669
Fund Balance - beginning, restated	3,796,574	3,796,574
Fund Balance - ending	\$ 3,947,793	\$ 3,803,243

See accompanying notes to financial statements.

Actual (Budgetary Basis)	Variance with Final Budget
\$ 34,904,653	\$ 1,394,479
1,474,990	276,590
9,361,952	986,037
145,881	52,811
<hr/>	<hr/>
45,887,476	2,709,917
<hr/>	<hr/>
27,659,984	(1,720,473)
7,483,900	(270,777)
3,644,398	367,368
2,760,016	8,446
1,472,486	196,509
28,738	7,007
214,943	74,453
<hr/>	<hr/>
43,264,465	(1,337,467)
<hr/>	<hr/>
2,623,011	1,372,450
<hr/>	<hr/>
287,605	187,605
479,113	126,855
(1,864,664)	(168,514)
17,245	17,245
<hr/>	<hr/>
(1,080,701)	163,191
<hr/>	<hr/>
1,542,310	1,535,641
3,796,574	-
<hr/>	<hr/>
\$ 5,338,884	\$ 1,535,641
<hr/> <hr/>	<hr/> <hr/>

Enterprise City Board of Education

Notes to Financial Statements

NOTE

1. Summary of Significant Accounting Policies
2. Stewardship, Compliance and Accountability
3. Cash, Cash Equivalents and Investments
4. Receivables
5. Interfund Activity
6. Capital Assets
7. Unearned Revenue and Deferred Inflows of Resources
8. Long-Term Debt
9. Employee Retirement Plan
10. Postemployment Benefits Other than Pension (OPEB)
11. Commitments and Contingencies
12. Risk Management
13. Prior Period Adjustments
14. On-Behalf Payments
15. Subsequent Events

Enterprise City Board of Education

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Enterprise City Board of Education (the "Board") 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 more significant of the Board's accounting policies are described below.

Reporting Entity

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

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 Enterprise, Alabama (the "City") due to the following reasons:

1. The City appoints all members of the governing body of the Board.
2. The City makes annual appropriations to the Board.
3. The City levied a percentage of its sales tax specifically for the operations of the Board.

The financial statements of the Board include local school activity funds and other funds under the control of school principals. These funds are reported on a reporting period ended September 30, 2013 as a special revenue fund.

Basis of Presentation, Basis of Accounting

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

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.

Enterprise City Board of Education

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as other governmental funds.

The Board reports the following major governmental funds:

General Fund – 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 received revenues from the Education Trust Fund (ETF), appropriated by the Alabama Legislature, and from local taxes. The State Department of Education allocated amounts appropriated from the ETF to the Board on a formula basis.

Insurance Loss Recovery Fund – This is a capital projects fund used to account for funds received from covered capital losses.

Local Capital Projects Fund – Fund used to account for the Board's portion of a 7 mil district tax restricted for capital improvements.

Public School Fund Capital Outlay – This fund accounts for funds received from the State Department of Education used for capital improvements.

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

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

1. IDEA – Part B
2. Preschool Ages 3 – 5 Part B
3. Vocational Education – Basic Grant
4. Title I Part A
5. Title I Part A School Improvement Reward
6. Title I, Part C – Migrant Education
7. Title II Part A Teacher and Principal Training
8. Title III – English Lang. Acq., Lang. Enhance. & Acad.
9. Title VI Rural & Low Income Program
10. Title X – Homeless Education
11. Education Jobs Fund
12. SLC E-Rate Refund

Enterprise City Board of Education

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

13. Local School Activity Funds
14. Food and Nutrition Fund

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

Measurement Focus, Basis of Accounting

Government-wide Financial Statements: The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Board gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from 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 Financial Statements: Governmental funds 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 (excluding state and federal reimbursements) to be available if the revenues are collected within thirty (30) days after 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 policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position

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 are stated 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 securities not insured by the federal government.

Receivables - Receivables include amounts due from grantors or grants issued for specific programs and local taxes. No allowances are made for uncollectible amounts because the amounts are considered immaterial.

Enterprise City Board of Education

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Tax Calendar - The Coffee County Commission (the "Commission") levies property taxes for all jurisdictions including the school boards and municipalities within the county. Millage rates for property taxes are levied at the first regular meeting of the Commission in February of each year. Property taxes are assessed for property as of October 1 of the preceding year based on the millage rates established by the Commission. Property taxes are due and payable the following October 1 and are delinquent after December 31.

Inventories and Prepaid Items - Inventories are valued at cost using the first-in/first-out (FIFO) method. GAAP requires only material balances of inventories accounted for using the purchases method to be reported as an asset in the appropriate governmental fund. Prepaid items, such as insurance premiums and rent, are recorded as expenditures in governmental funds when paid.

In the government-wide financial statements, inventories and prepaid items are recorded on an accrual basis using the consumption method. Expenses reflect the amount of materials and supplies consumed and the amount of prepaid items applicable to the current period.

Interfund Loans and Transfers - Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds"

Restricted Assets - Restricted assets at September 30, 2013 consist of cash and cash equivalents which are restricted by debt agreements for debt service payments. Cash and cash equivalents restricted for debt service payments totaled \$333,530.

Capital Assets - Purchased or constructed capital assets are reported at cost or estimated historical cost in the statement of net position. Donated assets are recorded at their estimated fair value at the date of donation. The cost of maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Capital assets are recorded as expenditures at the acquisition date in the fund financial statements. The Board has no general infrastructure assets.

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

Asset Class	Capitalization Threshold	Estimated Useful Life
Land improvements - exhaustible	\$ 50,000	40 years
Buildings	50,000	40 years
Building improvements	50,000	7 - 40 years
Equipment	5,000	5 - 20 years
Equipment under lease	5,000	5 - 20 years
Vehicles	5,000	5 - 7 years

Enterprise City Board of Education

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The capitalization threshold for land, construction in progress, and inexhaustible land improvements is \$1 or more. However, these capital assets are not depreciated.

Long-Term Obligations - In the government-wide financial statements, the unmatured principal of long-term debt, capital leases, and compensated absences are reported in the statement of net position. Interest expense for long-term debt, including accrued interest payable, is reported in the statement of activities. For warrants (bonds) and other long-term debt issued after October 1, 2003, the related premiums and discounts are amortized under accrual accounting and the annual amortization of these accruals is included in the statement of activities. The unamortized portion is reported as an addition or deduction from the related debt on the statement of net position.

In the fund financial statements, bond premiums and the face amount of debt issued during the year are reported as other financing sources. Debt issuance costs are not deducted from the amount reported as other financial sources but are reported as debt service expenditures. Any discount resulting from a disparity between the market rate and the stated rate of interest is reported as an other financing use. Expenditures for debt principal, interest and related costs are reported in the fiscal year payments are made. At the inception of a capital lease, an amount equal to the present value of the net minimum lease payments is reported as an other financing source and as an expenditure. The balance sheet does not reflect a liability for long-term debt.

Compensated Absences – Liabilities are accrued for vacation leave and other compensated absences with similar characteristics, (as the benefits are earned by the employees), if both of these conditions are met:

- a. The employees' right to receive compensation is attributable to services already rendered.
- b. It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

An accrual for earned sick leave should be made only to the extent it is probable that the benefits will result in termination payments, rather than be taken as absences due to illness or other contingencies, such as medical appointments and funerals.

Professional and support employees earn nonvesting sick leave at the rate of one day per month worked. Employees may accumulate an unlimited number of sick leave days. Employees may use their accrued sick leave as membership service in determining the total years of creditable service in the Teachers' Retirement System of Alabama, 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.

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

Enterprise City Board of Education

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Certain employees are allowed two weeks of vacation per year with pay. Personnel considered full time support personnel and instructional personnel contracted for the fiscal year are eligible for vacation leave. Because unused vacation leave cannot be carried over to succeeding years, no liability for unpaid leave is accrued in the financial statements.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position 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 and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Board has one item that qualifies for reporting in this category, deferred loss on refunding.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Board has one item that qualifies for reporting in this category, unavailable revenue - property taxes.

Unamortized Bond Insurance

Unamortized debt expense related to bond insurance is amortized by using the outstanding principal method over the life of the related debt and is reported as unamortized bond insurance on the statement of net position. Other bond issuance costs are expensed as incurred.

Net Position and Fund Balances - Net positions are reported on the government-wide financial statements and are required to be classified for accounting and reporting purposes into the following net position categories:

Net Investment in Capital Assets – 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 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.

Enterprise City Board of Education

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

To provide a structured classification of fund balances and to enhance the usefulness of fund balance reporting, GASB established a hierarchy for fund balance classifications and the constraints imposed on the users of those resources. Fund equity is reported in the fund financial statements in two major categories: nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Spendable fund balances are balances that can be used to finance Board operations with possible restrictions or limitations and are classified as either restricted, committed, assigned or unassigned as described below.

As of September 30, 2013, fund balances of the governmental funds are classified as follows:

Nonspendable – Amounts that cannot be spent either because they are not in spendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts that can be spent only for specific purposes because of constitutional provisions, charter requirements or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – Amounts that can be used only for specific purposes determined by a formal action of the Board, the highest level of decision making authority. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board.

Assigned – Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the Board's policy, only the Superintendent may assign amounts for specific purposes.

Unassigned – All other spendable amounts.

In governmental funds, the Board's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications—committed then assigned fund balances before using unassigned fund balances.

Enterprise City Board of Education

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

	General Fund	Insurance Loss Recovery Fund	Local Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:					
Inventories	\$ -	\$ -	\$ -	\$ 105,078	\$ 105,078
Restricted:					
Debt service	-	-	333,530	-	333,530
Assigned:					
Insurance Loss Recovery Fund	-	5,121,715	-	-	5,121,715
Local capital projects	-	-	3,219,622	-	3,219,622
Subsequent years' budget	-	-	-	2,968,127	2,968,127
Unassigned	5,034,783	-	-	-	5,034,783
	<u>\$ 5,034,783</u>	<u>\$ 5,121,715</u>	<u>\$ 3,553,152</u>	<u>\$ 3,073,205</u>	<u>\$ 16,782,855</u>

The financial statements include summary reconciliations of the fund financial statements to the government-wide statements after each of the fund financial statements. The governmental fund balance sheet is followed by a reconciliation between *Total fund balance - governmental funds* and *Total net position – governmental activities* as reported in the government-wide statement of net position. The governmental funds statement of revenues, expenditures and changes in fund balances is followed by a reconciliation between *Total net change in fund balances -governmental funds* and *Change in net position of governmental activities* as reported in the government-wide statement of activities.

Management Estimates and Assumptions

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

Recently Issued Accounting Pronouncements

The Board implemented the following GASB Statements in fiscal year 2013:

- Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement improves financial reporting by codifying all sources of GAAP for state and local governments so that they derive from a single source. The Board has elected to include all pre-November 30, 1989 FASB pronouncements which are now codified in

Enterprise City Board of Education

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 62, as mentioned in the *Basis of Accounting* section above. As such, disclosures of FASB or AICPA pronouncements applied to these and future financial statements are no longer required.

- Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides guidance for certain items formerly classified as assets and liabilities. GASB Concepts Statement 4 redefines these as “deferred outflows of resources” (formerly assets) and “deferred inflows of resources” (formerly liabilities). Each new category must have its own section on the statement of net position. This statement also requires that the last line of the statements formerly titled “Net assets” now be titled “Net position” to reflect the new classifications. In addition, “Capital assets, net of related debt” should now be titled “Net investment in capital assets” in order to properly present the total of the items.
- Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement provides more guidance for the items in GASB Statement No. 63. It requires the avoidance of the word “deferred” throughout financial statements, except as it relates to items that are designated as deferred outflows or deferred inflows. It addresses the calculation of a deferred outflow or inflow for refunding of debt. For nonexchange transactions such as grants, amounts received before the time period of eligibility are treated as deferred inflows. This statement also addresses taxes received prior to the period to which they relate. It requires issuance costs related to debt to be expenses in the period that the debt was issued versus amortizing over the life of the debt, as previously allowed. The effects of implementation of this statement are to be disclosed on the financial statements in the period of adoption. The Board chose to early implement GASB Statement No. 65 for the year ended September 30, 2013. It required debt issuance costs to be recognized as an expense in the period incurred. Further, to retroactively apply the provisions, it required a restatement of beginning net position to expense bond issuance costs previously capitalized by the Board.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets

The Board adopts an annual budget for the general fund as prescribed by State law. 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. In accordance with the regulations of the State Board of Education, the due date for submission of the budget for the 2013 fiscal year was September 15, 2012. The Board approved and submitted its original 2013 annual budget on July 31, 2012. Additionally, Board policy requires all annual appropriations to lapse at fiscal year-end.

The 2013 budget was amended in May 2013 primarily to budget carryover federal funds, adjust federal allocations, and budget additional state and other grant funds that became available after submission of the original budget.

Enterprise City Board of Education

Notes to Financial Statements

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

The City Superintendent of Education (the "Superintendent") or Board cannot approve any budget for operations of the school system for any fiscal year 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.

The budget is prepared under a budgetary basis of accounting that differs from GAAP. Salaries of teachers and other personnel with contracts of less than twelve months are paid over a twelve month period. Expenditures for salaries (and related fringe benefits) and interest expense are budgeted based on the amount that will be paid from budgeted revenues. However, salaries (and related benefits) earned but not paid are reported as expenditures on the financial statements. Similarly, interest expense incurred but not paid as of year-end is reported as an expenditure on the financial statements.

Adjustments to convert the results of operations of the general fund at the end of the year from the budgetary basis of accounting to the GAAP basis of accounting are as follows:

	Total Expenditures
Budget basis	\$ 43,264,465
Non-budgeted accrued salaries and fringe benefits	
Instructional services	212,693
Instructional support services	87,691
Operations and maintenance	1,372
Student transportation services	8,736
General and administrative	(820)
Other expenditures	(5,571)
<u>GAAP basis</u>	<u>\$ 43,568,566</u>

Excess Expenditures Over Appropriations

The general fund actual expenditures exceeded budgeted expenditures by \$1,337,467. The excess was funded with additional current year revenues.

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Board will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Board's deposits at year-end were entirely covered by federal deposit insurance or by the Security for Alabama Funds Enhancement Program (SAFE Program). The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the **Code of Alabama 1975**, Sections 41-14A-1 through 41-14A-14.

Enterprise City Board of Education

Notes to Financial Statements

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Under the SAFE Program all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits with original maturities of greater than three months. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

All of the Board's investments and restricted investments were in certificates of deposit. These certificates of deposit are classified as "Deposits" in order to determine insurance and collateralization. However, they are classified as "Investments" on the financial statements.

	Total Fair Value	0 – 1 Year	1 – 5 Years
Certificates of deposit	\$ 10,343,887	\$ 10,089,774	\$ 254,113

NOTE 4 - RECEIVABLES

Receivables at September 30, 2013 consist of the following:

	General	Local Capital Projects	Public School Capital Projects (PSF)	Other Non- major	Total
State Department of Education					
School Lunch Program	\$ -	\$ -	\$ -	\$ 209,610	\$ 209,610
E-Rate/SLC Refunds	-	-	-	201,804	201,804
IDEA-Part B	-	-	-	177,243	177,243
Pre-School Part B	-	-	-	1,358	1,358
Vocational Education	-	-	-	11,099	11,099
Title I, Part C – Migrant Ed.	-	-	-	29,366	29,366
Title II, Part A – Teacher Training	-	-	-	4,352	4,352
Title III – English Lang.	-	-	-	9,334	9,334
Title X – Homeless Education	-	-	-	9,784	9,784
Capital Projects	-	-	30,584	-	30,584
Alabama Department of Labor	48,563	-	-	-	48,563
Coffee County Revenue					
Commissioner	2,999,271	1,778,725	-	-	4,777,996
City of Enterprise	571,839	-	-	-	571,839
Department of Defense	-	-	-	21,101	21,101
Total receivables	\$ 3,619,673	\$ 1,778,725	\$ 30,584	\$ 675,051	\$ 6,104,033

All receivables are considered fully collectible and, accordingly, no allowance for uncollectible accounts has been recorded.

Enterprise City Board of Education

Notes to Financial Statements

NOTE 5 - INTERFUND ACTIVITY

Due to/from other funds at September 30, 2013 consisted of the following amounts:

Due to	Due from			Total
	General	PSF Capital Project	Nonmajor Governmental	
General	\$ -	\$ 1,379,602	\$ 376,990	\$ 1,756,592
Nonmajor governmental	8,107	-	-	8,107
	\$ 8,107	\$ 1,379,602	\$ 376,990	\$ 1,764,699

Interfund transfers consisted of the following for the year ended September 30, 2013:

Transfers Out	Transfers In		Total
	General	Nonmajor Governmental	
General	\$ -	\$ 1,745,020	\$ 1,745,020
Nonmajor governmental	359,469	-	359,469
	\$ 359,469	\$ 1,745,020	\$ 2,104,489

Amounts due to the general fund and nonmajor governmental funds are for reimbursement of expenses.

Transfers from the general fund to nonmajor governmental funds for food services salaries and local tax revenues allocated to local schools totaled \$927,437 and \$730,115, respectively. All other transfers were for routine activities.

NOTE 6 - CAPITAL ASSETS

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

	Beginning Balance	Additions	Deductions	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 4,571,889	\$ -	\$ -	\$ 4,571,889
Construction in progress	3,175,228	1,318,652	3,175,228	1,318,652
Total capital assets, not being depreciated	7,747,117	1,318,652	3,175,228	5,890,541

Enterprise City Board of Education

Notes to Financial Statements

NOTE 6 - CAPITAL ASSETS (Continued)

Other capital assets:				
Buildings	132,103,871	3,255,117	-	135,358,988
Building improvements	9,786,303	739,342	-	10,525,645
Furniture and equipment	7,562,889	742,631	-	8,305,520
<hr/>				
Total other capital assets at historical cost	149,453,063	4,737,090	-	154,190,153
<hr/>				
Less accumulated depreciation for:				
Buildings	18,739,679	3,251,332	-	21,991,011
Building improvements	5,394,499	200,414	-	5,594,913
Furniture and equipment	4,025,002	657,036	-	4,682,038
<hr/>				
Total accumulated depreciation	28,159,180	4,108,782	-	32,267,962
<hr/>				
Total other capital assets, net	121,293,883	628,308	-	121,922,191
<hr/>				
Total governmental activities capital assets, net	\$129,041,000	\$ 1,946,960	\$ 3,175,228	\$127,812,732

Depreciation expense was charged to governmental functions as follows:

Instructional services	\$ 2,878,019
Instructional support services	226,072
Operation and maintenance services	107,656
Student transportation services	464,102
Food services	340,161
General and administrative	92,772
<hr/>	
Total governmental activities depreciation expense	\$ 4,108,782

NOTE 7 - UNEARNED REVENUE AND DEFERRED INFLOWS OF RESOURCES

	General Fund	Local Capital Projects	Other Governmental
Property Taxes – Property taxes are levied by the County Commission in February of each year based on property on record as of the preceding October 1. The enforceable legal claim exists as of October 1 preceding the February meeting of the County Commission. The actual billing and collection of these taxes will occur subsequent to year-end.	\$ 2,462,791	\$ 1,778,725	\$ -

Enterprise City Board of Education

Notes to Financial Statements

NOTE 7 - UNEARNED REVENUE AND DEFERRED INFLOWS OF RESOURCES (Continued)

Unearned Revenue – Daily lunch and breakfast sales revenue received but not yet expended represent revenues that will be recognized subsequent to year end.

	-	-	80,448
	\$ 2,462,791	\$ 1,778,725	\$ 80,448

As discussed in Note 1, unearned revenue related to property taxes is classified as a deferred inflow of resources on the statement of net position.

NOTE 8 - LONG-TERM DEBT

During the year ended September 30, 2013, the following changes occurred in long-term liabilities reported in the statement of net position:

	Restated Balance October 1, 2012	Proceeds	Retirements	Balance September 30, 2013	Amounts Due Within One Year
2010 Capital					
Outlay Warrants	\$ 12,080,000	\$	-	\$ 11,590,000	\$ 505,000
2009 Capital					
Improvement					
Pool Bonds	4,559,734	-	(186,575)	4,373,159	194,148
Note payable	4,642,962	-	(4,642,962)	-	-
Unamortized					
bond premiums	46,056	-	(2,535)	43,521	2,535
	\$ 21,328,752	\$	-	\$ 16,006,680	\$ 701,683

2010 Capital Outlay Warrants

On December 1, 2010, the Board issued \$12,555,000 of Series 2010 Capital Outlay Warrants. The proceeds were used to refund, on a current basis, the outstanding Capital Outlay Warrants Series 2006 and the Warrant Anticipation Note. Interest rates range from 3.00 to 4.75 percent. Principal payments are due annually on March 1, and interest payments are due semi-annually on March 1 and September 1.

The warrants are secured by a pledge and assignment of the Board's allocable portion of the proceeds of a special franchise, excise and privilege license tax. The Board recognized a deferred loss on refunding on issuance of the 2010 warrants in the amount of \$607,093. Amortization of the deferred loss on refunding for the year ended September 30, 2013 was \$121,419. The refunding resulted in an economic loss of \$91,022 and a cash flow loss of \$1,136,257.

Enterprise City Board of Education

Notes to Financial Statements

NOTE 8 - LONG-TERM DEBT (Continued)

Annual debt service requirements to maturity for the 2010 Capital Outlay Warrants are as follows:

Fiscal Year Ending September 30,	Principal	Interest
2014	\$ 505,000	\$ 459,725
2015	520,000	444,350
2016	535,000	428,525
2017	550,000	412,250
2018	565,000	395,525
2019 – 2023	3,170,000	1,640,557
2024 – 2028	3,910,000	893,956
2029 – 2033	1,835,000	88,231
	\$ 11,590,000	\$ 4,763,119

Pledged revenues recognized for the year ended September 30, 2013 were \$2,901,155 while total debt service was \$964,650.

