

ANDALUSIA CITY BOARD OF EDUCATION

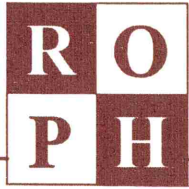
FINANCIAL STATEMENTS

Year Ended September 30, 2016

ANDALUSIA CITY BOARD OF EDUCATION
TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT	1	
MANAGEMENT'S DISCUSSION AND ANALYSIS	4	
BASIC FINANCIAL STATEMENTS:		
Government-Wide Financial Statements:		
Statement of Net Position.....	15	
Statement of Activities.....	16	
Fund Financial Statements:		
Balance Sheet - Governmental Funds.....	17	
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	18	
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	19	
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	20	
Notes to the Basic Financial Statements	21	
REQUIRED SUPPLEMENTARY INFORMATION:		
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual - General Fund	46	
Notes to the Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	47	
Schedule of the Board's Proportionate Share of the Net Pension Liability	48	
Schedule of Board Contributions	49	
SUPPLEMENTARY INFORMATION:		
Schedule of Expenditures of Federal Awards.....	50	
Notes to the Schedule of Expenditures of Federal Awards	51	
Schedule of Findings and Questioned Costs.....	52	
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 <i>GOVERNMENT</i> <i>AUDITING STANDARDS</i>		54
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE.....		56

INDEPENDENT AUDITORS' REPORT



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

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Andalusia City Board of Education (the Board), as of and for the year ended September 30, 2016, 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.

Auditors' 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.

MEMBERS

American Institute of Certified Public Accountants, PCPS/The Alliance for CPA Firms, Alabama Society of Certified Public Accountants, Florida Institute of Certified Public Accountants
Governmental Audit Quality Center

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Andalusia Board of Education as of September 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14, the budgetary comparison information on pages 46 and the Schedule of the Board's Proportionate Share of Net Pension Liability and the Schedule of Board Contributions on pages 48 and page 49 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 Andalusia City Board of Education's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2, U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2017 on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

Rabren, Odom, Pierce & Hayes, PC

Andalusia, Alabama

June 22, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

ANDALUSIA CITY BOARD OF EDUCATION

Management's Discussion and Analysis (MD&A)

For the Year Ended September 30, 2016

Introduction

The Management's Discussion and Analysis (MD&A) of Andalusia City Board of Education's financial performance provides an overall review of the Board's financial activities for the fiscal year ended September 30, 2016. The intent of this discussion and analysis is to look at the Board's financial performance as a whole. Readers should also review the notes to the financial statements and the financial statements to enhance their understanding of the Andalusia City Board of Education's financial performance.

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

Financial Highlights

Key financial highlights of the 2015-2016 fiscal year include the following:

- General Fund revenues exceeded expenditures and other financing uses by \$1,927,455 resulting in a fund balance of \$4,022,734 available as of the fiscal year ended 2016.
- The assets of the Board exceeded its liabilities at the close of the 2016 fiscal year by \$5,983,725 (net position).

Overview of the Financial Statements

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

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

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

The *Statement of Activities* provides information which shows how the Board's net position changed as a result of the year's activities.

The statement uses the accrual basis of accounting, which is similar to the accounting used by private-sector businesses. All of the revenues and expenses are reported regardless of the timing of when cash is received or paid. The statement identifies the extent to which each expenditure function draws from general revenues of the Board (primarily local taxes) or is financed through charges for services (such as lunchrooms) and intergovernmental aid (primarily federal programs and state appropriations).

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

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

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

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

Financial Analysis of the Board as a Whole

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

**Condensed Statement of Net Position
September 30,**

	2016	2015	Change
Assets			
Current and Other Assets	\$ 5,885,688	\$ 3,623,655	\$ 2,262,033
Restricted Assets	1,293,712	1,162,274	131,438
Capital Assets – Net of Depreciation	21,136,132	22,079,934	(943,802)
Total Assets	<u>28,315,532</u>	<u>26,865,863</u>	<u>1,449,669</u>
 Deferred Outflows	 <u>1,838,308</u>	 <u>977,560</u>	 <u>860,748</u>
Liabilities			
Current and Other Liabilities	1,191,778	1,078,223	113,555
Long-term Liabilities	22,746,337	21,143,239	1,603,098
Total Liabilities	<u>23,938,115</u>	<u>22,221,462</u>	<u>1,716,653</u>
 Deferred Inflows	 <u>232,000</u>	 <u>852,000</u>	 <u>(620,000)</u>
Net Position			
Net Investment in Capital Assets	11,261,795	12,297,695	(1,035,900)
Restricted	1,955,221	1,597,927	357,294
Unrestricted	(7,233,291)	(9,125,661)	1,892,370
Total Net Position	<u>\$ 5,983,725</u>	<u>\$ 4,769,961</u>	<u>\$ 1,213,764</u>

The Board's assets exceeded liabilities by \$5,983,725 and \$4,769,961 for 2016 and 2015, respectively at the close of the fiscal year, an increase of \$1,213,764 from 2015 and a decrease of \$390,934 from 2014.

The majority of the Board's net position are invested in capital assets (land, buildings, and equipment) owned by the Board. These assets are not available for future expenditures since they will not be sold. Unrestricted net position — the part of net position that can be used to finance day-to-day operations without constraints established by enabling legislation, debt covenants, or other legal requirements — is a deficit of \$7,233,291 at the end of 2016 and a deficit of \$9,125,661 at the end of 2015 which constitutes an decrease of \$1,892,370 from 2015 to 2016 and a decrease of \$87,313 from 2014 to 2015. These deficits were created due to the implementation of Governmental Accounting Standards Board (GASB) Statement Number 68.

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

**Condensed Statement of Activities
September 30,**

	2016	2015	Change
Program Revenues:			
Charges for Services	\$ 1,542,698	\$ 1,509,303	\$ 33,395
Operating Grants and Contributions	10,789,848	10,449,155	340,693
Capital Grants and Contributions	455,514	428,971	26,543
General Revenues:			
Property Taxes	743,150	738,952	4,198
Sales Taxes	3,048,994	1,454,734	1,594,260
Miscellaneous Taxes	1,107,002	1,037,705	69,297
Contributions – Nonrestricted	96,000	96,000	-
Section 16 Land Funds	-	17,765	(17,765)
Investment Earnings	30,636	21,964	8,672
Contributions – Restricted	214,233	209,205	5,028
Erate/On Behalf Of	33,677	55,395	(21,718)
Miscellaneous	230,549	197,981	32,568
Total Revenues	18,292,301	16,217,130	2,075,171
Expenses			
Instructional Services	9,932,800	9,611,489	321,311
Instructional Support Services	2,466,828	2,246,641	220,187
Operation and Maintenance Services	1,628,706	1,652,327	(23,621)
Food Service	1,139,478	1,179,980	(40,502)
Student Transportation Services	640,298	661,016	(20,718)
General Administrative Services	701,312	683,178	18,134
Other	289,693	283,599	6,094
Interest and Fiscal Charges	279,422	289,834	(10,412)
Total Expenses	17,078,537	16,608,064	470,473
Change in Net Position	1,213,764	(390,934)	1,604,698
Net Position, Beginning	4,769,961	5,160,895	(390,934)
Net Position, Ending	\$ 5,983,725	\$ 4,769,961	\$ 1,213,764

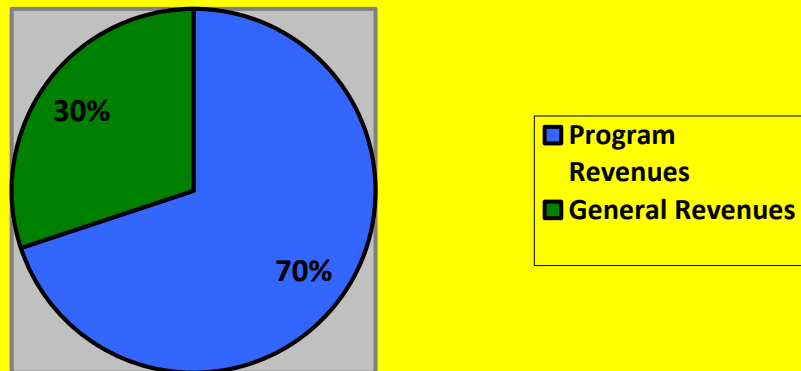
The Board's total revenues increased by 12.8 percent and the total cost of all programs and services increased 2.83 percent. This accounts for the Board's income of \$1,213,764 for the fiscal year.

