

Report on the

Pickens County Board of Education

Pickens County, Alabama

October 1, 2015 through September 30, 2016

Filed: June 30, 2017



Department of Examiners of Public Accounts

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Ronald L. Jones, Chief Examiner



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Ronald L. Jones
Chief Examiner

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

Dear Sir:

Under the authority of the *Code of Alabama 1975*, Section 41-5-21, I submit this report on the results of the audit of the Pickens County Board of Education, Pickens County, Alabama, for the period October 1, 2015 through September 30, 2016.

Sworn to and subscribed before me this
the 2nd day of June, 2017.

Janine Butler
Notary Public

rb

Respectfully submitted,

Amanda B. Hynds

Amanda B. Hynds
Examiner of Public Accounts

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Department of
Examiners of Public Accounts

SUMMARY

**Pickens County Board of Education
October 1, 2015 through September 30, 2016**

The Pickens County Board of Education (the “Board”) is governed by a five-member body elected by the citizens of Pickens County. The members and administrative personnel in charge of governance of the Board are listed in Exhibit 14. The Board is the governmental agency that provides general administration and supervision for Pickens County public schools, preschool through high school.

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

An unmodified opinion was issued on the financial statements, which means that the Board’s financial statements present fairly, in all material respects, its financial position and the results of its operations for the fiscal year ended September 30, 2016.

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

The following officials/administrative personnel were invited to an exit conference to discuss this report: Superintendent: Jamie Chapman; Chief School Financial Officer: Jennifer Shirley; and Board Members: Nicholas Tolstick, Michael Hinton, Debbie Holley, Annie Jackson and LaSonja Richardson. The following individuals attended the exit conference, held at the Board’s offices: Superintendent: Jamie Chapman; Chief School Financial Officer: Jennifer Shirley; Board Members: Debbie Holley, and LaSonja Richardson. Representatives of the Department of Examiners of Public Accounts in attendance were: Shelley Patrenos, Audit Manager; and Brooke Hynds, Examiner.

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Independent Auditor's Report

Independent Auditor's Report

Members of the Pickens County Board of Education,
Superintendent and Chief School Financial Officer
Carrollton, 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 Pickens County Board of Education, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Pickens County Board of Education's basic financial statements as listed in the table of contents as Exhibits 1 through 8.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Pickens County 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 (MD&A), the Schedule of the Employer's Proportionate Share of Net Pension Liability, the Schedule of the Employer's Contributions, the Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual, (Exhibits 9 through 12), be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

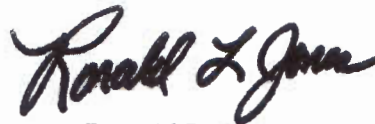
Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pickens County Board of Education's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 13) as required by Title 2 U. S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, is presented for the purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2017, on our consideration of the Pickens County Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pickens County Board of Education's internal control over financial reporting and compliance.



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

Montgomery, Alabama

June 1, 2017

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

PICKENS COUNTY BOARD OF EDUCATION

Management's Discussion and Analysis (MD&A) September 30, 2016

Our discussion and analysis of the Pickens County Board of Education's (the "Board's") financial performance provides an overview of the Board's financial activities for the fiscal year ended September 30, 2016. Please read it in conjunction with the Board's financial statements and notes to the financial statements, which immediately follow this analysis.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement Number 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 fiscal year and the prior year is required to be presented in the MD&A and is included in this report.

Financial Highlights: Significant Items to Note

Our Financial Statements provide these insights into the results of this year's operation.

- The liabilities and deferred inflows of resources of the Board exceeded its assets and deferred outflows of resources at the close of 2016 fiscal year by \$4.6 million. The total cost of the Board's programs for the year was \$26.343 million. After taking away the portion of these costs paid for with Program Revenues (Charges for Services, Operating Grants and Capital Grants and Contributions) the net cost that required funding from Pickens County taxpayers was \$4.943 million. The Foundation Program requires a 10-mill equivalency local match that is derived from locally collected ad valorem and sales taxes. This amount for the year was \$1,749,425 which included Foundation and Capital Project Funds.
- A total of 11 buses were purchased during the year for a cost of \$987,135.
- Capital outlays during the audit period included:
 - Various Small Projects
 - Textbooks
 - Roofing Projects
 - New Career Center (Vocational School)
- With the purchase of buses (\$987,135) and the issuance of Special Tax School Warrants (\$7,885,000) long term liabilities increased. The warrants were issued to support the building of the new career center. Net pension liability continues to be the largest long-term debt at \$22 million. This long-term debt was caused by passing of GASB 68 in the last fiscal year.
- Total general fund revenues decreased \$329,983 largely due to decrease in State funds and fund balance decreased by \$3,559.
- Property and sales taxes decreased by \$20,224.80. However, total general revenues, special, and extraordinary items increased by \$57,585.88 from last year.

PICKENS COUNTY BOARD OF EDUCATION

Management's Discussion and Analysis (MD&A) September 30, 2016

Using the Financial Statements – An Overview for the User

The financial section of this report consists of five parts – MD&A (Managements Discussion and Analysis {this section}), the Independent Auditors' Report, the Basic Financial Statements, Required Supplemental Information, and other Supplemental Information.

The Board's new financial statements are comprised of these components: 1) *Government-wide Financial Statement*, 2) *Fund Financial Statements*, and 3) *Notes to the Basic Financial Statements*.

Government-Wide Financial Statements

The purpose of these statements is to provide readers with a broad overview of the Boards' finances as a whole instead of an individual fund basis. The report states that all activities of the board reported in this report are classified as government activities. These activities include the following:

- Instruction includes teacher salaries and benefits, instructional aides, substitute teachers, textbooks, professional development, and classroom instructional materials, supplies and equipment.
- Instructional Support includes salaries and benefits for principals assistant principals, librarians, counselors school secretaries and bookkeepers, speech therapist, school nurses, and professional development.
- Operation and Maintenance includes utilities, security services, janitorial services, maintenance services.
- Auxiliary Services includes student transportation expenses, such as bus driver salaries and benefits, mechanics, bus aides, vehicle maintenance and repair expenses, vehicle fuel, fleet insurance; and food service expenses such as lunchroom managers, cooks, cashiers and servers' salaries and benefits as well as donated and purchased food, food preparation and service supplies, kitchen and lunchroom equipment.
- General Administrative and Central Support includes salaries and benefits for the superintendent, assistants, clerical, and financial staff, and other personnel that provide system-wide support for the schools. Also included are legal expenses, liability insurance, training for board members and general administrative staff, printing costs.
- Interest and Fiscal Charges include interest, but not principal payments, on long-term debt issues and other expenses related to the issuance and continuance of debt issues.
- Other includes the salaries and benefits for community education instructors. Also included are the materials, supplies, equipment, and other expenses for operating programs outside of those for educating students in the K-12 grade instructional programs.