Capital Improvement Pool Bonds, Series 2009-C

Pursuant to Act 1998-373 and 2009-813 enacted by the Alabama Legislature, the Alabama Public School and College Authority (PSCA) issued the Series 2009-C Capital Improvement Pool Bonds to loan funds to participating local school boards for the purpose of funding capital improvements approved by the PSCA and State Superintendent of Education. The Board received a loan of \$5,197,945 of PSCA funds in 2009.

The loan is scheduled to be paid back through a reduction of annual Public School Fund allocations received from the Alabama Department of Education. Principal payments are due annually on May 1, and interest payments are due semi-annually. Interest rates range from 4.00 to 5.00 percent of the original amount borrowed.

Annual debt service requirements to maturity for the Series 2009-C Capital Outlay Pool Bonds are payable as follows:

Fiscal Year Ending September 30,	Principal	Interest
2014	\$ 194,148	\$ 205,790
2015	201,722	198,024
2016	209,983	189,956
2017	218,245	181,556
2018	226,506	172,826
2019 – 2023	1,293,635	589,344
2024 – 2028	1,648,195	428,950
2029 – 2030	380,725	56,214
Total	\$ 4,373,159	\$ 2,022,660

Enterprise City Board of Education

Notes to Financial Statements

NOTE 8 - LONG-TERM DEBT (Continued)

Note Payable, City of Enterprise

In 2008, the City of Enterprise issued \$30,000,000 of General Obligation (GO) Bonds. The Bonds' proceeds were appropriated to the Board for the construction of two schools, Enterprise High and Hillcrest Elementary. To assist with the Bonds' debt service, the Board agreed to an unsecured obligation to the City with terms requiring 14 annual payments of \$550,000 beginning in 2016. The \$4,642,962 principle amount of the note was calculated using a discount rate of 3.91%, the average interest rate over the life of the GO Bonds. On July 22, 2014, the Board reached an agreement with the City whereby the City agreed to forgive the debt as part of an overall capital improvement plan.

NOTE 9 - EMPLOYEE RETIREMENT PLAN

Plan Description

The Board contributes to the Teachers' Retirement System of Alabama, a cost-sharing multiple-employer public employee retirement system for the various state-supported educational agencies and institutions. This plan is administered by the Retirement Systems of Alabama. Substantially all employees are members of the Teachers' Retirement System. Substantially all employees are members of the Employees' Retirement Systems of Alabama. Membership is mandatory for covered or eligible employees of the Agency. Benefits vest after 10 years of creditable service for all employees. Vested employees may retire with full benefits as follows:

	Tier 1 (members hired before January 1, 2013)	Tier 2 (members hired on or after January 1, 2013)
Eligibility for retirement benefits	Age 60 with at least 10 years of service or after 25 years of service at any age	Age 62 with at least 10 years of service
Average final salary (AFS)	Average of highest 3 fiscal years (July-June) out of the last 10 fiscal years the member made contributions	Average of the highest 5 fiscal years (July-June) out of the last 10 fiscal years the member made contributions
Benefit factor (BF)	2.0125%	1.65%
Maximum monthly benefit	(AFS x years of service x BF)/12	(AFS x years of service x BF)/12

Disability retirement benefits are calculated in the same manner as retirement benefits. Pre-retirement death benefits are payable to the member's beneficiaries in varying amounts dependent upon years of service and whether the member was vested (10 years or more of service).

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

Enterprise City Board of Education

Notes to Financial Statements

NOTE 9 - EMPLOYEE RETIREMENT PLAN (Continued)

institutions. The responsibility for general administration and operation of the Teachers' Retirement System is vested in the Board of Control (currently 14 members). Benefit provisions are established by the Code of Alabama 1975, Sections 16-25-1 through 16-25-113, as amended, and Sections 36-27B-1 through 36-27B-6, as amended.

The Retirement Systems of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Teachers' Retirement System of Alabama. That report may be obtained by writing to The Retirement Systems of Alabama, 135 South Union Street, Montgomery, Alabama 36130-2150.

Funding Policy

Employees of the Board are required by statute to contribute a percentage of their salary to the Teachers' Retirement System (7.5% for Tier 1 employees and 6.0% for Tier 2 employees). The Board is required to contribute the remaining amounts necessary to fund the actuarial determined contributions to ensure sufficient assets will be available to pay benefits when due. Each year the Teachers' Retirement System recommends to the Legislature the contribution rate for the following fiscal year, with the Legislature setting this rate in the annual appropriation bill. The percentages of the contributions and the amount of contributions made by the Board and the Board's employees equal the required contributions for each year as follows:

<i>Fiscal year ended September 30,</i>	2013	2012	2011
Total percentage of covered payroll	17.58%	17.25%	17.51%
Contributions:			
Percentage contributed by the Board	10.08%	10.00%	12.51%
Percentage contributed by employees	-	7.25%	5.00%
Percentage contributed by Tier 1 employees	7.50%	-	-
Percentage contributed by Tier 2 employees	6.00%	-	-
Contributed by the Board	\$ 3,001,659	\$ 2,937,015	\$ 3,470,829
Contributed by the employees	2,230,164	2,129,336	1,495,136
Total contributions	\$ 5,231,823	\$ 5,066,351	\$ 4,965,965

NOTE 10 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB)

The Board contributes to the Alabama Retired Education Employee's Health Care Trust (Trust), a multiple employer cost sharing defined benefit health care plan established in 2007 under the provisions of Act 2007-16 as an irrevocable trust fund. The Trust is administered by members of the Public Education Employees' Health Insurance Board (the PEEHIB). The Trust provides health care benefits to state and local school system retirees. *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 issues a publicly available financial report that includes financial statements and required supplementary information for the Trust. The report may be obtained by writing to The Retirement Systems of Alabama, 135 South Union Street, Montgomery, Alabama 36130-2150 or by visiting www.rsa-al.gov.

Enterprise City Board of Education

Notes to Financial Statements

NOTE 10 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) (Continued)

Code of Alabama 1975, Section 16-25A-8 provides the PEEHIB explicit authority to set the contribution requirements for plan members and employers. The employer's share of premiums for retired Board employee's health insurance is included as part of the premium for active employees and is funded on a pay-as-you-go basis. Retirees eligible for Medicare benefits must pay \$10 per month for coverage while those not eligible for Medicare must pay \$151 per month for coverage. The estimated portion of health insurance premiums paid by the Board for retired employees was approximately \$2,011,219 or 30.38% of total Board allocations paid during fiscal year 2013. 100% of the required contributions were paid by the Board. The Board has no responsibility for the payment of health care benefits, beyond the payment of the premium, for retired employees.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

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

The Board is subject to 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. The amount, if any, of which the board is liable for noncompliance cannot be determined at this time although the Board expects such amount, if any, to be immaterial.

The Board has a construction contract in place at Holly Hill Elementary School. The total contract is for \$1,948,700 and \$1,166,238 has been expended to date. Costs to complete this contract totaled \$802,122 at September 30, 2013.

The Board is involved in various claims and litigation arising in the ordinary course of operations. In the opinion of legal counsel, the range of potential recoveries or liabilities in excess of insurance coverage, if any, is not determinable.

NOTE 12 - RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; and natural disasters. The Board purchases commercial insurance for its buildings and contents, fidelity bonds and vehicles. The Board has insurance for its buildings and contents through the State Insurance Fund (SIF), Alabama Department of Finance, Division of Risk Management, 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 \$3.5 million per occurrence. The SIF purchases commercial insurance for claims, which in the aggregate exceed \$3.5 million. Errors and omissions insurance is purchased from Alabama Risk Management for Schools (ARMS), a public entity risk pool. ARMS collects the premiums and purchases commercial insurance for

Enterprise City Board of Education

Notes to Financial Statements

NOTE 12 - RISK MANAGEMENT (Continued)

the amount of coverage requested by pool participants. The Board purchases commercial insurance for vehicle liability and fidelity bonds. Settled claims in the past three years have not exceeded the commercial insurance coverage.

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

The State Board of Adjustments 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 claims or related settlements have occurred in the past three years.

NOTE 13 - PRIOR PERIOD ADJUSTMENTS

As discussed in Note 1, the implementation of GASB Statement No. 65 required that debt issuance costs, with the exception of prepaid insurance costs, be recognized as an expense in the period incurred. The cumulative effect of applying this statement retroactively was a decrease in net position in the amount of \$205,248.

As detailed in Note 8 the Board incurred an unsecured obligation to assist the City in repaying a portion of the City's 2008 General Obligation Bonds, proceeds of which were used to help finance the construction of two new schools. In prior years as the bond proceeds were forwarded to the Board they were recorded as revenue (appropriations from the City) and the obligation to repay was disclosed in the notes as a contingency. A prior period adjustment of \$5,209,154 was recorded in the current period to reflect the net present value and accrued interest on the loan as of September 30, 2012.

General fund balance was overstated and aggregate non-major fund balances were understated by \$97,429 on the September 30, 2012 financial statements as a result of misclassified accrued salaries. The beginning balance has been restated to reflect correct amounts.

NOTE 14 - ON-BEHALF PAYMENTS

The U.S. Government makes certain retiree drug subsidy payments on-behalf of the Board for its employees to the Retirement Systems of Alabama. The Board records these payments as both a revenue and expenditure in the general fund. The total of on-behalf payments for the fiscal year ended September 30, 2013 was \$225,148.

Enterprise City Board of Education

Notes to Financial Statements

NOTE 15 - SUBSEQUENT EVENTS

The Board has evaluated subsequent events between September 30, 2013 and July 22, 2014, the date the financials were available to be issued, and except for the Special Item presented below, there were none to disclose.

Special Item

On July 22, 2014, to assist with financing an approximate \$26.7 million construction and renovation project to the School system's infrastructure, the Board entered into an agreement with the City of Enterprise (the "City") whereby the City agreed to transfer to the Board a total of \$16,681,055 from a 2014 bond issue. As part of the agreement, the City agreed to forgive or otherwise nullify the Board's obligation to pay to the City \$550,000 per year which was agreed upon by ratification through Board and City action in 2008. The debt forgiveness of \$4,642,962 in principal and \$769,870 in accrued interest was reported as a Special Item in the Statement of Activities.

COMPLIANCE INFORMATION

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards** issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Enterprise City Board of Education (the "Board") as of and for the year ended September 30, 2013, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated June 17, 2014, except for the Statement of Net Position, Statement of Activities, and Notes 8 and 15 in the Notes to Financial Statements as to which the date is July 22, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider deficiencies 2013-01, 2013-02, 2013-03, 2013-04, 2013-05, and 2013-06 described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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. We consider deficiencies 2013-07, 2013-08, 2013-09, and 2013-10 described in the accompany schedule of findings and questioned costs to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2013-11 and 2013-12.

We noted certain other matters that we reported to the Board's management in a separate letter dated June 17, 2014.