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

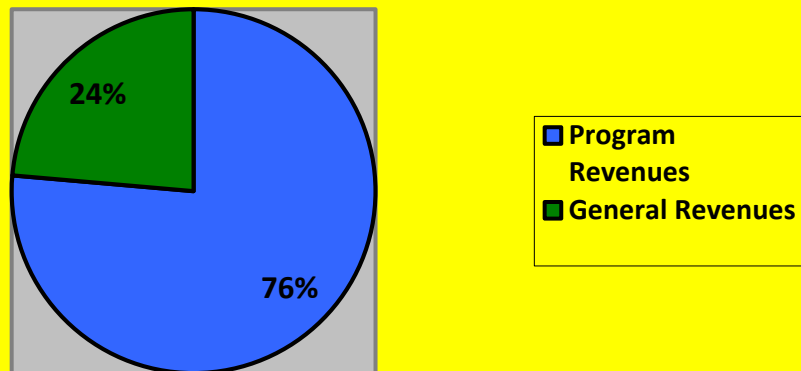
- Program Revenues – 3.23% increase
- General Revenues – 43.73% increase

The charts below depict the percentage of program and general revenues to total revenues.

September 30, 2016 Revenues



September 30, 2015 Revenues



Program revenues, specifically operating grants and contributions, are the largest component of total revenues (70% in 2016 and 76% in 2015).

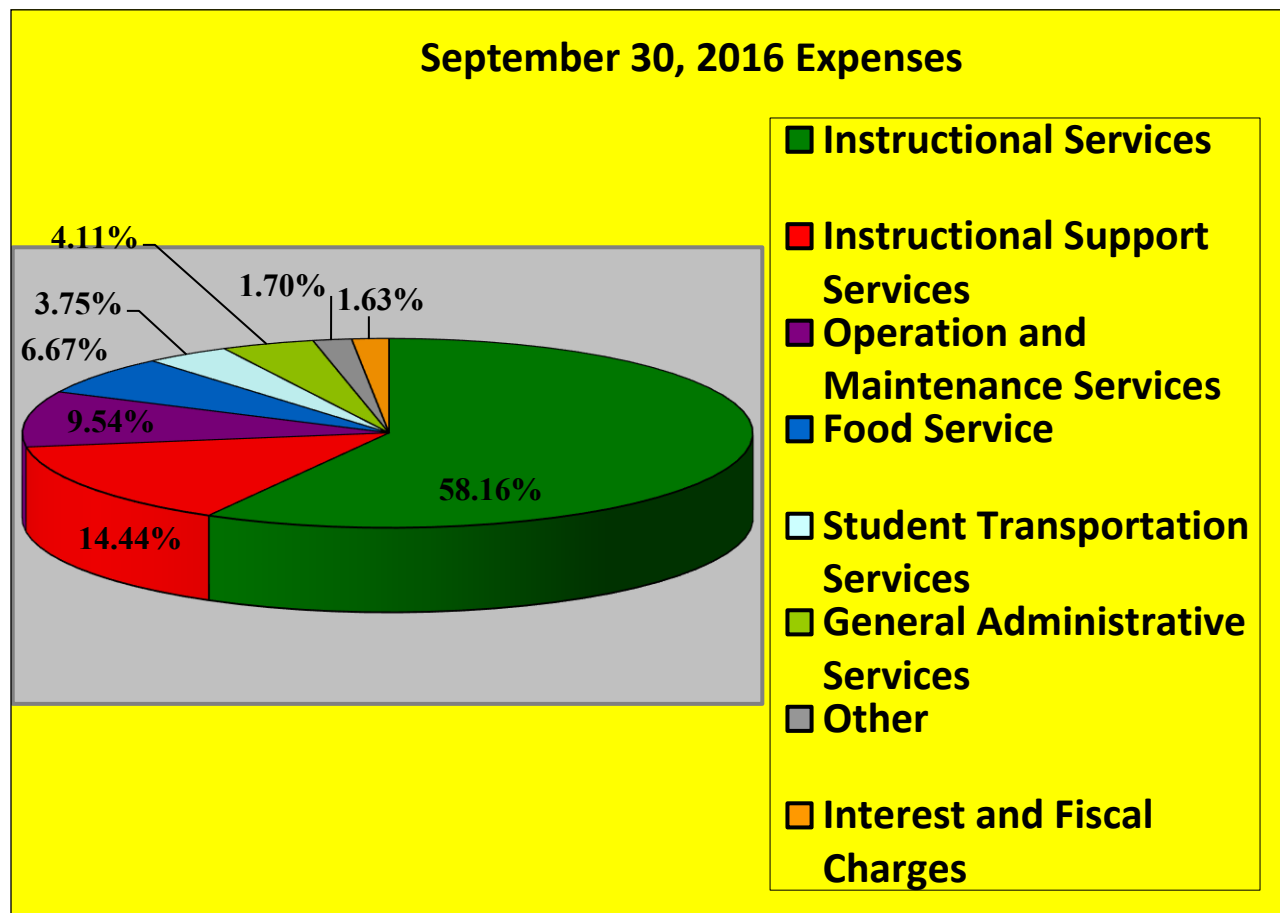
- Operating grants and contributions contribute 84% of program revenues and 59% of total revenues. The major sources of revenues in this category are State foundation program funds, state transportation operating funds, and state and federal funds restricted for specific programs.
- Capital grants and contributions include state capital outlay funds and state funds to replace buses.
- Charges for services include federal reimbursement for meals, student meal purchases, and local school revenues.

General revenues, primarily property taxes and sales taxes, are used to provide \$5,504,241 for expenses not covered by program revenues.

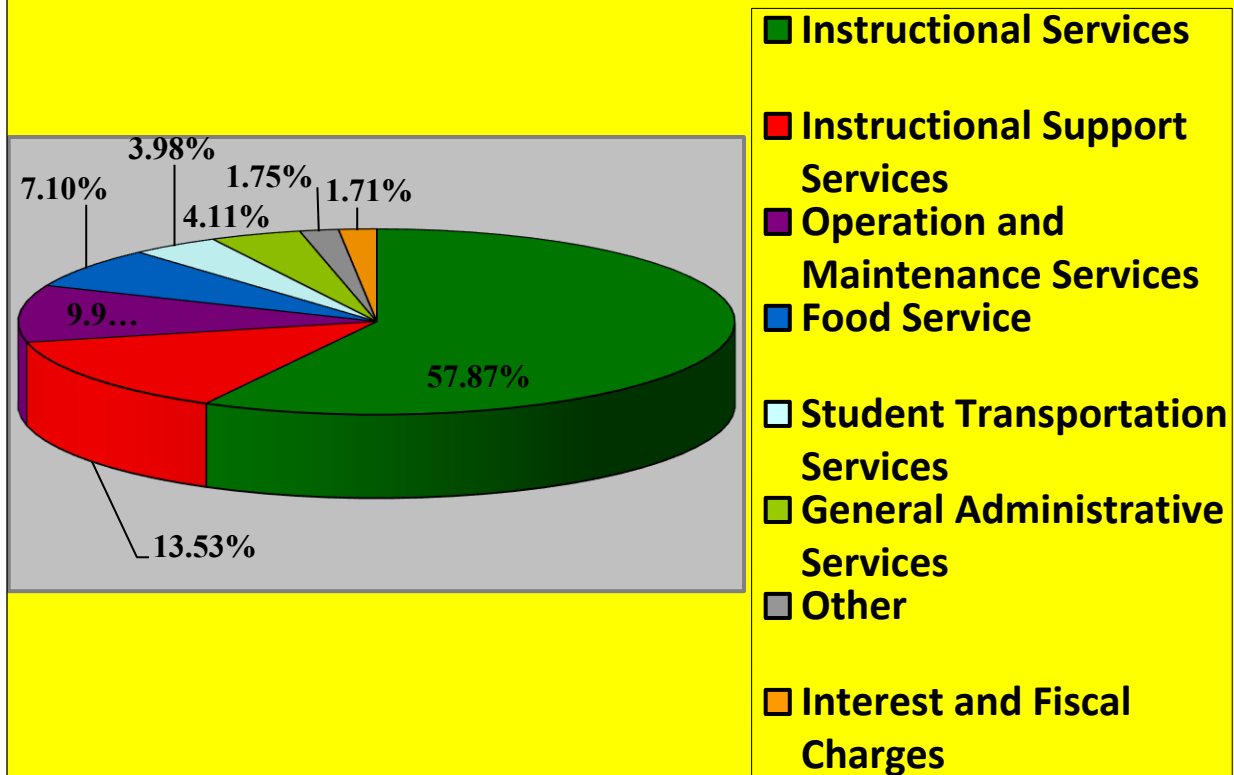
The increase in the cost of programs and services can be found within the following programs:

- Instructional and Instructional Support Services – 4.57% increase
- Operations and Maintenance – 1.43% decrease
- Food Service – 3.43% decrease
- Other – .36% decrease

The charts below depict the percentage of total expense for each expense category for each year.