PICKENS COUNTY BOARD OF EDUCATION

Management's Discussion and Analysis (MD&A) September 30, 2016

Government-wide Statements report the capitalization of capital assets the outstanding balances of long-term debt and other obligations.

These statements report all assets, deferred outflows of resources, liabilities, and deferred inflows of resources perpetuated by these activities using the accrual basis of accounting. The accrual basis takes into account all of the Boards' current year revenues and expenses regardless of when received or paid. This approach moves the financial reporting method for governmental entities closer to the financial reporting methods used in the private sector. The following government-wide financial statements report on all of the governmental activities of the Board as a whole.

The Statement of Net Position (Exhibit # 1) is most closely related to a balance sheet. It presents information on all of the board's assets (what it owns), deferred outflows of resources, liabilities (what it owes) and deferred inflows of resources, with the difference reported in net position. The net position reported in this statement represent the accumulation of changes in net position for the current fiscal year and all fiscal years in the past combined.

The Statement of Activities (Exhibit # 2) is most closely related to an income statement. It presents information showing how the Board's net position changed during current fiscal year only. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The statement identifies the extent to which each expenditure function draws from general revenues of the Board (local taxes) or is financed through charges for services (such as lunchrooms) and intergovernmental aid (federal programs and state allotments).

Fund Financial Statements

The Fund Financial Statement provides 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 used fund accounting to ensure and demonstrate accountability. Only one kind of fund (governmental) is presented in the fund financial statements.

Governmental Funds – Governmental fund financials begin with (Exhibit #3). Most of the Board 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 fund 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 Board's major funds are General Fund, Special Revenue, and Capital Projects Fund.

PICKENS COUNTY BOARD OF EDUCATION

Management's Discussion and Analysis (MD&A) September 30, 2016

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential for the statements to fairly represent the Board's financial position and its operations. The notes contain important information that is not part of the basic financial statements.

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 basic of reporting.

Financial Analysis of the Board as a Whole

As noted earlier, net position may serve as a useful indicator of a government's financial position. Refer to TABLE 1 when reading the following analysis of net position. The Board's liabilities exceed the assets by \$4.60 million at September 30, 2016, reflecting a decrease in net position of \$0.09 million over the previous year.

- The Board's investment in capital assets is \$11.76 million. Since these capital assets represents investment in land, buildings, school buses, furniture and equipment, this portion of the net position is not available for future spending or funding of operations.
- Increase of Current and Other Assets and Non-Current Liabilities are largely due to the sale of Special Tax School Warrants, Series 2016 for the building of the new career center.
- Restricted net position account for \$1.72 million of total net position. Restricted net position are reported separately to show the external legal constraints from debt covenants and enabling legislation that limit the Board's ability to use those net position for day-to-day operations.
- The balance of unrestricted net position (\$18.07) million was primarily due to the addition of pension liabilities with the adoption of GASB Statement 68 in the prior year.

PICKENS COUNTY BOARD OF EDUCATION

**Management's Discussion and Analysis (MD&A)
September 30, 2016**

**Table 1: SUMMARY OF NET POSITION
(in millions)**

| | Governmental Activities | | |
|----------------------------------|-------------------------|------------------|------------------------|
| | 2016 | 2015 | Increase (Decrease) |
| Assets: | | | |
| Current and Other Assets | \$ 16.88 | \$ 9.47 | \$ 7.41 |
| Capital Assets | 13.80 | 12.44 | 1.36 |
| Total Assets | 30.68 | 21.91 | 8.77 |
| Deferred Outflows of Resources | 3.01 | 1.55 | 1.46 |
| Liabilities: | | | |
| Current Liabilities | 2.43 | 1.88 | 0.55 |
| Non-Current Liabilities | 33.13 | 22.08 | 11.05 |
| Total Liabilities | 35.56 | 23.96 | 11.60 |
| Deferred Inflows of Resources | 2.73 | 4.00 | (1.27) |
| Net Position: | | | |
| Net Investment in Capital Assets | 11.76 | 11.91 | (0.15) |
| Restricted | 1.71 | 1.99 | (0.28) |
| Unrestricted | (18.07) | (18.41) | 0.34 |
| Total Net Position | \$ (4.60) | \$ (4.51) | \$ (0.09) |

PICKENS COUNTY BOARD OF EDUCATION

Management's Discussion and Analysis (MD&A) September 30, 2016

As shown in Table 2, the cost of services rendered from the Board's governmental activities for the year ended September 30, 2016 was \$26.34 million. It is important to note that not all of this cost was borne by the taxpayers of Pickens County.

- Some of the cost, 2.20 million, was paid by users who benefited from services provided during the year, such as school lunches, etc.
- State and Federal government subsidized certain programs with operating and capital grants and contributions totaling \$19.20 million.
- Other general revenue sources, such as interest earnings, and other miscellaneous revenue provided \$1.14 million.
- \$3.71 million of the Board's total cost of \$26.34 million was financed by district and state taxpayers, as follows: \$1.85 million in property tax, and \$1.86 million in sales taxes.

**Table 2: SUMMARY IN NET POSITION FROM OPERATING RESULTS
(in millions)**

| | Governmental Activities | | | |
|--|-------------------------|----------------|------------------|----------------|
| | 2015 | Percent | 2016 | Percent |
| Revenues: | | | | |
| Program Revenues: | | | | |
| Charges for Services | \$ 2.13 | 7.95% | \$ 2.20 | 8.38% |
| Operating Grants and Contributions | 18.84 | 70.26% | 18.33 | 69.83% |
| Capital Grants and Contributions | 1.05 | 3.92% | 0.87 | 3.30% |
| General Revenue | | | | |
| Property Taxes for General Purposes | 1.69 | 6.30% | 1.85 | 7.05% |
| Sales and Use Tax | 2.11 | 7.86% | 1.86 | 7.09% |
| Miscellaneous/Interest Earning | 0.99 | 3.71% | 1.14 | 4.34% |
| Total Revenues | 26.82 | 100.00% | 26.25 | 100.00% |
| Expenses: | | | | |
| Instruction | 13.63 | 53.83% | 14.09 | 53.49% |
| Instructional Support | 3.97 | 15.68% | 4.00 | 15.19% |
| Operation and Maintenance | 2.14 | 8.45% | 2.05 | 7.78% |
| Auxiliary Services: | | | | |
| Food Service | 1.86 | 7.35% | 1.87 | 7.10% |
| Transportation | 2.06 | 8.14% | 2.14 | 8.12% |
| General Administrative and Central Support | 1.13 | 4.46% | 1.45 | 5.50% |
| Other | 0.02 | 0.09% | 0.09 | 0.34% |
| Interest | .51 | 2.00% | .65 | (2.47)% |
| Total Expenses | 25.32 | 100.00% | 26.34 | 100.00% |
| Increase(Decrease) in Net Position | 1.50 | | (0.09) | |
| Net Position – Beginning | (6.00) | | (4.50) | |
| Net Position – Ending | \$ (4.50) | | \$ (4.59) | |