The Boards' Response to Findings

The Board's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Board's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, L.L.C.

Certified Public Accountants

June 17, 2014 except for the Statement of Net Position, Statement of Activities, and Notes 8 and 15 in the Notes to Financial Statements as to which the date is July 22, 2014.



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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

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

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Basis for Qualified Opinion on Child Nutrition Cluster

As described in the accompanying schedule of findings and questioned costs, the Board did not comply with requirements regarding CFDA 10.553 & 10.555 Child Nutrition Cluster as described in finding numbers 2013-13 for activities allowed and 2013-14 for eligibility. Compliance with such requirements is necessary, in our opinion, for the Board to comply with the requirements applicable to that program.

Qualified Opinion on Child Nutrition Cluster

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 the Child Nutrition Cluster for the year ended September 30, 2013.

Unmodified Opinion on Each of the Other Major Federal Programs

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 other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended September 30, 2013.

Other Matters

The Board's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Board's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency in internal control over compliance described in the accompany schedule of findings and questioned costs as item 2013-13 to be a material weakness.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-14 and 2013-15 to be significant deficiencies.

The Board's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Board's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, L.L.C.

Certified Public Accountants

June 17, 2014

**Enterprise City Board of Education
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2013**

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA No.	Pass Through Grantor's Number	Expenditures
Social Security Administration			
Disability Insurance	96.001	N/A	\$ 2,797
U.S. Department of Education			
Direct Program:			
Impact Aid	84.041	N/A	1,373,853
Passed through State Department of Education			
Title I	84.010	180	1,062,967
Title II - Teacher Training	84.367	180	170,949
Migrant Education – State Grant Program	84.011	180	43,468
Education for Homeless Children and Youth	84.196	180	14,000
English Language Acquisition State Grants	84.365	180	30,403
Vocational Education – Basic Grant	84.048	180	65,108
Subtotal			1,386,895
Special Education Cluster			
Special Education Grants to States	84.027	180	1,179,529
Special Education Preschool Grants	84.173	180	17,738
Subtotal Special Education Cluster			1,197,267
Total U.S. Department of Education			3,958,015
U.S. Department of Agriculture			
Passed through State Department of Education			
Child Nutrition Cluster			
USDA Severe Need Breakfast Program	10.553	180	385,801
National School Lunch Program	10.555	180	1,327,515
Subtotal Child Nutrition Cluster			1,713,316
Food Distribution Program**	10.565	180	192,579
Fresh Fruit and Vegetable Program**	10.582	180	19,538
Total U.S. Department of Agriculture			1,925,433
U.S. Department of Defense			
Direct Program			
ROTC Program	12.357	N/A	98,339
DoDea Grants	12.556	N/A	982,325
Total U.S. Department of Defense			1,080,664

(Continued)

**Enterprise City Board of Education
Schedule of Expenditures of Federal Awards - Continued
For the Year Ended September 30, 2013**

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA No.	Pass Through Grantor's Number	Expenditures
Federal Emergency Management Agency			
Passed Through State of Alabama Emergency Management Agency			
Disaster Grants – Public Assistance	97.036	N/A	1,659,177
Federal Emergency Management Agency			
Passed Through State of Alabama Emergency Federal Disaster Grants received in current year for prior year expenditures			
	97.036	N/A	(1,659,177)
Total federal awards			\$ 6,966,909

**USDA Donated Food - No actual cash transactions

**Enterprise City Board of Education
Notes to Schedule of Expenditures of Federal Awards
For The Year Ended September 30, 2013**

NOTE 1 – BASIS OF ACCOUNTING

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

The modified accrual basis of accounting is followed in the Schedule of Expenditures of Federal Awards (the "Schedule"). Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related liability is incurred. In applying the susceptible-to-accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of such revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the Board; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and substantially irrevocable; i.e., revocable only for failure to comply with prescribed compliance requirements, such as with equal employment opportunity. These resources are reflected as revenues at the time of receipt or earlier if they meet the availability criteria.

NOTE 2 - DONATED FOOD PROGRAM

The value of non-cash commodities received from the federal government in connection with the donated food program is reflected in the accompanying financial statements. The total assigned value of commodities donated was \$212,117 for fiscal year 2013.

NOTE 3 – REIMBURSEMENTS

Awards received from the Federal Emergency Management Agency were expended in prior years and reimbursed in the current year. These amounts have been included as a reconciling item in the Schedule.

NOTE 4 – CONTINGENCIES

Grant monies received and disbursed by the Board are for specific purposes and are subject to review by the grantor agencies. Such audits may result in requests for reimbursement due to disallowed expenditures. Based upon prior experience, the Board does not believe that such disallowance, if any, would have a material effect on the financial position of the Board. As of June 17, 2014, there were no known material questioned or disallowed costs as a result of grant audits in process or completed.

**Enterprise City Board of Education
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2013**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Any material weakness(es) identified? yes no
- Any significant deficiencies identified not considered to be material weaknesses? yes none reported

Any noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Any material weakness(es) identified? yes no
- Any significant deficiencies identified not considered to be material weaknesses? yes none reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553	Child Nutrition Cluster
10.555	USDA Breakfast Program
84.041	National School Lunch Program
97.036	Impact Aid
	Federal Disaster Assistance Funding

Dollar threshold used to distinguish between type A and type B programs? \$ 300,000

Auditee qualified as low-risk auditee? yes no

Section II – Financial Statements Findings

2013-01 Journal Entries

Condition – In general, manual journal entries (JEs) prepared by the Staff Accountant and Chief School Financial Officer (CSFO) are not reviewed by appropriate personnel before recording/posting to the general ledger (G/L). Additionally, the CSFO, who is primarily responsible for the preparation of the Board's financial statements, calculates and records a significant number of JEs.

Enterprise City Board of Education Schedule of Findings and Questioned Costs For the Year Ended September 30, 2013

Criteria – JEs are used to supplement the electronic recording of activity to ensure the proper matching, recording, and reporting of financial activity. Formal reviews and approvals of JEs, especially those affecting significant accounts and estimates, are the most effective way to ensure accuracy and completeness.

Cause – The absence of formal, documented and consistent reviews and approvals of JEs increases the Board's risk of material misstatement whether due to error or fraud.

Effect – Improper or inaccurate JEs can cause the financial statements to be materially misstated. Manual JEs are one of the primary areas for errors and concealing fraud.

Recommendation – *Procedures should be implemented requiring formal reviews and approvals of all journal entries. We suggest that the Chief School Financial Officer review journal entries prepared by the Staff Accountant. In addition consideration should be given to spreading the journal entry preparation workload to alleviate segregation issues and allow for training of additional staff.*

We also suggest management implement enhanced procedures to review manual JEs and non-routine JEs, as this area has the greatest risk for fraud and material misstatement.

In regards to recording classification of grants received, a small error in any one area or classification could extrapolate into significant or material errors being included in the financial statements. Therefore, we recommend that the Board place additional emphasis on the review classification of grant revenues and expenditures.

Finally, we suggest management consistently and thoroughly document its review of all JEs.

Views of Responsible Officials and Planned Corrective Actions – The Alabama State Department of Education requires that the CSFO have the superintendent review and approve all JEs before reports are given to the Board. This requirement is currently in compliance. We have added additional procedures to ensure that all manual JEs are approved by the CSFO and accountant as well as the Superintendent.

2013-02 Risk Assessment Policy – Financial Statements

Condition – The Board had not documented having ever performed a formal financial risk assessment.

Criteria – Clarified Auditing Standards (AU-C315.18) require auditors specifically consider whether the lack of a risk assessment process is a material weakness or significant deficiency. An effective policy should be in place to ensure management assesses risks that could impact the financial statements.

Cause – Lack of formal, documented procedures to assess risk increases the likelihood of material misstatement in the financial statements due to error or fraud.

Effect – Unidentified inherent and residual risk could result in material misstatements reported on the financial statements.

Enterprise City Board of Education Schedule of Findings and Questioned Costs For the Year Ended September 30, 2013

Recommendation – *Management should assess, on a recurring basis, the likelihood and impact of all identified risks, using qualitative and quantitative methods. The likelihood and impact associated with inherent and residual risk should be determined individually, by category and on a portfolio basis.*

Development and maintenance of a risk-response process should be completed and designed to ensure that cost-effective controls mitigate exposure to risks on a continuing basis. The risk-response process should identify risk strategies such as avoidance, reduction, sharing or acceptance; and consider risk tolerance levels.

Views of Responsible Officials and Planned Corrective Actions – We are in the process of compiling a formal written risk assessment process which will comply with AU-C315.18 to include: identifying business risks relevant to financial reporting objectives; estimating the significance of the risks; assessing the likelihood of their occurrence; and deciding about actions to address those risks.

2013-03 Database Maintenance Access – McAleer application

Condition – Users have direct access to the database tables used by the financial system.

Criteria – Data table access should be restricted to those who require database administration function only. Data tables should not be accessible to users of the application to prevent unauthorized data changes.

Cause – Lack of control over database access could result in unauthorized and unidentified changes to the underlying tables containing the Board's financial information.

Effect – The absence of controls increases the Board's susceptibility to fraud.

Recommendation – *Data table access should be restricted to those who require database administration function only. Data tables should not be accessible to users of the application to prevent unauthorized data changes.*

Direct access to the database could allow a user the capability to modify financial data which may not be detected by the normal transaction auditing functions in McAleer.

Employee's direct access to database tables should be removed.

Views of Responsible Officials and Planned Corrective Actions – We are working with our accounting software provider to correct this issue and restrict database access to only personnel in our IT department.

2013-04 Access to Programs and General Security – McAleer application

Condition – The following Information Technology (IT) access control deficiencies were noted:

- External and internal vulnerabilities are not reviewed on an annual basis.
- There is no documented formalized audit performed of user permissions.

Enterprise City Board of Education Schedule of Findings and Questioned Costs For the Year Ended September 30, 2013

- The current IT policies do not include sanctions for violations of said policies.
- There are no password requirements enabled in the McAleer system.
- The granting of, change of, and removal of user permissions is not adequately formalized.
- Some users have unnecessary administrative rights to the network.
- A username and password has been set for the McAleer system which allows access to the McAleer Server and all modules for McAleer. This username is shared for maintenance.
- The access rights of two former Board employees with high level rights within the financial application were not disabled subsequent to their termination.
- The server on which the McAleer system resides is accessible by using the Remote Desktop protocol via the internet with no access protection beyond a username and password.

Criteria – The access control environment consists of access control software and information security policies and procedures. A sound security management structure should include a method of classifying and establishing ownership of resources, proper segregation of duties, a security organization and resources, policies regarding access to the computer systems and a security education program. An individual or a group with responsibility for security administration should develop information security policies, perform account administration functions, and establish procedures to monitor and report security violations.

Cause – Sound security management serves as a preventative control over improper access to and improper use of the Board IT environment and as periodic monitoring control.

Effect – The absence of sound security management increases the Board susceptibility to fraud and unauthorized transactions.