September 30, 2015 Expenses



Instructional services expenses, primarily salaries and benefits for classroom teachers, are the largest expense function of the Board (58.16% in 2016 and 57.87% in 2015).

- In addition to teacher salaries and benefits, instructional services includes teacher aides, substitute teachers, textbooks, depreciation of instructional buildings, professional development, and classroom instructional materials, supplies, and equipment.
- Instructional support services includes salaries and benefits for school principals, assistant principals, librarians, counselors, school secretaries, school bookkeepers, speech therapists, and school nurses, and professional development expenses.
- Operation and maintenance services include utilities, security services, janitorial services, maintenance services, and depreciation of maintenance vehicles.
- In addition to bus driver salaries and benefits, student transportation services includes mechanics, bus aides, vehicle maintenance and repair expenses, vehicle fuel, depreciation of buses and bus shops, and fleet insurance.
- Food services includes salaries and benefits for cooks, servers, lunchroom managers, and cashiers, as well as donated and purchased food, food preparation and service supplies, kitchen and lunchroom equipment, and depreciation of equipment and facilities.
- General administrative services include salaries and benefits for the superintendent, assistants, clerical and financial staff, and other personnel that provide system-wide support for the schools. Also included are legal expenses, liability insurance, training for board members and

general administrative staff, printing costs, and depreciation of central office equipment and facilities.

- Other expenses includes the salaries and benefits for adult and continuing education teachers, preschool teachers and aides, extended day personnel, and summer feeding program expenditures. Includes cooperative agreement with the City of Andalusia for repayment of bonds issued to construct the Andalusia Elementary School. Also included are the materials, supplies, equipment, related depreciation, and other expenses for operating programs outside of those for educating students in the K through 12 instructional programs.
- Debt service includes interest, but not principal payments, on long-term debt issues and other expenses related to the issuance and continuance of debt issues.

Financial Analysis of the Board's Funds

The analysis of governmental funds serves the purpose of looking at what resources came into the funds, how they were spent, and what is available for future expenditures. Did the Board generate enough revenue to pay for current obligations? What is available for spending at the end of the year?

As of the end of the current fiscal year, the Board's governmental funds reported a combined increase in fund balance of \$2,284,749. This increase resulted in a fund balance of \$5,977,955. Of this amount, \$4,022,734 was unreserved and available for use in future operations.

The general fund increased its fund balance by \$1,927,455, resulting in a fund balance of \$4,022,734.

The Food and Nutrition fund increased its fund balance by \$133,338, resulting in a fund balance of \$260,914.

General Fund Budgetary Highlights

The original 2016 fiscal year budget, adopted on September 14, 2015, was based on a "conservative" approach that reflected only guaranteed revenues and necessary expenditures. The original budget figures were amended when revenues or expenditures exceed 10%. Over the course of the year, the Board revised the annual operating budgets one time: June 15, 2016.

The comparison of general fund original budget to the final amended budget is on page 46. The differences between the original budget and the final amended budget of the Board are \$257,025 increase in overall revenue appropriations and \$266,320 increase in overall expenditures and can be briefly summarized as follows:

- Amendment #1 was necessary to record State of Alabama Grant \$35,000, federal programs carryover, federal program allocations, Alabama State Personnel Development Grant (SPDG) of \$161,777, and the Special Education State Systemic Improvement Grant (SSIP) of \$50,000. Expenditures were increased to include additional instructional and instructional support. Various other expenditures were adjusted based on related revenues.

Overall, the final amended budget is reflective of the actual operating activity for the year. Actual local and other revenues were \$2,052,779 less than budgeted due to local sales tax appropriations

for education and other various sources. For purposes of this budgetary analysis, only the General Fund of the Board is discussed in accordance with the new reporting model.

General Fund – The comparison of the General Fund original budget to the final amended budget is on page 46. The differences between the original budget and the final amended budget of the Board were relatively minor. Overall, the final budget is reflective of the actual operating activity for the year.

Capital Assets and Debt Administration

Capital Assets - At September 30, 2016, the Board had \$21,136,132 invested in capital assets including land, buildings, equipment, vehicles and construction in progress costing \$5,000 or more. This amount is net of accumulated depreciation to date. Increases during the year represent additions to those categories, while decreases represent retirements of assets during the year and depreciation of depreciable assets for the year. The capital asset activity for the year is detailed on page 31.

Approximately \$52,000 in construction in progress for the lighting at the softball field was spent and will be capitalized as land improvements upon completion.

Long-Term Debt - The Board entered into a lease purchase agreement with the Alabama School Finance Cooperative to issue \$750,000 of Qualified Zone Academy Bonds (QZAB) for the purpose of renovations at the Andalusia High School. The Board chose the deferred payment option and will make payments of \$56,606 for ten years starting on June 1, 2006 and the final payment paid June 1, 2015. These annual payments were deposited into a restricted fund which will accumulate to earn interest to repay the face amount of the QZAB.

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

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

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

The Board entered into lease purchase agreement with Apple, Inc. to purchase Apple personal computers, servers, and networking equipment not to exceed \$146,829 at a rate of 3.59%. The lease period is for a period of 36 months with payments being made annually beginning in May 2014 in the amount of \$47,227. The Board will use local funds to secure this payment to the extent necessary to pay its portion of the annual debt service under this agreement.

The Board entered into lease purchase agreement with Apple, Inc. to purchase Apple personal computers, servers, and networking equipment not to exceed \$408,946 at a rate of 2.30%. The lease period is for a period of 48 months with payments being made annually beginning in June 2016 in the amount of \$105,749. The Board will use local funds to secure this payment to the extent necessary to pay its portion of the annual debt service under this agreement.

Economic Factors and Next Year's Budget

The following are currently known Andalusia City economic factors considered in going into the 2016-2017 fiscal year.

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

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

Student Enrollment - The latest student enrollment figure as of the forty-day report in the 2016-2017 school year of 1,675 indicates there will be an actual decrease in enrollment of approximately 12 students for the 2018 fiscal year. This loss will result in a decrease of .94 earned teacher units.

Medical and Retirement Costs - Employee health insurance is provided through the Public Education Employees' Health Insurance Program (PEEHIP). PEEHIP employer costs was \$780 per employee per month for fiscal year 2015 and 2016. The PEEHIP employer cost will increase to \$800 per employee per month for the fiscal year 2017. The employer contribution rate to the Teachers Retirement System (TRS) is 12.01 percent for fiscal year 2017 for Tier I employees. For Tier II employees, the employer contribution rate to TRS is 10.82 percent for fiscal year 2017. The Board must use local funds to pay the salary-related benefit costs not paid by state and federal funds.

School Construction – The Board approved the alterations and additions to the Andalusia High School Auditorium and the improvements to the Andalusia High School Stadium both located on the campus of Andalusia High School. Construction is anticipated to begin in July of fiscal year 2017 on the auditorium with the stadium improvements following closely behind.

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 Katie Odom, Chief School Finance Officer. 1201 C. C. Baker Avenue, Andalusia, AL 36421 or by calling 334-222-3186 during regular office hours, Monday through Friday, from 7:30 a.m. to 4:00 p.m., central standard time.