PICKENS COUNTY BOARD OF EDUCATION

Management's Discussion and Analysis (MD&A) September 30, 2016

Table 3 is condensed statement derived from Statement of Activities on (Exhibit #2) showing the total cost for providing identified services for five major Board Activities, Total Cost of Services is compared to the net cost of providing these services. The net cost of services is the remaining cost of services after subtracting grants and charges for services that the Board used to offset the programs total cost. In other words, the net cost shows the financial burden that was placed on all taxpayers for each of these activities. This information allows citizens to consider the cost of each program in comparison to the benefits they believe are provided.

**Table 3: NET COST OF GOVERNMENTAL ACTIVITIES
(in millions)**

| | 2015 | | 2016 | |
|--|---------------------------|-------------------------|---------------------------|-------------------------|
| | Total Cost of Services | Net Cost of Services | Total Cost of Services | Net Cost of Services |
| Instructional Services | \$13.63 | \$ 1.02 | \$14.09 | \$1.70 |
| Instructional Support | 3.97 | 0.26 | 4.00 | 0.47 |
| Operation and Maintenance Services | 2.14 | 0.74 | 2.05 | 0.91 |
| Auxiliary Services: | | | | |
| Food Services | 1.86 | 0.55 | 1.87 | 0.55 |
| Transportation | 2.06 | 0.10 | 2.14 | 0.25 |
| General Administrative and Central Support | 1.13 | 0.55 | 1.45 | 0.84 |
| Interest | (0.02) | (0.01) | 0.09 | 0.09 |
| Other Expenses | 0.51 | 0.06 | 0.65 | 0.12 |
| Total | \$25.32 | \$ 3.29 | \$26.34 | \$4.94 |

Performance of School Board Funds

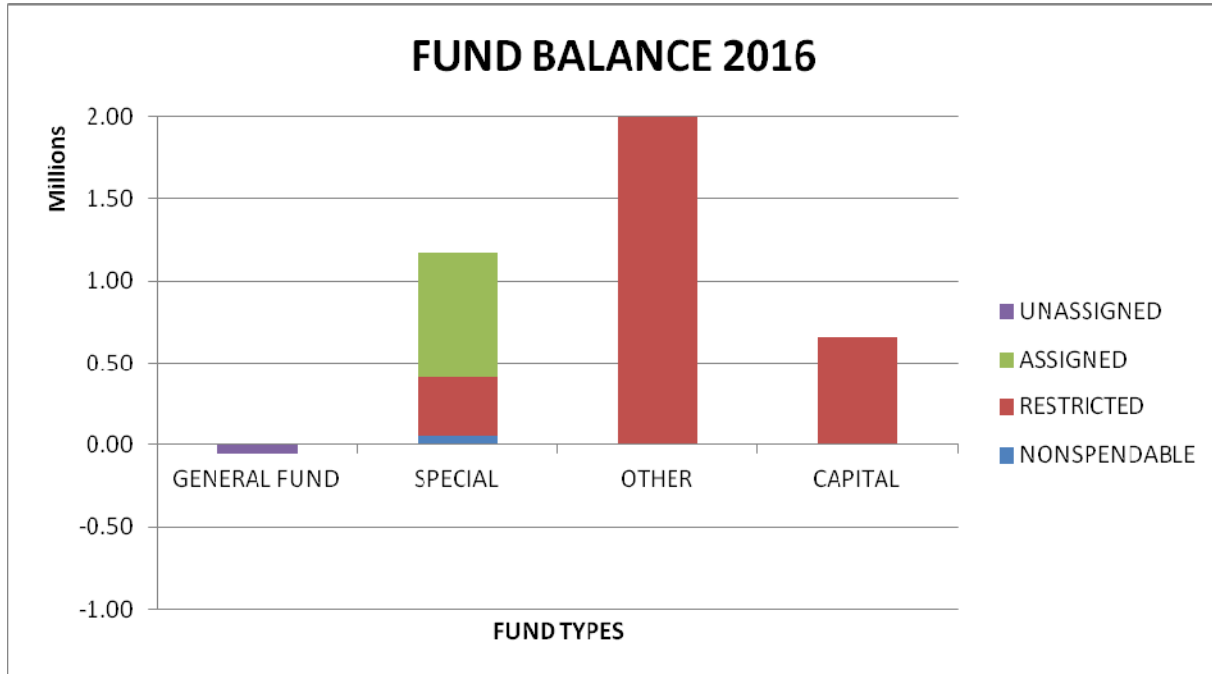
The Board uses Fund Accounting to control and manage resources in order to ensure compliance with finance-related legal requirements. Using fund to account for resources for particular purposes helps the reader to determine whether the Board is being accountable for the resources provided by taxpayers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

Government Funds

The focus of the Board's governmental funds is to provide information on near term inflow, outflows, and balances of spendable resources. Such information is useful in assessing the Board's financial requirements. (Note that the relationship between the fund financial statements and the government-wide financial statements are reconciled on (Exhibits #4 and #6). At the end of the fiscal year, the Board's governmental funds report combined ending fund balances of \$13.012 million. With the implementation of GASB 54, fund balances are now classified as nonspendable, restricted, committed, assigned, or unassigned. The following fund balances are based fund balances in Exhibit #3.

PICKENS COUNTY BOARD OF EDUCATION

Management's Discussion and Analysis (MD&A) September 30, 2016



- Total Fund Balance is \$13,012,302.65
- The General Fund has an unassigned deficit of \$54,513.96.
- Special Revenue Fund includes \$50,541.08 for nonspendable inventories, \$361,013.94 for restricted uses for other purposes and the child nutrition program, and \$764,912.58 for assigned uses for local schools and other purposes.
- Capital Projects Fund of \$11,227,631.29 is restricted and assigned to capital projects.
- Other Governmental Funds of \$662,717.72 all restricted for debt service.