Recommendation – *We recommend management consider reviewing application permissions at least annually to ensure that each employee has least-privileged access. The review should include a thorough examination of segregation of duties within and across platforms. Further, monitoring of super user access should be more formalized and documented.*

Management should consider implementing an auditable, formalized change of permissions procedure.

All users with access to financial data should be removed within 24 hours of termination of employment.

Passwords should be required by the system to contain at least 8 characters, require both letters and numbers, and at least one special character. Users should be locked out after three invalid login attempts and limit the reuse of previous passwords to the last five.

Access to the shared user account should be severely restricted and controlled. Approval of each user with this access should be completed by the CFO. Further, the password should be changed immediately upon departure or change in any user with this access.

We recommend that group permissions be reviewed semi-annually and users be removed from groups who do not require access to the network administrator's group.

Enterprise City Board of Education Schedule of Findings and Questioned Costs For the Year Ended September 30, 2013

It is recommended that application programmers and IT personnel be completely segregated from each other.

Further, management should consider performing annual internal and external penetration testing to assess and evaluate network vulnerabilities. It is recommended that a formal risk assessment be conducted and reviewed annually or as often as new threats arise.

Views of Responsible Officials and Planned Corrective Actions – Our system is in the process of developing a disaster recovery plan for our IT infrastructure and a data governance policy in conjunction with state guidelines which will include a password policy. These new policies along with the existing policies will include sanctions for violations. We have done a thorough review of users in the McAleer system and have inactivated all users who do not need access or are no longer employed. We are improving on a current process to ensure employees who have left service will be removed or inactivated from all IT systems, including McAleer, and ensure any assigned inventory is recovered. We are currently working with our software company to see if password restrictions can be enabled and to restrict access for all users to only necessary functions. In order to limit access to the McAleer server, we are adopting a solution currently used with other servers in the system.

2013-05 Segregation of Duties

Condition – An inadequate system of segregation of duties exists relative to the following processes:

- Initiating purchase orders
- Matching invoices received in the mail to originating purchase order
- Reconciling the bank statements
- Posting transactions into McAleer
- Printing pre-signed checks
- Preparing, making, and recording deposits

Criteria – To the extent possible, duties should be segregated to serve as a check and balance to maintain the best possible procurement and receipting control systems. Different employees should perform the separate duties of signing checks, processing cash receipts and cash disbursements, and maintaining books of original entry.

Cause – Adequate policies and procedures are not in place to ensure that deposits received in the mail are logged, approved, and deposited daily. Control totals from daily logs should be matched and agreed to each deposit slip. Deposit slips and logs should be attached and agreed to each deposit reported on the bank statement. Similarly, no individual employee should handle more than one of the above-noted functions in the procurement process. Separating closely related functions in the deposit and procurement processes will result in much greater internal control.

Effect – Improper or inadequate segregation of duties could result in material misstatements reported in the financial statements due to fraud or error.

Enterprise City Board of Education Schedule of Findings and Questioned Costs For the Year Ended September 30, 2013

Recommendation – *Proper segregation of duties dictates that employees involved in the purchasing function should not be responsible for reconciling the bank statements, posting transactions into the system or printing checks. We recommend dividing these processes between different individuals to strengthen purchasing controls within the school board. Additionally, we recommend that checks be manually signed by authorized individuals only.*

A system of controls over cash receipts is intended to protect both the asset and individuals handling the receipts. We recommend the secretary opening the mail prepare a daily receipts log. The receipt log should be forwarded to the CSFO and the cash and checks should be forwarded to the Staff Accountant to prepare the daily bank deposit. The CSFO (or a person not having access to the receipts) should reconcile daily bank deposits to the log. Discrepancies, if any, should be resolved daily. Additional controls over deposits would reduce the risk of fraud or error and provide the CSFO with documentation to track and monitor deposits.

Views of Responsible Officials and Planned Corrective Actions – We hired a Purchasing Agent in November 2013 which is taking on some of these responsibilities to help segregate the more critical accounting functions. We have also implemented a mail log for checks received which is controlled by the receptionist. This will add needed controls to the receipting function.

2013-06 Compensation

Condition – We noted that employee set up and changes to employee profiles are subject only to self-check or an optional review of completeness and accuracy of the requested change(s). Additionally, we noted the following exceptions in a sample of 60 employees. Items 1 through 4 were paid without documented approval from either the Board or the Superintendent. Items 5 through 7 received unilateral approval of the Superintendent without documented approval of the board.

1. Three employees received stipends totaling \$7,300.
2. One adjustment was made to a coaching stipend of \$689.
3. One employee received additional compensation of \$4,930 for working the extended day program.
4. One employee received overtime of \$1,100.
5. One employee negotiated an alternative work schedule and gross pay increase of \$10,326.
6. One school principal negotiated a starting salary \$5,436 higher than the minimum required by the Board's approved salary schedule.
7. One employee's salary was reduced \$3,656.

Criteria – Code of Alabama Section 16-12-17 states: *“The city superintendent of schools shall, at such times and in such manner as directed by the city board of education, under the rules and regulations promulgated by the State Superintendent of Education, prepare his payroll or payrolls for the payment of teachers, employees, bills and other items authorized by the city board of education. No public funds must be paid out by the city treasurer except on an order signed by the chairman of the city board of education, accompanied by a certificate of the city superintendent of schools that the payroll or order is correct, due and unpaid.”*

Cause – Policies and procedures should ensure that inputs are reviewed for accuracy and completeness. Documented approvals should be obtained prior to set up and maintenance.

Enterprise City Board of Education Schedule of Findings and Questioned Costs For the Year Ended September 30, 2013

Effect – Inadequate policies and procedures relating to compensation could result in material misstatements, violations of state laws or material noncompliance reported in the financial statements.

Recommendation – *We recommend that all changes to compensation outside of the Board approved salary schedule be first submitted to the Board for approval. Once the Board approves the change, documentation for the change should be maintained in the employee's personnel file. Further, we recommend the Board adopt compensation thresholds for all stipends, overtime, or salaries not currently included in the salary schedule. Additionally, we recommend the Board adopt a policy requiring the input be reviewed for authorization, completeness and accuracy. Adjustments should be documented in a numbered, standardized form to ensure completeness and accuracy of requested changes.*

Views of Responsible Officials and Planned Corrective Actions – Any changes to employees' salaries are now being approved by the Board prior to any payments and all Board policies relating to employee payments and hiring practices are now being followed. We have developed a miscellaneous pay schedule for stipends, and rates for other extra work which will be submitted to the Board along with the salary schedule for approval in June 2014. The Board has contracted with the Alabama Association of School Boards to help revise any needed policies. A committee will review all Board policies and any suggested personnel policies will be addressed in this revision process.

2013-07 Critical Spreadsheets

Condition – We noted that critical spreadsheets used to capture information for financial statement preparation are not password protected and cell formulas are not locked for editing.

Criteria – The Board utilizes various spreadsheets in financial statement preparation, primarily the calculation of depreciation and other supporting calculations.

Cause – Reliance on spreadsheets to generate information material to the financial statements.

Effect – Improper or inadequate controls over spreadsheets used in financial statement preparation could result in material misstatements reported on the financial statements.

Recommendation – *We recommend the Board review its policy for utilizing spreadsheets and, at a minimum, implement the following procedures for "critical spreadsheets that impact the financial statements":*

- *Prepare an inventory of critical spreadsheets*
- *Implement user access controls (either to shared drives or to the spreadsheets – depending on the criticality)*
- *Validate and lock formulas*
- *Ensure appropriate reconciliation to either source data/amounts or repository data/amounts*
- *Initiate a change management process for changes to the spreadsheets (including validation of changes prior to placing them into production)*

Enterprise City Board of Education Schedule of Findings and Questioned Costs For the Year Ended September 30, 2013

Views of Responsible Officials and Planned Corrective Actions – We are in the process of eliminating all critical accounting spreadsheets and instead using the accounting system to account for these functions. This process should be completed by the end of the 2014 fiscal year.

2013-08 Procurement

Condition – Our audit procedures revealed the following:

- Purchase requests are made through work orders, email or phone calls. There is no formal policy or procedure for the requisition of a purchase order (PO).
- A manual PO system is used instead of the paperless system built into the Board's accounting software.
- Management does not periodically monitor deleted POs for propriety.
- In a test of 60 local school disbursements, we noted 39 where the initiator of the PO failed to sign. Additionally, management stated that POs were often created after the order had been placed.

Criteria – Monitoring the use of POs reduces the possibility of unauthorized purchases and maintains control over the purchasing environment. A purchase requisition process documents the individual requesting the purchase, need, quantity, time frame, and department approval prior to the issuance of a PO.

Cause – The Board of Education's policies and procedures require that an approved PO be obtained prior to placing a procurement order. This policy has multiple functions, including documenting the authorized individual requisitioning the purchase and helping to ensure the price paid and vendor utilized was approved.

Effect – Monitoring is an essential detective measure in any purchase order system. Deletion of POs could be a sign of a simple input error, lack of information upon initiation, or fraud. Requisitions and initiator signatures also play a key role in an effective procurement system of control. If requisitions or initiator signatures are not required, the authorizer has the ability to unilaterally initiate and authorize a transaction.

Recommendation – *We recommend establishing a policy requiring a formal requisition be approved by department heads prior to generating a purchase order. Further, we suggest the CSFO or Superintendent review the purchase requisition during the purchase order approval process. Controls within the purchasing process reduce the likelihood of fraud and abuse, and provide written evidence as to the authorization and execution of each purchase.*

Each school or department should retain copies of all purchase orders issued in a numerical, rather than chronological, file. We recommend that the CSFO and each principal and director review deleted POs on a periodic basis (perhaps monthly) to determine the root cause, which could lead to operational efficiencies and deter fraud.

We recommend all departments and schools follow the Board policy of documentation and approval for those employees responsible for initiating and approving purchase orders.

Enterprise City Board of Education Schedule of Findings and Questioned Costs For the Year Ended September 30, 2013

Views of Responsible Officials and Planned Corrective Actions – With the recent purchase of Softdocs, a document routing and storage system, we will be able to eliminate these and other control issues when fully implemented. The new system will allow us to electronically initiate, route, approve, sign and store all purchase information. It will also allow us to monitor and control POs more effectively and electronic signatures will be attached to all documents initiated or approved.

2013-09 Check Printers and Check Stock

Condition – The Magnetic ink character recognition (MICR) printer used to print vendor checks and the blank check stock are located in an unsecured location. Additionally, a pre-signed check signing system is utilized.

Criteria – Limited and controlled access should be maintained on all physical components necessary to issue a check for payment.

Cause – The MICR printer and check stock are not maintained in a limited and secure environment.

Effect – Unauthorized access and use of the check stock and printer may not be prevented or detected in a timely manner.

Recommendation – *Since checks are printed pre-signed, the drafting of fraudulent checks could easily be perpetrated. Check stock and the MICR printer should be stored in a secure, entry-controlled location. Additionally, management should perform physical inventories of blank check stock at least quarterly.*

Views of Responsible Officials and Planned Corrective Actions – The room where the MICR printer and check stock are located is now kept locked and only authorized employees have access.