BASIC FINANCIAL STATEMENTS

ANDALUSIA CITY BOARD OF EDUCATION
STATEMENT OF NET POSITION
September 30, 2016

	GOVERNMENTAL ACTIVITIES
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 3,964,878
Investments	16,629
Receivables	1,861,841
Inventory	32,673
Other Assets	9,667
Restricted Assets:	
Cash and Cash Equivalents	727,649
Investments	566,063
Capital Assets, Nondepreciable	541,471
Capital Assets, Net of Depreciation	20,594,661
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Total Assets	28,315,532
	<hr/>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows of Resources - Related to Pension	1,838,308
	<hr/>
LIABILITIES	
Accounts Payable	34,028
Accrued Salaries	1,124,820
Unearned Revenue	32,930
Noncurrent Liabilities:	
Due Within One Year	266,426
Due in More Than One Year	9,607,911
Net Pension Liability	12,872,000
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Total Liabilities	23,938,115
	<hr/>
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows of Resources - Related to Pension	232,000
	<hr/>
NET POSITION	
Net Investment in Capital Assets	11,261,795
Restricted for:	
Capital Projects	206,506
Debt Service	1,293,214
Special Revenue	455,501
Unrestricted	(7,233,291)
	<hr/>
Total Net Position	\$ 5,983,725
	<hr/>

The accompanying notes are an integral part of these statements.

ANDALUSIA CITY BOARD OF EDUCATION
STATEMENT OF ACTIVITIES
Year Ended September 30, 2016

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES
Instructional Services	\$ 9,932,800	\$ 245,068	\$ 7,199,937	\$ -	\$ (2,487,795)
Instructional Support Services	2,466,828	86,731	1,965,991	-	(414,106)
Operation and Maintenance	1,628,706	8,627	460,575	455,514	(703,990)
Student Transportation Services	640,298	49,345	489,242	-	(101,711)
Food Services	1,139,478	880,285	108,601	-	(150,592)
General Administrative Services	701,312	194	415,527	-	(285,591)
Interest Expense	279,422	-	-	-	(279,422)
Other	289,693	272,448	149,975	-	132,730
Total	<u>\$ 17,078,537</u>	<u>\$ 1,542,698</u>	<u>\$ 10,789,848</u>	<u>\$ 455,514</u>	<u>(4,290,477)</u>
General Revenues:					
Taxes					
Property Tax for General Purposes					743,150
Local Sales Tax					3,048,994
Other Taxes					1,107,002
Grants and Contributions Not Restricted for Specific Programs					96,000
Investment Earnings					30,636
Miscellaneous					230,549
Contributions					214,233
Erate/On Behalf Of					33,677
Total General Revenues and Special Items					<u>5,504,241</u>
Change in Net Position					<u>1,213,764</u>
Net Position - Beginning					4,769,961
Net Position - Ending					<u>\$ 5,983,725</u>

The accompanying notes are an integral part of these statements.

ANDALUSIA CITY BOARD OF EDUCATION
BALANCE SHEET - GOVERNMENTAL FUNDS
September 30, 2016

	GENERAL	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	SPECIAL REVENUE FUND - TITLE I PART A	SPECIAL REVENUE FUND - FOOD AND NUTRITION	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS							
Cash and Cash Equivalents	\$ 3,574,113	\$ -	\$ -	\$ 24,867	\$ 205,274	\$ 160,624	\$ 3,964,878
Investments	-	-	-	-	-	16,629	16,629
Receivables	1,439,722	-	-	59,558	98,435	264,126	1,861,841
Due from Other Funds	780,741	206,506	-	-	-	236	987,483
Inventory, at Cost	-	-	-	-	32,673	-	32,673
Other Assets	-	-	-	-	-	-	-
Restricted Assets:							
Cash and Cash Equivalents	-	498	727,151	-	-	-	727,649
Investments	-	-	566,063	-	-	-	566,063
Total Assets	<u>\$ 5,794,576</u>	<u>\$ 207,004</u>	<u>\$ 1,293,214</u>	<u>\$ 84,425</u>	<u>\$ 336,382</u>	<u>\$ 441,615</u>	<u>\$ 8,157,216</u>
LIABILITIES AND FUND BALANCES							
LIABILITIES:							
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 34,028	\$ 34,028
Accrued Payroll Liabilities	1,074,026	-	-	-	50,794	-	1,124,820
Unearned Revenue	2,632	-	-	-	24,674	5,624	32,930
Due to Other Funds	695,184	498	-	84,425	-	207,376	987,483
Total Current Liabilities	<u>1,771,842</u>	<u>498</u>	<u>-</u>	<u>84,425</u>	<u>75,468</u>	<u>247,028</u>	<u>2,179,261</u>
FUND BALANCES:							
Nonspendable	-	-	-	-	32,673	-	32,673
Restricted	-	206,506	1,293,214	-	228,241	194,587	1,922,548
Unassigned	4,022,734	-	-	-	-	-	4,022,734
Total Fund Balances	<u>4,022,734</u>	<u>206,506</u>	<u>1,293,214</u>	<u>-</u>	<u>260,914</u>	<u>194,587</u>	<u>5,977,955</u>
Total Liabilities and Fund Balances	<u>\$ 5,794,576</u>	<u>\$ 207,004</u>	<u>\$ 1,293,214</u>	<u>\$ 84,425</u>	<u>\$ 336,382</u>	<u>\$ 441,615</u>	<u>\$ 8,157,216</u>

The accompanying notes are an integral part of these statements.

ANDALUSIA CITY BOARD OF EDUCATION
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
September 30, 2016

Total Fund Balance - Governmental Funds \$ 5,977,955

Amounts reported for governmental activities in the statement of Net Position are different because:

Prepaid expenses applicable to future periods are not financial resources
and, therefore, are not reported as assets in the governmental funds. 9,667

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in governmental funds.

	Cost of Capital Assets	\$ 34,458,102	
	Accumulated Depreciation	<u>(13,321,970)</u>	
			21,136,132

Deferred outflows and deferred inflows of resources related to pensions
are applicable to future periods and, therefore, are not reported in the
governmental funds. 1,606,308

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

	Capital Lease	\$ (303,196)	
	Notes Payable	(6,321,141)	
	Bonds and Warrants Payable	(3,250,000)	
	Net Pension Liability	<u>(12,872,000)</u>	
			<u>(22,746,337)</u>

Total Net Position - Governmental Activities \$ 5,983,725

The accompanying notes are an integral part of these statements.

ANDALUSIA CITY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended September 30, 2016

	GENERAL	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	SPECIAL REVENUE FUND - TITLE I PART A	SPECIAL REVENUE FUND - FOOD AND NUTRITION	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES							
State Sources	\$ 9,099,241	\$ 321,734	\$ 149,697	\$ -	\$ -	\$ 187,578	\$ 9,758,250
Federal Sources	1,420	-	-	664,884	851,861	711,775	2,229,940
Local Sources	5,099,226	107,114	20,027	-	127,618	751,256	6,105,241
Other Sources	173,884	-	-	-	18,537	-	192,421
Total Revenues	14,373,771	428,848	169,724	664,884	998,016	1,650,609	18,285,852
EXPENDITURES							
Current:							
Instructional Services	7,851,541	-	-	435,140	-	884,166	9,170,847
Instructional Support Services	1,804,653	-	-	166,311	-	470,993	2,441,957
Operation and Maintenance Services	1,530,334	38,340	-	-	-	14,214	1,582,888
Student Transportation Services	524,153	-	-	-	-	43,416	567,569
Food Services	-	-	-	-	1,076,080	-	1,076,080
General Administrative Services	513,027	-	-	51,871	-	83,125	648,023
Other Expenditures	156,129	-	-	-	-	124,736	280,865
Debt Service:							
Principal	154,856	140,000	21,992	-	-	-	316,848
Interest	2,523	260,604	16,294	-	-	-	279,421
Capital Outlay	52,000	-	-	-	-	-	52,000
Total Expenditures	12,589,216	438,944	38,286	653,322	1,076,080	1,620,650	16,416,498
Excess (Deficiency) of Revenues Over Expenditures	1,784,555	(10,096)	131,438	11,562	(78,064)	29,959	1,869,354
OTHER FINANCING SOURCES (USES)							
Indirect Cost	123,903	-	-	(11,562)	(97,091)	(15,250)	-
Transfers In	13,565	99,524	-	-	308,493	7,061	428,643
Transfers Out	(409,963)	-	-	-	-	(18,680)	(428,643)
Other Financing Sources	415,395	-	-	-	-	-	415,395
Total Other Financing Sources (Uses)	142,900	99,524	-	(11,562)	211,402	(26,869)	415,395
Net Change in Fund Balances	1,927,455	89,428	131,438	-	133,338	3,090	2,284,749
FUND BALANCES - OCTOBER 1, 2015	2,095,279	117,078	1,161,776	-	127,576	191,497	3,693,206
FUND BALANCES - SEPTEMBER 30, 2016	\$ 4,022,734	\$ 206,506	\$ 1,293,214	\$ -	\$ 260,914	\$ 194,587	\$ 5,977,955

The accompanying notes are an integral part of these statements.