Budgetary and Financial Highlights of Major Funds

On or before October 1 of each year, the Board is mandated by State law to prepare and submit to the State Superintendent of Education the annual budget adopted by the Board. The State Department of Education normally requires such budgets to be submitted by September 15th of each year. The original budget was adopted by the Board on September 14, 2015. During the year, the Board revised the annual budget once (August 22, 2016) to include some federal funds and state allocations that were not available at the time of the original budget approval.

Overall, the final amended budget is reflective of the actual operating activity for the year.

PICKENS COUNTY BOARD OF EDUCATION

Management's Discussion and Analysis (MD&A) September 30, 2016

General Fund

The General Fund is the primary operating fund of the Board in providing educational services to students in grades kindergarten to 12th grade. This fund also includes auxiliary services of pupil transportation.

Table 4: GENERAL FUND REVENUES AND EXPENDITURES

| | 2015 | 2016 | Variance |
|--|--------------|--------------|-------------|
| Revenues: | | | |
| State | \$16,232,200 | \$15,899,667 | \$(332,533) |
| Federal | 114,707 | 124,671 | 9,964 |
| Local | 3,809,801 | 3,820,281 | 10,480 |
| Other | 119,463 | 101,570 | (17,893) |
| Total Revenues | 20,276,171 | 19,946,188 | (329,983) |
| Expenditures: | | | |
| Current | | | |
| Instruction | 11,393,815 | 11,587,745 | 193,931 |
| Instructional Support | 3,119,909 | 3,118,772 | (1,137) |
| Operation and Maintenance | 1,498,624 | 1,569,097 | 70,473 |
| Auxiliary Services: | | | |
| Student Transportation | 1,799,672 | 1,862,779 | 63,107 |
| General Administration and Central Support | 853,618 | 1,026,158 | 172,540 |
| Other | 234,509 | 229,565 | (4,945) |
| Capital Outlay | 135,543 | 56,551 | (78,992) |
| Principal Retirement | 17,493 | | (17,493) |
| Interest and Fiscal Charges | 650 | | (650) |
| Total Expenditures | 19,053,832 | 19,450,668 | 396,835 |
| Other Financing Sources (Uses): | | | |
| Indirect Cost | 176,969 | 125,156 | (51,813) |
| Transfers In | 27,967 | 17,877 | (10,090) |
| Other Financing Sources | 8,573 | 3,521 | (5,052) |
| Transfers Out | (594,261) | (645,633) | (51,372) |
| Total Other Financing Sources (Uses) | (380,753) | (499,079) | 176,430 |
| Fund Balance - Beginning of Year | (892,542) | (50,955) | 841,546 |
| Fund Balance - End of Year | \$ (50,955) | \$ (54,514) | \$ (3,599) |

PICKENS COUNTY BOARD OF EDUCATION

Management's Discussion and Analysis (MD&A) September 30, 2016

Special Revenue Fund

This fund is used to account for and report the proceeds of revenue sources that are restricted or committed for specific purposes other than debt service or capital projects. Some of the significant funding sources include federal funds that are received for Special Education, Title I, and the Child Nutrition Program as well as other smaller grants. The ending fund balance decreased by \$18,976.91 to \$1,176,467.60.

Capital Projects Fund

The Capital Projects Fund balance increased by \$7,255,682.33. The increase is due to issued debt from the Special Tax School Warrants, Series 2016 and purchase of school buses. These funds are restricted and assigned to Capital Project.

Other Governmental Funds

There was a small change in fund balance for the Other Governmental Funds. Fund balance increased from \$590,969.80 to \$662,717.73 during the year. All of these funds are restricted in nature.

Capital Assets and Debt Administration

Capital Assets

The Board's investment in capital assets for the year ended September 30, 2016, amounted to \$13.80 million. The increase over the prior year is due to the roofing projects, which carried over from the prior year, technology upgrades, purchase of buses, and the start of the new career center. The Board's investment in capital assets include Land and Land Improvements, Buildings and Improvements, Furniture and Equipment, and vehicles all at estimated historical costs. See Table 5.

PICKENS COUNTY BOARD OF EDUCATION

**Management's Discussion and Analysis (MD&A)
September 30, 2016**

**Table 5: CAPITAL ASSETS
(in millions)**

| | Governmental Activities | |
|--------------------------------|-------------------------|----------------|
| | 2015 | 2016 |
| Land and Improvements | \$ 0.52 | \$0.61 |
| Buildings and Improvements | 20.03 | 20.3 |
| Furniture and Equipment | 5.04 | 6.08 |
| Construction in Progress | 0.13 | 0.75 |
| Less: Accumulated Depreciation | (13.28) | (13.95) |
| Total | \$12.44 | \$13.80 |

Long Term Debt

At year-end, the Board had \$33.584 million in general long-term debt outstanding.

Table 6: LONG TERM DEBT

| | Beginning Balance | Net Change | Ending Balance |
|--|------------------------|------------------------|------------------------|
| <u>Governmental Activities:</u> | | | |
| <u>Long-Term Liabilities</u> | | | |
| School Buses – 2016 | \$ | \$ 987,135.00 | \$ 987,135.00 |
| Certificates of Participation Payable – 2005 | 783,000.00 | | 783,000.00 |
| Special Tax School Warrants, Series 2016 | | 7,885,000.00 | 7,885,000.00 |
| Bonds Payable – 2015-C Bonds | 1,927,541.21 | (54,601.65) | 1,872,939.56 |
| Compensated Absences | 100,629.51 | 17,212.45 | 117,841.96 |
| Net Pension Liability | 19,265,000.00 | 2,673,000.00 | 21,938,000.00 |
| Total Governmental Activities Long-Term Liabilities | \$22,076,170.72 | \$11,507,745.80 | \$33,583,916.52 |

PICKENS COUNTY BOARD OF EDUCATION

Management's Discussion and Analysis (MD&A) September 30, 2016

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

- The Board increased long-term debt by \$11.508 million.
- Largely this increase is due to the purchase of 11 buses and issuance of warrants.
- Compensated absences continue to be included in long-term debt with an increase of \$17,212.45.
- This is the second year net pension liability, a long-term liability from GASB 68, has been recorded. The net pension liability makes up roughly 65% of our total long-term liability.
- However, bond payable decreased with the payment of \$54,601.65. These bonds were leveraged last year against our capital funds for the technology upgrades and building project.