2013-10 Cash Receipts from Athletic Events

Condition – Four of five athletic events tested disclosed an accurate log of tickets sold was not tracked, calculated or agreed to cash deposits. Additionally, the individuals responsible for counting, reconciling and preparing collection deposits did not sign off on management's count sheet as required. Since there was no inventory control over ticketing, it was not possible to determine actual gate receipts. Deposits related to ticket sales at these events totaled \$83,192.

Criteria – Management's policy for ticket sales at athletic events requires the individuals charged with collecting tickets to reconcile any differences between the value of tickets sold and the total cash collected.

Cause – Controls are ineffective when not applied or monitored.

Effect – Unreconciled cash receipt collections may result in undetected error or theft.

Enterprise City Board of Education Schedule of Findings and Questioned Costs For the Year Ended September 30, 2013

Recommendation – *Cash management is a crucial part of ticketing any sporting event. We recommend that ticket inventory control totals be timely summarized and compared to the bank deposit slips to ensure that all cash sales are timely deposited, accounted for, and recorded. Additionally, we recommend strict adherence to management’s policies requiring individuals responsible for collecting, counting, and preparing bank deposits from school events to document the completion of their responsibility by signing required count sheets and all other authorized control documents.*

Views of Responsible Officials and Planned Corrective Actions – Gate receipt/ticket sales accountability forms had been implemented and are now being used for all events where ticket sales are required. Also, fundraiser accountability forms have been put in place to ensure accountability when raising funds for schools.

2013-11 Reporting of “Non-Routine” Transactions

Condition – As noted below, the Code of Alabama charges the Chief School Financial Officer (CSFO) with unilateral authority in determining if a transaction is deemed “non-routine, unusual, or not in compliance with the fiscal management policies of the board”. Though whether or not a transaction should be reported to the Board is subjective, our audit did disclose at least one transaction not reported to the Board that was non-routine and unusual and would appear to have warranted Board notification. The Superintendent entered into an absolute release and settlement agreement for damages to the Community College in consideration of \$300,000 without approval from the Board of Education.

Criteria – The Code of Alabama Section 16-13A-5 states in part that:

- (a) *“The chief school financial officer shall work under the direct supervision of the local superintendent of education but shall have a fiduciary responsibility to the local board of education.*
- (b) *The chief school financial officer shall perform the following duties:*

Personally notify, in writing, each board member and the local superintendent of education of any financial transaction of the local board of education which the chief school financial officer deems to be non-routine, unusual, without legal authorization, or not in compliance with the fiscal management policies of the board. The notification shall be recorded in the minutes of the board by the president of the local board of education.”

Cause – The Board has no policy providing any guidance as to specific type of transactions or transaction amounts that warrant their notification.

Effect – A transaction that may warrant the Board’s attention might not be submitted in writing to each board member and the local superintendent due to the lack of a formal policy.

Recommendation – *Section 16-13A-5 allows for CSFO judgment and does not stipulate a specific amount or type of transaction which distinguishes between a normal transaction and a non-routine or unusual transaction. Though the Board should be able to rely on the judgment of the CSFO, we suggest the Board adopt a policy that as a minimum establishes a dollar amount threshold for individual expenditures, or aggregate expenditures by category, which require Board notification and approval.*

Enterprise City Board of Education Schedule of Findings and Questioned Costs For the Year Ended September 30, 2013

Views of Responsible Officials and Planned Corrective Actions – The Board has contracted with the Alabama Association of School Boards to help revise any needed policies. A committee will review all Board policies and any policies suggested by the auditors will be addressed in this revision process.

2013-12 Competitive Bidding

Condition – A test of 7 vendors with expenditures exceeding \$15,000 identified two that were not competitively bid as required by the Code of Alabama. The Board did not competitively bid over \$300,000 of fuel purchases and failed to bid purchases of produce that exceeded the \$100,000 limit for produce.

Criteria – The Code of Alabama 1975 Section 16-13B-1 requires expenditures of funds greater than \$15,000 be entered into by free and open competitive bidding. Unprocessed agricultural products with a cost of \$100,000 or less are exempt from the State's bid requirement.

Cause – State bid laws help ensure that vendors selected and amounts paid for purchases are in the best fiscal interest of the Board.

Effect – The Board is not in compliance with the Code of Alabama 1975 Section 16-13B-1.

Recommendation – *We recommend strict adherence to state bid laws. Directors in each department should familiarize themselves with the Code of Alabama 1975 Section 16-13B. Bid files should be retained and documented for all major contracts and purchases applicable to competitive bidding requirements. Additionally, we recommend that management verify bid files are compliant for vendors and purchases identified through vendor dollar reports and capital purchase summaries.*

Views of Responsible Officials and Planned Corrective Actions – Over the last year, reports have been compiled and all known items requiring bid awards will have been bid by August 2014.

Section III – Federal Award Findings and Questioned Costs

2013-13 Activities Allowed (Cost Segregation)

Child Nutrition Cluster (180)

CFDA No. 10.553 and 10.555

U.S. Department of Agriculture

Condition – The Child Nutrition Program (CNP) operates a catering business in conjunction with providing food to children through the school breakfast and lunch programs. The catering business provides catering services and/or a venue for various private and school related events. The business incurs expenditures for the cost of food and makes collections based on the price charged for hosting the event. Management does not segregate costs between the federal program and local activity.

**Enterprise City Board of Education
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2013**

Criteria – Title 7, Section 3015.61 of the Code of Federal Regulations requires that in cases where projects are not 100 percent federally funded, recipients must have effective internal controls to assure that expenditures financed with federal funds are properly chargeable to the grant supported project.

Cause – Federal Regulations serve to ensure that federal dollars are spent on the programs for which they were designed.

Effect – The absence of cost segregation policies and procedures inhibits the Board's ability to ensure compliance with Federal Regulations.

Questioned Costs – Unknown

Recommendation – *We recommend all finances related to the private catering business be completely separate from the Child Nutrition Program. Additionally, we recommend that management track the activity of the catering business in a private purpose trust fund to ensure that all activity is captured and properly segregated within the School Board's general ledger.*

Views of Responsible Officials and Planned Corrective Actions – Accounting records are being compiled and all activity related to catering will be reflected in a private purpose trust fund by September 2014.

2013-14 Eligibility

Child Nutrition Cluster (180)

CFDA No. 10.553 and 10.555

U.S. Department of Agriculture

Condition – Applications for free and reduced meals are reviewed and eligibility is determined by comparing the data reported by the child's household to published income eligibility guidelines. From a sample of 60 applications, 44 were unsigned by the determining and confirming official.

Criteria – The Alabama State Department of Education eligibility determination resource manual states, "*Applications approved for benefits must include date approved, level of benefit for which the student is approved, and be signed or initialed by the determining official. Applications denied for benefits must identify the reason for denial. In addition, the record should also include the date of denial, the date the denial notice was sent, and the name of the determining official. These may be noted on the application or on a copy of the notification letter to parents.*" Additionally, each application should include, "*...verification (second party review) by the official named in the Policy Statement. This official must check the accuracy of each free and reduced-price application determination, sign and date the application or computer print-out indicating this has been completed.*"

Cause – The absence of formal application policies and procedures can lead to inaccurate determination and misappropriation of federal funds.

Effect – Without proper documentation of determining and approving officials, management is unable to ensure procedures have been followed and each determination is accurate.

**Enterprise City Board of Education
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2013**

Questioned Costs – None

Recommendation – *We recommend adherence to all policies and procedures prescribed by the Alabama State Department of Education. We recommend that all applications be signed by the determining and confirming officials and reviewed for completeness and accuracy prior to entering approvals into the system.*

Views of Responsible Officials and Planned Corrective Actions – Beginning with the 2014-2015 school year, the eligibility determination process will be revised to comply with the Alabama State Department of Education eligibility determination resource manual.

**2013-15 Internal Controls Over Compliance
Child Nutrition Cluster (180)
CFDA No. 10.553 and 10.555
U.S. Department of Agriculture**

Condition – Check stubs or cancelled checks are not included in the documentation retained for each CNP purchase.

Criteria – A paid stamp identifying the check number or a copy of the cancelled check should be included in all cash disbursement documentation to identify the form, amount, and payment for each purchase.

Cause – The absence of payment support within purchase documentation inhibits management's ability to agree payments made to purchase invoices.

Effect – Without proper documentation, a payment can be made from the wrong account, duplicated or missed.

Questioned Costs – None

Recommendation – *Adequate purchase documentation includes a purchase requisition, purchase order, invoice and some form of documentation for the payment. We recommend clearly documenting the method of payment and applicable reference number within the documentation retained for each purchase.*

Views of Responsible Officials and Planned Corrective Actions - With the implementation of our new document routing and approval system, Softdocs, copies of all printed checks will be electronically filed with the corresponding PO and invoice, eliminating the need for retainage of paper copies and making access to these files more secure.

MANAGEMENT LETTER

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

In planning and performing our audit of the financial statements of Enterprise City Board of Education (the "Board"), a component unit of the City of Enterprise, Alabama for the year ended September 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Board's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses.

However, during our audit we became aware of the matters noted below that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the Board's internal control in our letter dated June 17, 2014. This letter does not affect our report dated June 17, 2014 on the financial statements of the Board.

We will review the status of these comments during our next audit engagement. We have already discussed these comments with management, and we will be pleased to discuss the comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

2013-16 State of Indebtedness

Code of Alabama Section 16-8-37 states "...*The city board of education shall also publish annually in a newspaper published in said city, if there is a newspaper published in said city, in the month of October, a statement of the outstanding indebtedness of the board of education on last September 30, which statement must show the schedule by years for retiring said indebtedness and shall separate funded indebtedness from unfunded indebtedness, and the statement shall show the resources available to pay such unfunded indebtedness....*"

Finding – Management did not publish a “State of Indebtedness” as required by state law.

Recommendation – We recommend management review and adjust its policies and procedures to ensure compliance with Section 16-8-37.

2013-17 Personnel

Code of Alabama 1975 Section 16-12-16 states: *“The city superintendent of schools shall nominate in writing for appointment by the city board of education all principals, teachers, supervisors, attendance officers, janitors and all other employees of the board”*

Finding – In a sample of 35 new hire employees, we noted 13 hires were made prior to having documented Board approval.

Recommendation – We recommend strict adherence to Section 16-12-16 of the Code of Alabama. Should an emergency occur forcing noncompliance, the circumstances surrounding the hire should be fully documented in the employee’s personnel file and the Board immediately notified of the infraction and reasons for violating the policy. Subsequent approval of the hiring should be made by the Board at its next meeting.