ANDALUSIA CITY BOARD OF EDUCATION
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
Year Ended September 30, 2016

Total Net Change in Fund Balances - Governmental Funds	\$ 2,284,749
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeds depreciation in the period.

Capital Outlays	\$ 52,000	
Depreciation Expense	<u>(995,802)</u>	(943,802)

Payments for expenses that benefit future periods are reported as expenditures in the governmental funds, but in the statement of activities the cost of these expenditures are allocated over the period it benefits.

Prepaid Expense	(4,833)
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Debt proceeds is reported as other financing sources of revenue in the governmental funds, but as an increase in long term liabilities in the Statement of Net Position.

Proceeds from debt	(408,946)
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Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.

Repayment of debt	316,848
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Pension Expense	<u>(30,252)</u>
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Change in Net Position - Governmental Activities	<u><u>\$ 1,213,764</u></u>
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The accompanying notes are an integral part of these statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

REPORTING ENTITY

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

Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600 establishes standards for defining and reporting on the financial reporting entity. The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for agencies that make up its legal entity. It is also financially accountable for a legally separate agency if its officials appoint a voting majority of that agency's governing body and either it is able to impose its will on that agency or there is a potential for the agency to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. There are no component units, which should be included as a part of the financial reporting entity of the Andalusia City Board of Education.

BASIC FINANCIAL STATEMENT PRESENTATION

Government-Wide Financial Statements

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

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

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

ANDALUSIA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted – This category represents constraints imposed on net position by external creditors, grantors, contributors, laws or regulations of other governments, or law through constitutional provision or enabling legislation. For the year ended September 30, 2016, restricted net position for the Andalusia City Board of Education include \$206,506 for capital projects, \$1,293,214 for debt service, and \$455,501 for special revenue funds.

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

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

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

Fund Financial Statements

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

The Board reports the following major governmental funds:

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Governmental Fund Types:

Special Revenue Funds – These funds are used to account for the proceeds of specific revenue sources (other than those derived from special assessments or dedicated for major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action. Special revenue funds consist of the following: Other State Revenues, IDEA, Part B, Preschool, Part B, Basic Grant, Title II, Part A, Title IV, Title VI, Part B, and Local School Public and Nonpublic funds.

BASIS OF ACCOUNTING/MEASUREMENT FOCUS

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Non-spendable – Amounts that cannot be spent because they are either not spendable in form or they are legally or contractually required to be maintained intact. Non-spendable fund balance consists of \$32,673 for Food and Nutrition inventory.

Restricted – Amounts with constraints placed on their use that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation. Restricted fund balance for Capital \$206,506, \$1,293,214, \$228,241, and \$194,587 is restricted for the new physical education facility construction, investments for the repayment of bonds, food and nutrition services, and various other instructional and support services, respectively.

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

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

Unassigned – Residual amounts for the governmental funds and includes all spendable amounts not contained in the other classifications. Unassigned fund balance for the General fund is \$4,022,734 for any instructional, support, operations, maintenance, student, food, or general services.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BUDGETS

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

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

INVENTORIES

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

PENSIONS

The Teachers' Retirement System of Alabama (the Plan) financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to plan requirements. Benefits and refunds are recognized as revenues when due and payable in accordance with the terms of the plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

CAPITAL ASSETS

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

Donated capital assets are recorded at fair market value on the date donated. Disposals are removed at depreciated recorded cost. The cost of normal maintenance and repairs that do not add to the value of assets or materially extend the useful lives of the assets is not capitalized. Depreciation is computed using the straight-line method.

ANDALUSIA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

CASH AND CASH EQUIVALENTS

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

INVESTMENTS

Generally, all investments are reported at fair market value.

RESTRICTED ASSETS

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

	<u>Restricted Assets September 30, 2016</u>
Cash - Capital Projects	\$ 498
Cash with Fiscal Agent - Debt Service	727,151
Investments with Fiscal Agent - Debt Service	<u>566,063</u>
Total Restricted Assets	<u>\$ 1,293,712</u>

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

COMPENSATED ABSENCES

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

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

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

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

All twelve month professional employees are allowed two weeks of vacation leave. All other twelve month employees are allowed one week of vacation leave. Unused vacation leave cannot be carried over to succeeding years; therefore, no liability for unpaid leave is accrued in the financial statements.

Professional and support employees earn non-vesting sick leave at the rate of one day per month worked. Employees may accumulate an unlimited number of sick leave days. Accrued sick leave is limited to one day per month worked as applied to membership service in determining the total years of creditable service in the teachers' retirement system, with no additional cost to the Board. Employees do not receive compensation for unused sick leave at termination; therefore, no liability is recorded on the financial statements.

ESTIMATES

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

NOTE 2 - CASH AND INVESTMENTS

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

The Board had cash on deposit with various qualified public depositories at September 30, 2016 of \$3,953,394. At year end the Board also had cash on hand in various funds totaling \$11,484.

At September 30, 2016 all of the Board's investments were in certificates of deposit. These certificates of deposit are classified as "Deposits" in order to determine insurance and collateralization; however, they are classified as "Investments" on the financial statements.

NOTE 3 - RESTRICTED CASH AND INVESTMENTS WITH FISCAL AGENT

Restricted cash and cash equivalents in the capital projects fund of \$498, is for future construction projects as needed.

At September 30, 2016, the Board reported restricted cash with a fiscal agent of \$727,151 related to the capital Outlay Pool Warrant, Series 2010-QSCB (Note 14).

At September 30, 2016, the Board reported restricted investments with a fiscal agent of \$566,063 related to the capital Outlay Pool Warrant, QZAB bonds (Note 14).

NOTE 4 - LEGAL COMPLIANCE

BUDGETS

On or before October 1 of each year, the Board is required to prepare and submit to the state superintendent of education the annual budget to be adopted by the Board. The city superintendent of education or Board cannot approve any budget for operations of the school system for any fiscal year which shows expenditures in excess of income, estimated to be available, plus any balances on hand. The superintendent, with the approval of the Board, has the authority to make changes within the approved budget provided that a deficit is not incurred by such changes.

The budget was originally adopted by the Board on September 14, 2015. Budgeted amounts presented are as amended by the Board on June 15, 2016.

ANDALUSIA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 5 - RISK MANAGEMENT

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

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

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

NOTE 6 - RECEIVABLES

Government-wide financial statement receivables at September 30, 2016 consist of:

	<u>Governmental Activities</u>
State Department of Education:	
Child Nutrition	\$ 89,853
Fresh Fruits and Vegetables	8,582
IDEA, SSIP	47,558
IDEA, Discretionary	187,578
IDEA, Part B	16,000
Title I, School Improvement	3,579
Title I, Part A	59,558
Title II	5,411
Title VI	4,000
City of Andalusia	1,117,818
Covington County Commission	95,382
Covington County Probate Judge	10,904
Covington County Probate Judge-Helping Schools	578
Andalusia Bulldog Boosters	1,698
Wells Fargo	2,750
Office Depot	167
State of Alabama Emergency Management Agency	156,375
Andalusia City Schools Foundation	54,050
	<hr/>
TOTALS	<u><u>\$ 1,861,841</u></u>

ANDALUSIA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 7 - PAYMENTS OR SERVICES FURNISHED BY OTHER AGENCIES

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

NOTE 8 - DONATED FOOD PROGRAM

The commodities received from the federal government in connection with the donated food program are reflected in the accompanying financial statements. The total assigned value of commodities donated for fiscal year ended September 30, 2016 was \$57,125.