Economic factors

Employee health insurance is provided through the Public Education Employees Insurance Plan (PEEHIP). For FY 2016 the Board's allocation was \$780.00 per month. Also, employer contributions to Teacher's Retirement System (TRS) was 11.94 (Tier I) and 10.84 (Tier II).

| | Retirement Percentage | PEEHIP Per Month |
|-------------------|--------------------------|---------------------|
| FY 2003 | 5.02% | \$433.00 |
| FY 2004 | 6.56% | \$479.00 |
| FY 2005 | 7.09% | \$550.00 |
| FY 2006 | 8.17% | \$668.00 |
| FY 2007 | 9.36% | \$717.00 |
| FY 2008 | 11.75% | \$775.00 |
| FY 2009 | 12.07% | \$752.00 |
| FY 2010 | 12.51% | \$752.00 |
| FY 2011 | 12.51% | \$752.00 |
| FY 2012 | 10.00% | \$714.00 |
| FY 2013 | 10.08% | \$714.00 |
| FY 2014 (Tier I) | 11.71% | \$714.00 |
| FY 2014 (Tier II) | 11.08% | |
| FY 2015 (Tier I) | 11.71% | \$780.00 |
| FY 2015 (Tier II) | 11.05% | |
| FY 2016 (Tier I) | 11.94% | \$780.00 |
| FY 2016 (Tier II) | 10.84% | |
| FY 2017 (Tier I) | 12.01% | \$780.00 |
| FY 2017 (Tier II) | 10.82% | |

PICKENS COUNTY BOARD OF EDUCATION

Management's Discussion and Analysis (MD&A) September 30, 2016

System ADM (Average Daily Membership) which represents the total, average daily enrollment for the system during the first twenty days after Labor Day continues to fall. ADM for FY 2016 was 2637.80.

| | ADM |
|---------|----------|
| FY 2005 | 3,317.40 |
| FY 2006 | 3,238.92 |
| FY 2007 | 3,180.25 |
| FY 2008 | 3,102.05 |
| FY 2009 | 3,139.35 |
| FY 2010 | 3,020.90 |
| FY 2011 | 2,955.50 |
| FY 2012 | 2,900.50 |
| FY 2013 | 2,840.25 |
| FY 2014 | 2,733.60 |
| FY 2015 | 2,699.35 |
| FY 2016 | 2,637.80 |
| FY 2017 | 2,629.30 |
| FY 2018 | 2,606.75 |

The ad valorem taxes and sales tax revenue remain stable.

Contacting the School Board's Financial Management

This financial report is designed to provide citizens, taxpayers, investors, and creditors with an 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 at the Pickens County Board of Education, 377 LaDow Center Circle, Carrollton, AL 35447, or by calling (205) 367-2080 during regular office hours, Monday through Friday, from 8:00 a.m. to 4:00 p.m., CST.

Basic Financial Statements

Statement of Net Position
September 30, 2016

| | Governmental Activities |
|--|------------------------------------|
| <u>Assets</u> | |
| Cash and Cash Equivalents | \$ 11,863,240.71 |
| Cash with Fiscal Agent | 2,212,879.19 |
| Investments | 453,839.63 |
| Ad Valorem Property Taxes Receivable | 1,803,287.61 |
| Receivables (Note 4) | 493,033.32 |
| Inventories | 50,541.08 |
| Capital Assets (Note 5): | |
| Nondepreciable | 1,363,176.88 |
| Depreciable, Net | 12,435,488.78 |
| Total Assets | <u>30,675,487.20</u> |
| <u>Deferred Outflows of Resources</u> | |
| Employer Pension Contribution | 1,571,866.96 |
| Proportionate Share of Collective Deferred Outflows Related to Net Pension Liability | 1,436,000.00 |
| Total Deferred Outflows of Resources | <u>3,007,866.96</u> |
| <u>Liabilities</u> | |
| Unearned Revenue | 8,532.01 |
| Salaries and Benefits Payable | 1,961,547.97 |
| Long-Term Liabilities: | |
| Portion Payable Within One Year: | |
| Bonds Payable | 341,683.42 |
| Compensated Absences | 117,841.96 |
| Portion Payable After One Year: | |
| Certificates of Participation Payable | 783,000.00 |
| Bonds Payable | 10,403,391.14 |
| Net Pension Liability | 21,938,000.00 |
| Total Liabilities | <u>35,553,996.50</u> |
| <u>Deferred Inflows of Resources</u> | |
| Unavailable Revenue - Property Taxes | 1,768,412.39 |
| Revenue Received in Advance - Motor Vehicle Taxes | 126,026.52 |
| Proportionate Share of Collection Deferred Inflows Related to Net Pension Liability | 833,000.00 |
| Total Deferred Inflows of Resources | <u>\$ 2,727,438.91</u> |

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

| | Governmental Activities |
|----------------------------------|------------------------------------|
| <u>Net Position</u> | |
| Net Investment in Capital Assets | \$ 11,757,303.80 |
| Restricted for: | |
| Debt Service | 662,717.72 |
| Capital Projects | 641,986.24 |
| Other Purposes | 411,555.02 |
| Unrestricted | <u>(18,071,644.03)</u> |
| Total Net Position | <u>\$ (4,598,081.25)</u> |

Statement of Activities
For the Year Ended September 30, 2016

| Functions/Programs | Expenses | Program Revenues | |
|---------------------------------------|-------------------------|------------------------|------------------------------------|
| | | Charges for Services | Operating Grants and Contributions |
| <u>Governmental Activities</u> | | | |
| Instruction | \$ 14,085,819.33 | \$ 241,521.56 | \$ 11,558,763.58 |
| Instructional Support | 4,006,887.31 | 133,968.46 | 3,398,433.26 |
| Operation and Maintenance | 2,050,832.33 | 179,570.04 | 876,120.75 |
| Auxiliary Services: | | | |
| Student Transportation | 2,137,662.35 | 143,654.31 | 1,541,532.13 |
| Food Service | 1,866,302.67 | 1,237,643.23 | 82,460.22 |
| General Administrative | 1,445,594.06 | 1,386.72 | 608,576.50 |
| Interest and Fiscal Charges | 95,201.24 | | |
| Other Expenses | 654,457.28 | 262,096.26 | 268,303.97 |
| Total Governmental Activities | <u>\$ 26,342,756.57</u> | <u>\$ 2,199,840.58</u> | <u>\$ 18,334,190.41</u> |

General Revenues:

Taxes:

Property Taxes for General Purposes

Property Taxes for Specific Purposes

Sales Tax

Other Taxes

Investment Earnings

Miscellaneous

Total General Revenues

Changes in Net Position

Net Position - Beginning of Year

Net Position - End of Year

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

| <u>Capital Grants and Contributions</u> | <u>Net (Expenses) Revenues and Changes in Net Position Total Governmental Activities</u> |
|---|--|
| \$ 584,690.13 | \$ (1,700,844.06) |
| 83,132.79 | (474,485.59) |
| | (912,008.75) |
| 197,853.00 | (254,622.91) |
| | (546,199.22) |
| | (835,630.84) |
| | (95,201.24) |
| | (124,057.05) |
| <u>\$ 865,675.92</u> | <u>(4,943,049.66)</u> |

| |
|--------------------------|
| 1,693,046.63 |
| 157,115.00 |
| 1,856,382.90 |
| 72,369.52 |
| 24,976.88 |
| 1,046,209.71 |
| <u>4,850,100.64</u> |
| (92,949.02) |
| <u>(4,505,132.23)</u> |
| <u>\$ (4,598,081.25)</u> |

Balance Sheet
Governmental Funds
September 30, 2016

| | General Fund | Special Revenue Fund |
|--|-------------------------|-------------------------------------|
| <u>Assets</u> | | |
| Cash and Cash Equivalents | \$ 1,647,381.65 | \$ 883,746.72 |
| Cash with Fiscal Agent | | |
| Investments | | 108,482.15 |
| Ad Valorem Property Taxes Receivable | 1,803,287.61 | |
| Receivables (Note 4) | 184,609.71 | 308,423.61 |
| Interfund Receivables | 91,991.76 | |
| Inventories | | 50,541.08 |
| Total Assets | <u>3,727,270.73</u> | <u>1,351,193.56</u> |
| <u>Liabilities, Deferred Inflows of Resources and Fund Balances</u> | | |
| <u>Liabilities</u> | | |
| Interfund Payables | | 91,991.76 |
| Unearned Revenues | | 8,532.01 |
| Salaries and Benefits Payable | 1,887,345.78 | 74,202.19 |
| Total Liabilities | <u>1,887,345.78</u> | <u>174,725.96</u> |
| <u>Deferred Inflows of Resources</u> | | |
| Unavailable Revenue - Property Taxes | 1,768,412.39 | |
| Revenue Received in Advance - Motor Vehicle Taxes | 126,026.52 | |
| Total Deferred Inflows of Resources | <u>1,894,438.91</u> | |
| <u>Fund Balances</u> | | |
| Nonspendable: | | |
| Inventories | | 50,541.08 |
| Restricted for: | | |
| Debt Service | | |
| Capital Projects | | |
| Child Nutrition Program | | 255,432.03 |
| Other Purposes | | 105,581.91 |
| Assigned to: | | |
| Capital Projects | | |
| Local Schools | | 675,819.33 |
| Other Purposes | | 89,093.25 |
| Unassigned | (54,513.96) | |
| Total Fund Balances | <u>(54,513.96)</u> | <u>1,176,467.60</u> |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | <u>\$ 3,727,270.73</u> | <u>\$ 1,351,193.56</u> |

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

| Capital Projects Fund | Other Governmental Funds | Total Governmental Funds |
|--------------------------------------|---|---|
| \$ 9,332,112.34 | \$ | \$ 11,863,240.71 |
| 1,550,161.47 | 662,717.72 | 2,212,879.19 |
| 345,357.48 | | 453,839.63 |
| | | 1,803,287.61 |
| | | 493,033.32 |
| | | 91,991.76 |
| | | 50,541.08 |
| <u>11,227,631.29</u> | <u>662,717.72</u> | <u>16,968,813.30</u> |
| | | 91,991.76 |
| | | 8,532.01 |
| | | 1,961,547.97 |
| | | <u>2,062,071.74</u> |
| | | 1,768,412.39 |
| | | 126,026.52 |
| | | <u>1,894,438.91</u> |
| | | 50,541.08 |
| | 662,717.72 | 662,717.72 |
| 10,128,698.94 | | 10,128,698.94 |
| | | 255,432.03 |
| | | 105,581.91 |
| 1,098,932.35 | | 1,098,932.35 |
| | | 675,819.33 |
| | | 89,093.25 |
| | | (54,513.96) |
| <u>11,227,631.29</u> | <u>662,717.72</u> | <u>13,012,302.65</u> |
| <u>\$ 11,227,631.29</u> | <u>\$ 662,717.72</u> | <u>\$ 16,968,813.30</u> |

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***Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Position
September 30, 2016***

Total Fund Balances - Governmental Funds (Exhibit 3) \$ 13,012,302.65

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

Capital assets used in governmental activities are not financial resources and, therefore,
are not reported as assets in governmental funds (Note 5). 13,798,665.66

Deferred Outflows and Inflows of Resources related to pensions are applicable to future
periods and, therefore, are not reported in the governmental funds. 2,174,866.96

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

| | Amounts Due or Payable Within One Year | Amounts Due or Payable After One Year | |
|---------------------------------------|--|---|-----------------|
| Bonds Payable | \$ 341,683.42 | \$ 10,403,391.14 | |
| Certificates of Participation Payable | | 783,000.00 | |
| Compensated Absences | 117,841.96 | | |
| Net Pension Liability | | 21,938,000.00 | |
| Total Long-Term Liabilities | \$ 459,525.38 | \$ 33,124,391.14 | (33,583,916.52) |

Total Net Position - Governmental Activities (Exhibit 1) \$ (4,598,081.25)

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

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2016

| | General Fund | Special Revenue Fund |
|---|-------------------------|-------------------------------------|
| <u>Revenues</u> | | |
| State | \$ 15,899,666.82 | \$ 797.92 |
| Federal | 124,670.75 | 3,498,673.23 |
| Local | 3,820,280.83 | 1,715,185.33 |
| Other | 101,569.71 | 37,825.13 |
| Total Revenues | <u>19,946,188.11</u> | <u>5,252,481.61</u> |
| <u>Expenditures</u> | | |
| Current: | | |
| Instruction | 11,587,745.21 | 1,634,788.47 |
| Instructional Support | 3,118,772.48 | 900,736.58 |
| Operation and Maintenance | 1,569,097.15 | 305,262.07 |
| Auxiliary Services: | | |
| Student Transportation | 1,862,778.66 | 73,490.71 |
| Food Service | | 1,894,897.27 |
| General Administrative and Central Support | 1,026,157.94 | 295,977.91 |
| Other | 229,564.74 | 722,313.63 |
| Capital Outlay | 56,551.37 | |
| Debt Service: | | |
| Principal Retirement | | |
| Interest and Fiscal Charges | | |
| Total Expenditures | <u>19,450,667.55</u> | <u>5,827,466.64</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>495,520.56</u> | <u>(574,985.03)</u> |
| <u>Other Financing Sources (Uses)</u> | | |
| Indirect Cost | 125,156.04 | |
| Long-Term Debt Issued | | |
| Premiums on Long-Term Debt Issued | | |
| Transfers In | 17,877.11 | 573,182.76 |
| Other Financing Sources | 3,520.87 | |
| Transfers Out | (645,633.15) | (17,174.64) |
| Total Other Financing Sources (Uses) | <u>(499,079.13)</u> | <u>556,008.12</u> |
| Net Changes in Fund Balances | (3,558.57) | (18,976.91) |
| Fund Balances - Beginning of Year | <u>(50,955.39)</u> | <u>1,195,444.51</u> |
| Fund Balances - End of Year | <u>\$ (54,513.96)</u> | <u>\$ 1,176,467.60</u> |