2013-18 Controls over Fuel Distribution

Finding – The Board utilizes fuel keys at its fuel pumping station to prevent unauthorized users from acquiring fuel. Management also requires employees enter an identifying user code and vehicle mileage before pumping fuel. Additional safeguards are provided by a fuel master computer system that generates reports detailing the vehicle, employee, quantity and date/time of fuel pumped. However, the effectiveness of these controls is limited since there is no review process of reports generated and the reasonableness and purpose of a user’s fuel consumption is not evaluated. Further, in testing active user keys, we identified 66 user codes still active for former employees.

Recommendation – Controls over fuel should include not only a system for tracking fuel consumption but also policies and processes to ensure that usage is monitored, reviewed and determined to be for a legal and public purpose. We recommend management actively review the consumption of fuel for each vehicle and user to help ensure a valid and necessary public use. Also, management should track and identify mileage overrides in each report to ensure fuel keys are being used on the vehicles for which they are assigned. Additionally, user codes for former employees should be deactivated and removed from the system.

2013-19 Investment Policy

The Code of Alabama Section 16-13-2 states: *“Authority is hereby granted to the State Board of Education and the board of trustees of all state institutions respectively, where education is a part of the program of the institution, to invest and reinvest endowment funds and funds held for investment, subject to all the terms, conditions, limitations and restrictions imposed by the laws of Alabama upon domestic life insurance companies ...”*

Section 27 Chapter 41 of the Code allows investments including but not limited to the following:

- Certificates of Deposits
- United States Savings Bonds
- United States Guaranteed Loans
- Municipal Savings Bonds
- Obligations issued or guaranteed by certain federal agencies
- Obligations of American and Canadian institutions
- Transportation equipment trust obligations

Finding – The Board’s portfolio of investments at year end totaled approximately \$10,343,887 with an estimated annual yield of .76% limited to fully secured certificates of deposit as authorized under Section 16-13-2 of the Code of Alabama. The Board does not have a formal investment policy.

Recommendation – We recommend the Board develop and implement a formal investment policy establishing and documenting its investment philosophy. The policy at a minimum should direct the Board and management as to asset allocations, amount, and maturity of approved investments. Consideration should be given to engaging an investment advisor to assist in developing such a policy. This policy can be as limited as only allowing management to invest in insured or guaranteed certificates of deposit with short-term maturities or as broad as allowed by the Code of Alabama. Further we recommend a component of the policy include appointing an investment committee that should meet on a regular basis to monitor the portfolio and advise the Board. Members of the committee should have sufficient knowledge and experience in the investment industry necessary to help protect the assets and provide meaningful oversight and advice to the Board.

Regardless of the adopted investment philosophy the Board has a fiduciary responsibility to be proactive in monitoring and managing all idle assets and management should be provided clear directives as to how to invest those assets.

2013-20 Information Technology General Controls (ITGC)

Database Maintenance

Finding – The Board generated duplicate database tables in the McAleer system.

Recommendation – Non-standard databases should be evaluated and removed if not required. Management should ensure data in McAleer is restricted to the default database tables unless additional tables are specifically documented, authorized and needed.

Offsite Backup and Disaster Recovery

Finding – There is currently no written privacy or service agreement with the Board’s offsite backup provider. A lack of written service level could result in unsatisfactory or substandard quality of service from the vendor. Additionally, without a privacy agreement in place, the vendor would be under no obligation to keep private data secure, resulting in a lack of confidence and potential Board liability.

Recommendation – Processes, policies and procedures related to preparing for recovery or continuation of technology infrastructure are vital to ongoing risk management. A formal review of all vendors with potential access to financial data (physical or electronic) should be performed. Further, a privacy and/or service level agreement should be in place for all vendors determined to have said access.

Anti-Virus Protection

Finding – Avira anti-virus software is centralized by the IT department. However, it was noted that one workstation where financial data is accessed did not have anti-virus software running and another had out of date virus definitions by more than one year.

Recommendation – Anti-virus protection is essential to the security of a workstation, the financial data of the Board, and the network as a whole. The Board should ensure that all workstations have anti-virus software installed and proactively ensure that the software remains up-to-date.

2013-21 Unutilized Software

Finding – McAleer, the accounting software utilized by the Board, includes the functionality to accumulate asset cost, calculate depreciation expense and schedule fixed assets. Additionally, McAleer offers management the ability to generate, track and monitor purchase orders. Management currently tracks fixed assets in an excel spreadsheet and maintains only manual records for purchase orders.

Recommendation – Utilizing the McAleer accounting software to its fullest capabilities ensures that management is operating efficiently in a controlled environment. We strongly recommend the District utilize both the fiscal asset and purchase order modules available from McAleer. Utilizing an electronic purchase order system should enhance operational efficiencies and management's ability to track and monitor procurements. Further the use of any outside supporting software programs such as excel presently utilized for fixed asset accounting provides only limited capabilities and controls, which increases the risk of fraud or error.

We appreciate the opportunity to have conducted your audit for fiscal year ended September 30, 2013 and the cooperation received from your personnel during the course of our audit. Should you have any questions concerning this report, please do not hesitate to contact us.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, L.L.C.

Certified Public Accountants

June 17, 2014

July 22, 2014

Members of the Enterprise City Board of Education
Enterprise, Alabama

Dear Members of the Enterprise City Board of Education:

We are pleased to present the results of our audit of the September 30, 2013 financial statements of the Enterprise City Board of Education (the "Board").

This report to the Board summarizes our audit, the reports issued and various analyses and observations related to the Board's accounting and reporting. The document also contains the communications required by our professional standards.

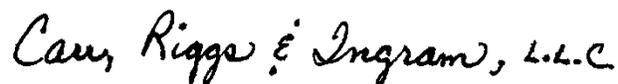
The audit was designed, primarily, to express an opinion on the Board's September 30, 2013 financial statements. We considered the Board's current and emerging business needs, along with an assessment of risks that could materially affect the financial statements, and aligned our audit procedures accordingly. We conducted the audit with the objectivity and independence that you, the Members of the Enterprise City Board of Education, expect. We received the full support and assistance of the Board's personnel.

At Carr, Riggs & Ingram, LLC (CRI), we are continually evaluating the quality of our professionals' work in order to deliver audit services of the highest quality that will meet or exceed your expectations. We encourage you to provide any feedback you believe is appropriate to ensure that we do not overlook a single detail as it relates to the quality of our services.

This report is intended solely for the information and use of the Board, management and others within the Board and should not be used by anyone other than these specified parties.

We appreciate this opportunity to meet with you. If you have any questions or comments, please call me at 334-347-0088.

Very truly yours,



CARR, RIGGS & INGRAM, LLC

Certified Public Accountants

REQUIRED COMMUNICATIONS

As discussed with management during our planning process, our audit plan represented an approach responsive to the assessment of risk for the Board. Specifically, we planned and performed our audit to:

- Perform audit services 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, in order to express an opinion on the Board's financial statements for the year ending September 30, 2013 and to 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**;
- Communicate directly with the Members of the Board and management regarding the results of our procedures;
- Address with the Members of the Board and management any accounting and financial reporting issues;
- Anticipate and respond to concerns of the Members of the Board and management; and
- Other audit related projects as they arise and upon request.

REQUIRED COMMUNICATIONS

We have audited the financial statements of the Board for the year ending September 30, 2013, and have reissued our report thereon dated July 22, 2014 which replaces our report dated June 17, 2014. Professional standards require that we provide you with the following information related to our audit:

<i>Matter to be communicated</i>	<i>Auditor's response</i>
Auditor's responsibility under Generally Accepted Auditing Standards	<p>As stated in our engagement letter dated September 19, 2013, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America (GAAP). Our audit of the financial statements does not relieve you or management of your responsibilities.</p> <p>As part of our audit, we considered the internal control of the Board over financial reporting. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.</p>
Planned scope and timing of the audit	<p>We noted control deficiencies within the IT environment that led us to perform additional testing; however, neither our initial audit plan, nor the scope of our engagement, was significantly altered.</p>

REQUIRED COMMUNICATIONS

Matter to be communicated	Auditor's response
<p>Significant accounting policies, including critical accounting policies and alternative treatments within generally accepted accounting principles and the auditor's judgment about the quality of accounting principles</p> <ul style="list-style-type: none"> ● <i>The initial selection of and changes in significant accounting policies or their application; methods used to account for significant unusual transactions; and effect of significant policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus;</i> ● <i>The auditor should also discuss the auditor's judgment about the quality, not just the acceptability, of the Board's accounting policies as applied in its financial reporting. The discussion should include such matters as consistency of accounting policies and their application, and clarity and completeness of the financial statements, including disclosures;</i> ● <i>Critical accounting policies and practices applied by the client in its financial statements and our assessment of management's disclosures regarding such policies and practices (including any significant modifications to such disclosures proposed by us but rejected by management), the reasons why certain policies and practices are or are not considered critical, and how current and anticipated future events impact those determinations;</i> ● <i>Alternative treatments within GAAP for accounting policies and practices related to material items, including recognition, measurement, presentation and disclosure alternatives, that have been discussed with client management during the current audit period, the ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the auditor; Furthermore, if the accounting policy selected by management is not the policy preferred by us, discuss the reasons why management selected that policy, the policy preferred by us, and the reason we preferred the other policy.</i> 	<p>New accounting pronouncements impacting the Board included:</p> <p><u>GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.</u> This statement improved financial reporting by codifying all sources of GAAP for state and local governments so that they derive from a single source. The Board has elected to include all pre-November 30, 1989 FASB pronouncements which are now codified in GASB Statement No. 62, as mentioned in the <i>Basis of Accounting</i> section above. As such, disclosures of FASB or AICPA pronouncements applied to these and future financial statements are no longer required.</p> <p><u>GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.</u> This statement provided guidance for certain items formerly classified as assets and liabilities. GASB Concepts Statement 4 redefines these as "deferred outflows of resources" (formerly assets) and "deferred inflows of resources" (formerly liabilities). Each new category must have its own section on the Statement of Net Position. This statement also requires that the last line of the statements formerly titled "Net assets" now be titled "Net position" to reflect the new classifications. In addition, "Capital assets, net of related debt" should now be titled "Net investment in capital assets" in order to properly present the total of the items.</p> <p><u>GASB Statement No. 65, Items Previously Reported as Assets and Liabilities.</u> This statement provided more guidance for the items in GASB Statement No. 63. It requires the avoidance of the word "deferred" throughout financial statements, except as it relates to items that are designated as deferred outflows or deferred inflows. It addresses the calculation of a deferred outflow or inflow for refunding of debt. For nonexchange transactions such as grants, amounts received before the time period of eligibility are treated as deferred inflows. This statement also addresses taxes received prior to the period to which they relate. It requires issuance costs related to debt to be expensed in the period that the debt was issued versus amortizing over the life of the debt, as previously allowed. The effects of implementation of this statement are to be disclosed on the financial statements in the period of adoption. The Board chose to early implement GASB Statement No. 65 for the year ended September 30, 2013. It required debt issuance costs to be recognized as an expense in the period incurred. Further, to retroactively apply the provisions, it required a restatement of beginning net position to expense bond issuance costs previously capitalized by the Board.</p>