NOTE 9 - DUE TO/FROM OTHER FUNDS

The following is a schedule of the due to/from other funds in the fund financial statements at September 30, 2016:

	Due From	Due To
General Funds:		
Local Default Source	\$ 434,760	\$ 695,184
Helping Schools Tag	6,729	-
Income - 16th Section	17,765	-
PSF - Interest	8,636	-
Section 16 - EFT	312,104	-
Penny Trust	747	-
Capital Projects Fund:		
Local Default Source	-	498
PSF - Capital Outlay	124,674	-
Transportation Fleet Renewal	81,832	-
Special Revenue Funds:		
Title I, Part A	-	84,425
Title II, Part A	-	2,831
IDEA, Part B	219	-
IDEA, SSIP	-	43,064
School Improvement	17	-
State Improvement	-	161,481
	<u>\$ 987,483</u>	<u>\$ 987,483</u>

ANDALUSIA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2016 was as follows:

	Balance 10/1/2015	Additions	Retirements	Balance 9/30/2016
<u>Governmental Activities:</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 541,471	\$ -	\$ -	\$ 541,471
Construction in Progress	-	52,000	-	52,000
Total Capital Assets, Not Being Depreciated	541,471	52,000	-	593,471
Capital Assets Being Depreciated:				
Land Improvements (Exhaustible)	514,719	-	-	514,719
Buildings	27,034,203	-	-	27,034,203
Buildings Improvements	3,884,411	-	-	3,884,411
Vehicles	868,694	-	-	868,694
Equipment	1,562,604	-	-	1,562,604
Total Capital Assets Being Depreciated	33,864,631	-	-	33,864,631
Less Accumulated Depreciation for:				
Land Improvements (Exhaustible)	493,819	6,440	-	500,259
Buildings	7,516,857	637,958	-	8,154,815
Buildings Improvements	2,597,763	229,720	-	2,827,483
Vehicles	612,870	41,004	-	653,874
Equipment	1,104,859	80,680	-	1,185,539
Total Accumulated Depreciation	12,326,168	995,802	-	13,321,970
Total Capital Assets, Being Depreciated, Net	21,538,463	(995,802)	-	20,542,661
Governmental Activities Capital Assets, Net	\$ 22,079,934	\$ (943,802)	\$ -	\$ 21,136,132

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

<u>Governmental Activities</u>	
Instructional Services	\$ 726,869
Instructional Support Services	24,872
Operation and Maintenance Services	97,817
Student Transportation Services	72,729
Food Services	72,226
General Administrative Services	1,289
Total Depreciation Expense - Governmental Activities	<u>\$ 995,802</u>

NOTE 11 - PENSION PLAN

Plan description

The Teachers' Retirement System of Alabama, a cost-sharing multiple-employer public employee retirement plan, was established as of September 15, 1939, under the provisions of Act 419 of the Legislature of 1939 for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by State-supported educational institutions. The responsibility for the general administration and operation of the TRS is vested in its Board of Control. The TRS Board of Control consists of 15 trustees. The plan is administered by the Retirement Systems of Alabama (RSA). Title 16-Chapter 25 of the Code of Alabama grants the authority to establish and amend the benefit terms to the TRS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

Benefits provided

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the TRS. Benefits for TRS members vest after 10 years of creditable service. TRS members who retire after age 60 with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the TRS are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 TRS members are eligible for retirement after age 62 with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the TRS are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary based on the member's age, service credit, employment status and eligibility for retirement.

NOTE 11 - PENSION PLAN (Continued)

Contributions

Covered members of the TRS contributed 5% of earnable compensation to the TRS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, covered members of the TRS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the TRS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the TRS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the TRS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 8.50% of earnable compensation.

Tier 2 covered members of the TRS contribute 6% of earnable compensation to the TRS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 7% of earnable compensation.

Participating employers' contractually required contribution rate for the year ended September 30, 2016 was 11.94% of annual pay for Tier 1 members and 10.84% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the System were \$920,308 for the year ended September 30, 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2016 the Board reported a liability of \$12,872,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2014. The Board's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2015 the Board's proportion was 0.122995%, which was a decrease of 0.002062% from its proportion measured as of September 30, 2014.

ANDALUSIA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 11 - PENSION PLAN (Continued)

For the year ended September 30, 2016, the System recognized pension expense of \$950,560. At September 30, 2016, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 70,000
Changes of assumptions	-	-
Net difference between projected and actual earnings on plan investments	843,000	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	75,000	162,000
Employer contributions subsequent to the Measurement Date	920,308	-
Total	<u>\$ 1,838,308</u>	<u>\$ 232,000</u>

The \$920,308 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended September 30:</u>	
2017	\$ 127,000
2018	127,000
2019	127,000
2020	319,000
2021	(14,000)
Thereafter	-

ANDALUSIA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 11 - PENSION PLAN (Continued)

Actuarial assumptions

The total pension liability was determined by an actuarial valuation as of September 30, 2014 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Investment rate of return*	8.00%
Projected salary increases	3.5% - 8.25%

*Net of pension plan investment expense

The actuarial assumptions used in the actuarial valuation as of September 30, 2014, were based on the results of an investigation of the economic and demographic experience for the TRS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012.

Mortality rates for TRS were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA projected to 2015 and set back one year for females.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

	Target Allocation	Long-Term Expected Rate of Return*
Fixed Income	25.00%	5.00%
U.S. Large Stocks	34.00%	9.00%
U.S. Mid Stocks	8.00%	12.00%
U.S. Small Stocks	3.00%	15.00%
International Developed Market Stocks	15.00%	11.00%
International Emerging Market Stocks	3.00%	16.00%
Real Estate	10.00%	7.50%
Cash	2.00%	1.50%
Total	<u>100.00%</u>	

* Includes assumed rate of inflation of 2.50%

NOTE 11 - PENSION PLAN (Continued)

Discount rate

The discount rate used to measure the total pension liability was 8%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current pan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the System's proportionate share of the net pension liability to changes in the discount rate

The following table presents the System's proportionate share of the net pension liability calculated using the discount rate of 8%, as well as what the System's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (7%) or 1-percentage-point higher (9%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Board's proportionate share of collective net pension liability	\$ 17,029,000	\$ 12,872,000	\$ 9,347,000

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2015. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2015. The auditor's report dated October 17, 2016 on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense for the sum of all participating entities as of September 30, 2015 along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

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

Funding Policy

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

Individual Coverage - Non-Medicare Eligible	\$	151.00
Individual Coverage - Medicare Eligible	\$	10.00
Family Coverage - Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	\$	391.00
Family Coverage - Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) with Non-Medicare Eligible Spouse	\$	416.00
Family Coverage - Non-Medicare Eligible Retired Member and Non-spousal Dependent Medicare Eligible	\$	250.00
Family Coverage - Non-Medicare Eligible Retired Member and Spouse Dependent Medicare Eligible	\$	260.00
Family Coverage - Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - No Spouse	\$	250.00
Family Coverage - Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - with Medicare Eligible Spouse	\$	275.00
Family Coverage - Medicare Eligible Retired Member and Non-Spousal Dependent Medicare Eligible	\$	109.00
Family Coverage - Medicare Eligible Retired Member and Spousal Dependent Medicare Eligible	\$	119.00

ANDALUSIA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Surviving Spouse - Non-Medicare Eligible	\$	740.00
Surviving Spouse - Non-Medicare Eligible and Dependent Non-Medicare Eligible	\$	987.00
Surviving Spouse - Non-Medicare Eligible and Dependent Medicare Eligible	\$	1,033.00
Surviving Spouse - Medicare Eligible	\$	425.00
Surviving Spouse - Medicare Eligible and Dependent Non-Medicare Eligible	\$	679.00
Surviving Spouse - Medicare Eligible and Dependent Medicare Eligible	\$	725.00

Up to two optional plans can be taken by retirees at no cost if the retiree is not also enrolled in one of the Hospital Medical Plans. Otherwise, retirees can purchase the Optional Plans at the normal monthly rate of \$38 or \$50 for family dental.