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

| Capital Projects Fund | Other Governmental Funds | Total Governmental Funds |
|-----------------------------|--------------------------------|--------------------------------|
| \$ 862,972.00 | \$ | \$ 16,763,436.74 |
| | | 3,623,343.98 |
| 182,010.56 | | 5,717,476.72 |
| 2,634.40 | | 142,029.24 |
| <u>1,047,616.96</u> | | <u>26,246,286.68</u> |
| 608,703.46 | | 13,831,237.14 |
| | | 4,019,509.06 |
| 141,406.72 | | 2,015,765.94 |
| | | 1,936,269.37 |
| | | 1,894,897.27 |
| 120,005.35 | | 1,442,141.20 |
| | | 951,878.37 |
| 1,968,670.86 | | 2,025,222.23 |
| 54,601.65 | | 54,601.65 |
| 95,201.24 | | 95,201.24 |
| <u>2,988,589.28</u> | | <u>28,266,723.47</u> |
| (1,940,972.32) | | (2,020,436.79) |
| | | 125,156.04 |
| 8,872,135.00 | | 8,872,135.00 |
| 324,519.65 | | 324,519.65 |
| 71,747.92 | 71,747.92 | 734,555.71 |
| | | 3,520.87 |
| (71,747.92) | | (734,555.71) |
| <u>9,196,654.65</u> | <u>71,747.92</u> | <u>9,325,331.56</u> |
| 7,255,682.33 | 71,747.92 | 7,304,894.77 |
| 3,971,948.96 | 590,969.80 | 5,707,407.88 |
| <u>\$ 11,227,631.29</u> | <u>\$ 662,717.72</u> | <u>\$ 13,012,302.65</u> |

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended September 30, 2016

| | |
|---|-----------------------|
| Net Change in Fund Balances - Total Governmental Funds (Exhibit 5) | \$ 7,304,894.77 |
| Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) are different because: | |
| Governmental funds report capital outlay as an expenditure. 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 depreciation (\$668,344.07) exceeded capital outlay (\$2,025,222.23) in the current period. | 1,356,878.16 |
| 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. | 54,601.65 |
| Proceeds from the issuance of debt are reported as financing sources in governmental funds and thus contribute to the change in fund balance. Issuing long-term debt increases liabilities in the Statement of Net Position but does not affect the Statement of Activities. | (8,872,135.00) |
| Premiums on debt issuance are reported as other financing sources in the governmental funds, but are amortized in the Statement of Activities. | (324,519.65) |
| Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. | |
| Net Decrease in Compensated Absences | \$ (17,212.45) |
| Amortization of Premium | 324,519.65 |
| Pension Expense, Current Year Increase/Decrease | 80,023.85 |
| Total | <u>387,331.05</u> |
| Change in Net Position of Governmental Activities (Exhibit 2) | <u>\$ (92,949.02)</u> |

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

Statement of Fiduciary Net Position
September 30, 2016

| | Private-Purpose Trust Funds |
|----------------------------------|--|
| <u>Assets</u> | |
| Investments | \$ 12,543.80 |
| Total Assets | <u>12,543.80</u> |
| <u>Net Position</u> | |
| Held in Trust for Other Purposes | <u>\$ 12,543.80</u> |

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

Statement of Changes in Fiduciary Net Position
For the Year Ended September 30, 2016

| | Private-Purpose Trust Funds |
|----------------------------------|--|
| <u>Additions</u> | |
| Other | \$ 25.25 |
| Total Additions | <u>25.25</u> |
| Changes in Net Position | 25.25 |
| Net Position - Beginning of Year | <u>12,518.55</u> |
| Net Position - End of Year | <u><u>\$ 12,543.80</u></u> |

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

Notes to the Financial Statements

For the Year Ended September 30, 2016

Note 1 – Summary of Significant Accounting Policies

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

A. Reporting Entity

The Board is governed by a separately elected board composed of five members elected by the qualified electors of the County. The Board is responsible for the general administration and supervision of the public schools for the educational interests of the County.

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

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

Notes to the Financial Statements

For the Year Ended September 30, 2016

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

Fund Financial Statements

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

The Board reports the following major governmental funds:

- ◆ **General Fund** – The General Fund is the primary operating fund of the Board. It is used to account for all financial resources except those required to be accounted for in another fund. The Board primarily receives revenues from the Education Trust Fund (ETF) and local taxes. Amounts appropriated from the ETF were allocated to the school board on a formula basis.
- ◆ **Special Revenue Fund** – This fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Various federal and local funding sources are included in this fund. Some of the significant federal funding sources include the federal funds that are received for Special Education, Title I, and the Child Nutrition Program in addition to various smaller grants, which are required to be spent for the purposes of the applicable federal grants. Also included in this fund are the public and non-public funds received by the local schools which are generally not considered restricted or committed.
- ◆ **Capital Projects Fund** – This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlay, including the acquisition or construction of capital facilities and other capital assets.

Notes to the Financial Statements

For the Year Ended September 30, 2016

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

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

The Board reports the following fiduciary fund type:

Fiduciary Fund Type

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

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

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

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

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

Notes to the Financial Statements
For the Year Ended September 30, 2016

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

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balances

1. Deposits and Investments

Cash 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.

Statutes authorize the Board to invest in obligations of the U. S. Treasury, obligations of any state of the United States, general obligations of any Alabama county or city board of education secured by the pledged of the three-mill school tax and certificates of deposit. The Board's investments consisted of certificates of deposit that are reported at cost. Amounts held and invested by fiscal agents are reported at fair value.

2. Receivables

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

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

3. Inventories

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

Notes to the Financial Statements
For the Year Ended September 30, 2016

4. Restricted Assets

Included in cash and cash with fiscal agent on the balance sheet are certain assets which are restricted. Certain funds received from the State Department of Education for capital projects and improvements, as well as certain resources set aside for repayment of debt, are classified as restricted assets on the balance sheet because they are maintained separately and their use is limited. The Fleet Renewal, Qualified Zone Academy Bonds and Capital Improvement Pool Bond funds are used to report proceeds that are restricted for use in various construction projects and the purchase of school buses. The Debt Service Fund is used to report resources set aside to pay the principal and interest on debt as it become due.