REQUIRED COMMUNICATIONS

Matter to be communicated	Auditor's response
<p>Management judgments and accounting estimates</p> <p><i>The process used by management in forming particularly sensitive accounting estimates and the basis for the auditor's conclusion regarding the reasonableness of those estimates.</i></p>	<p>See the following section titled "Accounting Policies, Judgments and Sensitive Estimates and CRI Comments on Quality".</p>
<p>Corrected and Uncorrected Misstatements</p> <p><i>All significant audit adjustments arising from the audit, whether or not recorded by the Board, that could individually or in the aggregate have a significant effect on the financial statements. We should also inform the Board about uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented, that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Any internal control deficiencies that could have prevented the misstatements.</i></p>	<p>See the following section titled "Summary of Audit Adjustments".</p>
<p>Potential effect on the financial statements of any significant risks and exposures</p> <p><i>Major risks and exposures facing the Board and how they are disclosed.</i></p>	<p>No significant risks or exposures disclosed.</p>
<p>Material uncertainties related to events and conditions, specifically going concern issues</p> <p><i>Any doubt regarding the Board's ability to continue, as a going concern (if extended procedures, communicate results), and any other material uncertainties.</i></p>	<p>No such uncertainties were noted or disclosed.</p>
<p>Other information in documents containing audited financial statements</p> <p><i>The external auditor's responsibility for information in a document containing audited financial statements, as well as any procedures performed and the results.</i></p>	<p>Our responsibility related to documents (including annual reports, websites, etc.) containing the financial statements is to read the other information to consider whether:</p> <ul style="list-style-type: none"> • Such information is materially inconsistent with the financial statements; and • We believe such information represents a material misstatement of fact. <p>We have not been provided any such items to date and are unaware of any other documents that contain the audited financial statements.</p>

REQUIRED COMMUNICATIONS

Matter to be communicated	Auditor's response
<p>Disagreements with management</p> <p><i>Disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the Board's financial statements or the auditor's report.</i></p>	None.
<p>Management consultation with other independent accountants</p> <p><i>When management has consulted with other accountants about significant accounting or auditing matters.</i></p>	None of which we are aware.
<p>Major issues discussed with management prior to retention</p> <p><i>Any major accounting, auditing or reporting issues discussed with management in connection with our initial or recurring retention.</i></p>	None.
<p>Difficulties encountered in performing the audit</p> <p><i>Serious difficulties encountered in dealing with management that relate to the performance of the audit.</i></p>	None.
<p>Deficiencies in internal control</p> <p><i>Any significant deficiencies or material weaknesses in the design or operation of internal control that came to the auditor's attention during the audit.</i></p>	See Schedule of Findings and Questioned Costs and Management Letter beginning on page 46.
<p>Fraud and illegal acts</p> <p><i>Fraud involving senior management, or those responsible for internal controls, or causing a material misstatement of the financial statements, where the auditor determines there is evidence that such fraud may exist. Any illegal acts coming to the auditor's attention involving senior management and any other illegal acts, unless clearly inconsequential.</i></p>	We are unaware of any fraud or illegal acts involving management or causing material misstatement of the financial statements.
<p>Independence</p> <p><i>Reaffirm our independence of the Board and update the Board on all relationships between the auditor and its related entities and the Board and its related parties that in the auditor's professional judgment may reasonably be thought to bear on independence.</i></p>	See Independence Letter on page 74.

REQUIRED COMMUNICATIONS

<i>Matter to be communicated</i>	<i>Auditor's response</i>
Other material written communications <ul style="list-style-type: none">• <i>Management representation letter</i>• <i>Management letter</i>• <i>Financial Statement Findings</i>	See letter beginning on page 75. See letter beginning on page 59. See Schedule of Findings and Questioned Costs beginning on page 46.
Other matters <i>Communication of other pertinent matters.</i>	None.

ACCOUNTING POLICIES, JUDGMENTS AND SENSITIVE ESTIMATES AND CRI COMMENTS ON QUALITY

We are required to communicate our judgments about the quality, not just the acceptability, of the Board's accounting principles as applied in its financial reporting. We are also required to communicate critical accounting policies and sensitive accounting estimates. The Board may wish to monitor throughout the year the process used to compute and record these accounting estimates. The table below summarizes our communications regarding these matters.

Area	Accounting Policy	Critical Policy?	Judgments and Sensitive Estimate	Comments on Quality of Accounting Policy and Application
Cash	The Board maintains its cash balances in high quality financial institutions. All of the Board's demand deposits are insured and collateralized by the Federal Deposit Insurance Corporation ("FDIC") and the Security for Alabama Funds Enhancement ("SAFE") Program operated by the office of the Treasurer of the State of Alabama as authorized by Section 41-14A of the Code of Alabama 1975, as amended.	X	No significant judgments or estimates.	The Board's policy is in accordance with all applicable accounting guidelines.
Depreciation of Property and Equipment, net	The Board depreciates assets over the expected remaining useful life of the individual asset.	X	Judgments in this area relate to the estimate of the remaining useful life of the asset.	The Board's recognition methods and disclosures appear appropriate.
Accounts Payable and Program Expenses (including payroll and payroll liabilities)	The Board records expenses on the modified accrual basis of accounting and classifies based on program receiving benefit and allowable/unallowable nature of cost.	X	Significant judgments include identification of nature of cost as allowable versus unallowable.	The Board's policy is in accordance with all applicable accounting guidelines.

**ACCOUNTING POLICIES, JUDGMENTS AND
SENSITIVE ESTIMATES AND
CRI COMMENTS ON QUALITY**

Area	Accounting Policy	Critical Policy?	Judgments and Sensitive Estimate	Comments on Quality of Accounting Policy and Application
Revenue Recognition	Revenues are recognized when earned, and in 2013 primarily consist of local tax collections, foundation allocations from the State of Alabama DOE, and state and federal grants.	X	Judgments in this are related to timing of revenue recognition and adoption of appropriate methods of accounting.	The Board's policy is in accordance with all applicable accounting guidelines.
Manual Journal Entries	The Board records a number of journal entries each month.	X	The nature of these journal entries is inherently more risky than utilizing system generated information with no manual intervention. These journal entries are subject to a more stringent set of controls.	See schedule of findings and questioned costs 2013-01.

SUMMARY OF AUDIT ADJUSTMENTS

During the course of our audit, we accumulate differences between amounts recorded by the Board and amounts that we believe are required to be recorded under GAAP reporting guidelines. Those adjustments are either recorded (corrected) by the Board or passed (uncorrected).

Corrected Adjustments

Revenue

\$1,029,786 in state revenue was incorrectly posted to federal revenue. An adjustment was made to reclassify the revenue to the correct account. The adjustment had no impact on net position or fund equity.

Ad Valorem Taxes Receivable

The Board accrues ad valorem taxes levied by the County Commission in February of each year based on property on record as of the preceding October 1. The enforceable legal claim exists as of September 30 but the actual billing and collection of these taxes will occur subsequent to year end. An entry was made to increase ad valorem taxes receivable and unearned revenue by \$4,241,516. The adjustment had no impact on net position or fund equity.

Retiree Drug Subsidy

The U.S. Government makes certain retiree drug subsidy payments on-behalf of the Board for its employees to the Retirement Systems of Alabama. An adjustment was made to increase revenue and expenditures of the general fund by \$225,148. The adjustment had no impact on fund equity.

Uncorrected Adjustments

Accounts Receivable

Beginning accounts receivable of aggregate non-major funds was overstated \$37,059 due to an overstatement of revenue in the prior period. The net impact to the change in fund balance was \$37,059.

Actual remittances of sales tax exceeded the estimated receivable by \$12,976.

Non-capitalized Equipment

\$38,700 in equipment purchase was not capitalized. The impact of correcting this misstatement would be to increase capital assets and reduce expenses.

SUMMARY OF AUDIT ADJUSTMENTS

QUALITATIVE MATERIALITY CONSIDERATIONS

In evaluating the materiality of audit differences when they do arise, we consider both quantitative and qualitative factors, for example:

- Whether the difference arises from an item capable of precise measurement or whether it arises from an estimate, and, if so, the degree of imprecision inherent in the estimate
- Whether the difference masks a change in earnings or other trends
- Whether the difference changes a net decrease in assets to addition, or vice versa
- Whether the difference concerns an area of the Board's operating environment that has been identified as playing a significant role in the Board's operations or viability
- Whether the difference affects compliance with regulatory requirements
- Whether the difference has the effect of increasing management's compensation – for example, by satisfying requirements for the award of bonuses or other forms of incentive compensation
- Whether the difference involves concealment of an unlawful transaction

July 22, 2014

To the Members of the Enterprise City Board of Education
Enterprise, Alabama

We have been engaged to audit the financial statements of Enterprise City Board of Education (the "Board") for the year ending September 30, 2013.

Although Independence Standards Board (ISB) Standard No. 1, *Independence Discussions with Board of Directors*, which requires that auditors of public entities communicate at least annually with those charged with governance is not applicable to the Board, our engagement team determined it appropriate to communicate regarding all relationships our Firm and the Board that, in our professional judgment, may reasonable be thought to bear on our independence.

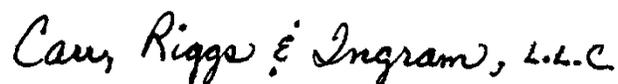
We are not aware of any such relationships.

We hereby confirm that as of the date of this letter, we are independent accountants with respect to the Board, within the meaning set forth in the American Institute of Certified Public Accountants ("AICPA's") Conceptual Framework for AICPA Independence Standards.

This letter is intended solely for the use of the Members of the Board and management, and others within the Board and should not be used for any other purposes.

We look forward to discussing with you the matters addressed in this letter as well as other matters that may be of interest to you. We are prepared to answer any questions you may have regarding our independence as well as other matters.

Very truly yours,



CARR, RIGGS & INGRAM, LLC
Enterprise, Alabama

MANAGEMENT REPRESENTATION LETTER

Enterprise City Schools

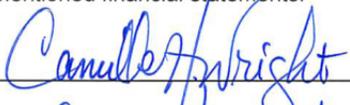
OFFICE OF THE SUPERINTENDENT
P.O. Box 311790
220 Hutchinson Street
Enterprise, Alabama 36331-1790
(334) 347-9531
www.enterpriseschools.net

July 22, 2014

Carr, Riggs & Ingram, LLC
P.O. Box 311070
Enterprise, AL 36331

In connection with your audit(s) of the financial statements of the Enterprise City Board of Education as of September 30, 2013 and for the period then ended for the purpose of expressing opinions as to whether the financial statements 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 Enterprise City Board of Education and the respective changes in financial position and, where applicable, cash flows in conformity with U.S. generally accepted accounting principles, you were previously provided with a representation letter dated June 17, 2014. Except as disclosed in note 15 to the financial statements, no events have occurred or come to our attention that would cause us to believe that any of those previous representations should be modified.

Other than the item noted in the previous paragraph, no events have occurred subsequent to September 30, 2013 and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

Signed:  Signed: 
Title: Superintendent Title: CSFO