Members who retired on or after October 1, 2005 and before January 1, 2012, pay two percent of the employer premium for each year under 25 years of service, and for each year over 25 years of service, the retiree premium is reduced by two percent. Employees who retire on or after January 1, 2012, with less than 25 years of service, are required to pay 4% for each year under 25 years of service. Additionally, non-Medicare eligible employees who retire on or after January 1, 2012 are required to pay 1% more for each year less than age 65 (age premium) and to pay the net difference between the active employee subsidy and the non-Medicare eligible retiree subsidy (subsidy premium). When the retiree becomes Medicare eligible, the age and subsidy premium no longer applies. However, the years of service premium (if applicable to the retiree) will continue to be applied throughout retirement. These changes are being phased in over a five year period.

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

Fiscal Year Ended September 30,	Active Health Insurance Premiums Paid by Board	Amount of Premium Attributable to Retirees	Percentage of Active Employee Premiums Attributable to Retirees	Total Amount Paid Attributable to Retirees	Percentage of Required Amount Contributed
2016	\$ 780.00	\$ 211.21	27.08%	\$ 468,452	100%
2015	\$ 780.00	\$ 180.76	23.17%	\$ 402,033	100%
2014	\$ 714.00	\$ 220.09	30.83%	\$ 490,896	100%

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Each year the PEEHIB certifies to the Governor and to the Legislature the contribution rates based on the amount needed to fund coverage for benefits for the following fiscal year and the Legislature sets the premium rate in the annual appropriation bill.

The Board has accounted for payments received from the federal government for Employer Group Waiver Plan (EGWP) payments in accordance with GASB Technical Bulletin 2006-1. This bulletin requires the EGWP to be recorded as an “on-behalf payment”, resulting in offsetting revenues and expenditures. The amount recognized in the 2016 financial statements for EGWP is \$103,793.

NOTE 13 – NOTE PAYABLE WITH THE CITY OF ANDALUSIA

2011 Cooperative Agreement

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

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

Due to the implementation of GASB 34, payments on the above will be reported as a Note Payable to the City of Andalusia in the financial statements. A Note Receivable associated with these warrants is reflected in the City’s financial statements.

ANDALUSIA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 13 – NOTE PAYABLE WITH THE CITY OF ANDALUSIA (Continued)

The Board's annual payments are as follows:

Warrant Year	Principal School Board's Share	Interest School Board's Share	Total
2016	\$ 140,000	\$ 252,113	\$ 392,113
2017	145,000	249,081	394,081
2018	150,000	245,575	395,575
2019	155,000	241,375	396,375
2020	155,000	236,919	391,919
2021	160,000	232,388	392,388
2022	165,000	227,306	392,306
2023	170,000	221,778	391,778
2024	180,000	215,780	395,780
2025	185,000	209,208	394,208
2026	190,000	202,175	392,175
2027	200,000	194,690	394,690
2028	210,000	186,615	396,615
2029	215,000	177,954	392,954
2030	225,000	168,768	393,768
2031	235,000	159,049	394,049
2032	245,000	148,726	393,726
2033	255,000	137,851	392,851
2034	270,000	126,433	396,433
2035	280,000	114,260	394,260
2036	295,000	101,323	396,323
2037	305,000	87,823	392,823
2038	320,000	73,600	393,600
2039	335,000	58,535	393,535
2040	350,000	42,780	392,780
2041	370,000	26,220	396,220
2042	385,000	8,855	393,855
	<u>\$ 6,290,000</u>	<u>\$ 4,347,180</u>	<u>\$ 10,637,180</u>

NOTE 14 - LONG-TERM DEBT

2005 QZAB

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

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

The Andalusia City Board of Education chose the deferred payment option. Under this option, the Board will make payments of \$56,606 for ten years starting on June 1, 2006. These annual payments will be deposited into a restricted fund which will accumulate to earn interest to repay the face amount of the QZAB. The Board will recognize interest as income annually beginning June 2007. At the end of the bond term, the payment of debt principal will be recognized at one time. At September 30, 2015, had completed the required annual payments resulting in an investment of \$566,063 in US Treasury Bills for the repayment of the QZAB. No payments were required in fiscal year 2016.

Series 2010-QSCB

In August 2009, Governor Riley signed Act No. 2009-813, providing for the sale of Qualified School Construction Bonds (QSCB) by the Alabama Public School and College Authority (PSCA). This legislation allows the local school board to pledge local taxes and public school funds (PSF Capital Purchase) for the local school board’s payments for the QSCB bonds.

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

The Andalusia City Board of Education has agreed to have the quarterly interest payments withheld for annual PSF Capital Purchase allocations. The amounts to be withheld for QSCB interest payments are \$10,541 for the first fiscal year and \$10,750 for each of the remaining 16 years until the bond matures.

NOTE 14 - LONG-TERM DEBT (Continued)

The first annual sinking fund payment was made on September 1, 2011 in the amount of \$111,411 with the same amount for each of the following 16 years until the bond matures on September 1, 2027. The annual sinking fund payment will not be withheld from annual PSF Capital Purchase allocations although the annual sinking fund payment may be made from the PSF Capital Purchase funds or available local sources. As of September 30, 2016, the Board had \$727,151 in restricted cash for the repayment of the QSCB.

Regions Bank

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

Apple Inc.

In addition, on May 20, 2014, the Board entered into a second master lease purchase agreement with Apple, Inc. to purchase computers and various small equipment. The lease term is 36 months with an interest rate of 3.59%. The Board has the option of buying the equipment for \$1. With the \$1 purchase option, the Board at term's end may seek to trade in that equipment for credit toward new systems or for cash.

On August 12, 2016, the Board entered into a third master lease purchase agreement with Apple, Inc. to purchase computers and various small equipment. The lease term is for 48 months with an interest rate of 2.30%. The Board has the option of buying the equipment for \$1. With the \$1 purchase option, the Board at term's end may seek to trade in that equipment for credit toward new systems or for cash.

ANDALUSIA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 14 - LONG-TERM DEBT (Continued)

The following is a summary of long-term debt transactions for the year ended September 30, 2016:

	Balance 10/1/2015	Proceeds	Payments	Balance 9/30/2016	Amounts Due Within One Year
Note Payable -					
City of Andalusia	\$ 6,290,000	\$ -	\$ 140,000	\$ 6,150,000	\$ 145,000
Capital Outlay Pool					
Warrant, Series					
2010 - QSCB	2,500,000	-	-	2,500,000	-
Qualified Zone					
Academy Bonds	750,000	-	-	750,000	-
Regions Bank	194,896	-	23,755	171,141	22,650
Apple, Inc. 2014	47,343	-	47,343	-	-
Apple, Inc. 2016	-	408,946	105,750	303,196	98,776
	<u>\$ 9,782,239</u>	<u>\$ 408,946</u>	<u>\$ 316,848</u>	<u>\$ 9,874,337</u>	<u>\$ 266,426</u>

ANDALUSIA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 14 - LONG-TERM DEBT (Continued)

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

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
September 30, 2017	\$ 266,426	\$ 271,691	\$ 538,117
September 30, 2018	274,376	265,235	539,611
September 30, 2019	282,398	258,013	540,411
September 30, 2020	179,745	250,460	430,205
September 30, 2021	935,485	245,189	1,180,674
Thereafter	<u>7,935,907</u>	<u>2,956,005</u>	<u>10,891,912</u>
	<u>\$ 9,874,337</u>	<u>\$4,246,593</u>	<u>\$14,120,930</u>

NOTE 15 - UNEARNED REVENUE

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

At September 30, 2016, the various components of unearned revenue reported in the governmental funds were as follows:

	<u>Unearned Revenue</u>
Child Nutrition Program	\$ 24,674
Title I, School Improvement	17
Title VI, Part B	1,088
IDEA - Part B	4,519
General	<u>2,632</u>
	<u>\$ 32,930</u>

ANDALUSIA CITY BOARD OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 16 - INTERFUND TRANSFERS

The amounts of interfund transfers during the year ended September 30, 2016, were as follows:

	Transfers In	Transfers Out
General Fund	\$ 13,565	\$ 409,963
Capital Projects Fund	99,524	-
Child Nutrition Fund	308,493	-
Other Governmental Funds	7,061	18,680
	<u>\$ 428,643</u>	<u>\$ 428,643</u>

The Board typically uses transfers to fund ongoing operating subsidies.

NOTE 17 - CONTINGENCY

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

NOTE 18 – REPORT CLASSIFICATIONS

Certain previously reported amounts have been reclassified to conform to 2016 report classifications.

NOTE 19 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 22, 2017, which is the date the financial statements were available to be issued.

During January 2017, the Board purchased three school buses using loan proceeds. Repayment will be made with fleet renewal funds.

The Board has approved additions and improvements to the Andalusia High School Auditorium and Stadium with construction planned to begin in July 2017.

REQUIRED SUPPLEMENTARY INFORMATION

ANDALUSIA CITY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL-GENERAL FUND
Year Ended September 30, 2016

	ORIGINAL	FINAL	ACTUAL BUDGETARY BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES				
State Sources	\$ 9,062,484	\$ 9,098,048	\$ 9,099,241	\$ 1,193
Federal Sources	800	800	1,420	620
Local Sources	2,978,870	3,200,331	5,099,226	1,898,895
Other Sources	20,000	20,000	173,884	153,884
Total Revenues	<u>12,062,154</u>	<u>12,319,179</u>	<u>14,373,771</u>	<u>2,054,592</u>
EXPENDITURES				
Current:				
Instructional Services	7,384,600	7,476,882	7,851,541	(374,659)
Instructional Support Services	1,727,625	1,735,893	1,804,653	(68,760)
Operation and Maintenance Services	1,410,620	1,520,620	1,530,334	(9,714)
Student Transportation Services	538,520	538,520	524,153	14,367
General Administrative Services	559,149	559,163	513,027	46,136
Special Revenue Outlay	-	-	52,000	(52,000)
Other Expenditures	153,841	156,434	156,129	305
Debt Service	100,678	153,841	157,379	(3,538)
Total Expenditures	<u>11,875,033</u>	<u>12,141,353</u>	<u>12,589,216</u>	<u>(447,863)</u>
Excess of Revenues Over Expenditures	<u>187,121</u>	<u>177,826</u>	<u>1,784,555</u>	<u>1,606,729</u>
OTHER FINANCING SOURCES (USES)				
Indirect Cost	-	-	123,903	123,903
Transfers In	-	-	13,565	13,565
Transfers Out	-	-	(409,963)	(409,963)
Other Financing Sources	123,332	132,613	415,395	282,782
Other Fund Uses	(310,453)	(310,439)	-	310,439
Total Other Fund Uses	<u>(187,121)</u>	<u>(177,826)</u>	<u>142,900</u>	<u>320,726</u>
Net Change in Fund Balances	<u>-</u>	<u>-</u>	<u>1,927,455</u>	<u>1,927,455</u>
FUND BALANCES - OCTOBER 1, 2015	<u>2,095,279</u>	<u>2,095,279</u>	<u>2,095,279</u>	<u>-</u>
FUND BALANCES - SEPTEMBER 30, 2016	<u>\$ 2,095,279</u>	<u>\$ 2,095,279</u>	<u>\$ 4,022,734</u>	<u>\$ 1,927,455</u>

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

ANDALUSIA CITY BOARD OF EDUCATION
NOTES TO THE SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
September 30, 2016

NOTE 1 - BUDGETARY COMPARISON

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

ANDALUSIA CITY BOARD OF EDUCATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHERS' RETIREMENT PLAN OF ALABAMA
Last Two Fiscal Years Ended September 30

	2016	2015
Board's proportion of the collective net pension liability	0.122995%	0.125057%
Board's proportionate share of the collective net pension liability	\$ 12,872,000	\$ 11,361,000
Board's covered-employee payroll during the measurement period*	\$ 7,788,162	\$ 7,930,785
Board's proportionate share of the collective net pension liability as a percentage of its covered-employee payroll	165.28%	143.25%
Plan fiduciary net position as a percentage of the total pension liability	67.51%	71.01%

* Board's covered-employee payroll during the measurement period is the total of those employees who are participating in the pension plan. For fiscal year 2016, the measurement period is October 1, 2014 through September 30, 2015.

The accompanying notes are an integral part of these statements.

ANDALUSIA CITY BOARD OF EDUCATION
SCHEDULE OF BOARD CONTRIBUTIONS
TEACHERS' RETIREMENT SYSTEM OF ALABAMA
Last Two Fiscal Years Ended September 30

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 920,308	\$ 907,598
Contributions in relation to the contractually required contribution	<u>920,308</u>	<u>907,598</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Board's covered-payroll	\$ 7,794,019	\$ 7,788,162
Contributions as a percentage of covered-employee payroll	11.81%	11.65%

The accompanying notes are an integral part of these statements.

SUPPLEMENTARY INFORMATION

ANDALUSIA CITY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended September 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER	DISBURSEMENTS/ EXPENDITURES
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed Through State Department of Education:			
Title I, Part A Cluster:			
Title I, Part A	84.010	104	\$ 499,218
Title I, Part A, Carryover	84.010	104	165,666
Title I, School Improvement	84.010	104	28,573
			<u>693,457</u>
Special Education (IDEA) Cluster:			
IDEA, VI B, School Program	84.027	104	432,408
IDEA, VI B, Special Education Discretionary Grant	84.027	104	187,578
IDEA, VI B, SSIP Discretionary Grant	84.027	104	47,558
IDEA, Preschool Incentive	84.173	104	29,247
			<u>696,791</u>
Title II, Part A, Teacher Training	84.367	104	109,867
Title VI, Part B, Rural Education Initiative	84.358	104	41,782
Vocational - Basic Grants to States	84.048A	104	22,339
			<u>173,988</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>1,564,236</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed Through State Department of Education:			
State Administrative Expenses for Child Nutrition	10.560	104	1,518
Fresh Fruits and Vegetables	10.582	104	50,858
Child Nutrition Cluster:			
National School Breakfast Program (M)	10.553	104	278,988
National School Lunch Program (M)			
Cash Assistance	10.555	104	451,705
Non-Cash Assistance (Commodities) (N)	10.555		57,125
Summer Food Service Program (M)	10.559	104	11,666
Subtotal Child Nutrition Cluster			<u>799,484</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>851,860</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Passed Through State Department of Education:			
Disability Insurance/SSI Cluster:			
Disability Determination	96.001	104	1,420
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>1,420</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,417,516</u>
(N) Non-cash assistance			
(M) Major program			

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

ANDALUSIA CITY BOARD OF EDUCATION
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended September 30, 2016

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Andalusia City Board of Education and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

ANDALUSIA CITY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
September 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified
Internal control over financial reporting:
Material weakness(es) identified? _____yes X no
Significant deficiency(ies) identified? _____yes X none reported
Noncompliance material to financial statements noted? _____yes X no

Federal Awards

Internal Control over major programs:
Material weakness(es) identified? _____yes X no
Significant deficiency(ies) identified? _____yes X none reported
Type of auditor's report issued on compliance
for major programs: Unmodified
Any audit findings disclosed that are required to be
reported in accordance with 2 CFR 200.516)? _____yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>10.553; 10.555; 10.559</u>	<u>Child Nutrition Cluster</u>

Dollar threshold used to distinguish
between Type A and Type B programs: \$ 750,000
Auditee qualified as low -risk auditee X yes _____no

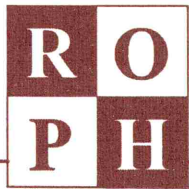
ANDALUSIA CITY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
September 30, 2016

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Andalusia City Board of Education (the Board) as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated June 22, 2017.

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 Andalusia City Board of Education's internal control. Accordingly, we do not express an opinion on the effectiveness of Andalusia City Board of Education's internal control.

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

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

Compliance and Other Matters

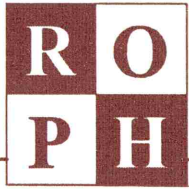
As part of obtaining reasonable assurance about whether Andalusia City Board of Education's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have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

Purpose of this Report

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

Rabren, Odom, Pierce & Hayes, PC

Andalusia, Alabama
June 22, 2017



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

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited the Andalusia City Board of Education's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Andalusia City Board of Education's major federal programs for the year ended September 30, 2016. The Andalusia City Board of Education's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, contracts, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Andalusia City Board of Education's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Andalusia City Board of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Andalusia City Board of Education, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2016.

Report on Internal Control Over Compliance

Management of the Andalusia City Board of Education is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Andalusia City Board of Education's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Andalusia City Board of Education's internal control over compliance.

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

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

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

Rabren, Odom, Pierce & Hayes, PC

Andalusia, Alabama
June 22, 2017