5. Capital Assets

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

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

| | Capitalization Threshold | Estimated Useful Life |
|-------------------------|-----------------------------|--------------------------|
| Land | \$ 1 | N/A |
| Buildings | \$50,000 | 25 – 50 years |
| Building Improvements | \$50,000 | 5 – 30 years |
| Equipment and Furniture | \$ 5,000 | 5 – 20 years |

6. Deferred Outflows of Resources

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

Notes to the Financial Statements

For the Year Ended September 30, 2016

7. Long-Term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position.

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

8. Compensated Absences

The Board has a standard leave policy for its full-time employees as to vacation leave.

The vacation leave policy of the Board consists of the following: Vacation leave is available to twelve-month employees only. Vacation time is posted at the end of each year for the previous year and must be taken within the following year. After the first full year's employment, time is computed as follows:

- ◆ Non-teaching professional employees after 5 years' employment – three weeks (15 days) annual vacation.
- ◆ Non-professional employees with fewer than five years' employment – two weeks (10 days) annual vacation, non-professional employees after five years' employment – three weeks (15 days) annual vacation.
- ◆ Twelve-month teaching personnel – three weeks annual vacation.

If employment is terminated during the contract year, the employee is entitled to a pro-rata share of vacation time to the date of termination.

As of September 30, 2016, the liability for accrued vacation leave is expected to be liquidated within one year.

9. Deferred Inflows of Resources

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

Notes to the Financial Statements

For the Year Ended September 30, 2016

10. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, 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.

11. Net Position/Fund Balances

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

- ◆ **Net Investment in Capital Assets** – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets plus or minus any deferred outflows of resources and deferred inflows of resources that are attributable to those assets or related debt. Any significant unspent related debt proceeds and any deferred outflows or inflows at year-end related to capital assets are not included in this calculation.

- ◆ **Restricted** – Constraints imposed on net position by external creditors, grantors, contributors, laws or regulations of other governments, or law through constitutional provision or enabling legislation.

- ◆ **Unrestricted** – Is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted portion of net position. Assignments and commitments of unrestricted net position should not be reported on the face of the Statement of Net Position.

Notes to the Financial Statements
For the Year Ended September 30, 2016

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

- A. Nonspendable fund balances include amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Examples of nonspendable fund balance reserves for which fund balance shall not be available for financing general operating expenditures include: inventories, prepaid items, and long-term receivables.
- B. Restricted fund balances consist of amounts that are subject to externally enforceable legal restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation.
- C. Committed fund balances consist of amounts that are subject to a purpose constraint imposed by formal action or resolution of the Board, which is the highest level of decision-making authority, before the end of the fiscal year and that require the same level of formal action to remove or modify the constraint.
- D. Assigned fund balances consist of amounts that are intended to be used by the Board for specific purposes. The Board or its designee makes determination of the assigned amounts of fund balance. Such assignments may not exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. Assigned fund balances require the same level of authority to remove the constraint.
- E. Unassigned fund balances include all spendable amounts not contained in the other classifications. This portion of the total fund balance in the General Fund is available to finance operating expenditures.

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

Notes to the Financial Statements
For the Year Ended September 30, 2016

Note 2 – Stewardship, Compliance, and Accountability

A. Budgets

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

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

B. Deficit Fund Balances/Net Position of Individual Funds

At September 30, 2016, the following fund had a deficit fund balance:

| | |
|--------------|--------------------|
| General Fund | <u>\$54,513.96</u> |
|--------------|--------------------|

The deficit in the General Fund is due to accruals for salaries and benefits. The liability will be paid with funds that will be legally available on October 1.

Notes to the Financial Statements

For the Year Ended September 30, 2016

Note 3 – Deposits and Investments

A. Deposits and Investments

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

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

B. Cash with Fiscal Agent

As of September 30, 2016, the Board’s cash with fiscal agent was invested as follows:

| Investments | Maturities | Rating | Fair Value |
|---|------------|---------|----------------|
| Qualified Zone Academy Bonds Pooled Deposits | Unknown | Unknown | \$ 590,969.80 |
| Capital Improvement Pool Bonds Pooled Deposits, Bond Proceeds, Series 2015-C | Unknown | Unknown | 1,550,161.47 |
| Special Tax School Warrants, Series 2016 | Unknown | Unknown | 71,747.92 |
| Total | | | \$2,212,879.19 |

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

Notes to the Financial Statements

For the Year Ended September 30, 2016

Credit Risk – Credit risk is the risk that the issuer or other counter party to an investment will not fulfill its obligation. The Board does not have a formal investment policy that addresses its investment choices. However, the Board’s Qualified Zone Academy Bonds require that payments to escrow be invested only in securities that are direct obligations of the U. S. Treasury; obligations of any federal agencies listed in the bond indenture, which obligations represent the full faith and credit of the United States of America, and interests however evidenced, in any common trust fund or other collective investment fund maintained by any national or state chartered bank, trust company or savings and loan association having trust powers, or securities of or other interests in any open-end or closed-end management type investment company or investment trust registered under the Investment Company Act of 1940, as from time to time amended, so long as certain requirements are met at the time of the purchase and during the term of investment.

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

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The Board does not have a formal policy which places limits on the amount the Board may invest in any one issuer. However, the Board’s Qualified Zone Academy Bond indenture does limit the amount that the portfolio may be invested in certain securities. At least 65% of the portfolio must be invested in direct obligations of the U. S. Treasury or federal agencies that represent the full faith and credit of the United States of America. The remainder of the portfolio, but not more than 35% may consist of various other agencies.

Note 4 – Receivables

On September 30, 2016, receivables for the Board’s individual major funds are as follows:

| | General Fund | Special Revenue Fund | Total |
|--------------------------|---------------------|----------------------------|---------------------|
| Receivables: | | | |
| Sales Tax | \$140,241.08 | \$ | \$140,241.08 |
| Intergovernmental | | 308,423.61 | 308,423.61 |
| Other | 44,368.63 | | 44,368.63 |
| Total Receivables | \$184,609.71 | \$308,423.61 | \$493,033.32 |

Notes to the Financial Statements
For the Year Ended September 30, 2016

Note 5 – Capital Assets

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

| | Beginning Balance 10/01/2015 | Additions (*) | Deletions (*) | Ending Balance 09/30/2016 |
|--|------------------------------------|-----------------|---------------|---------------------------------|
| Governmental Activities: | | | | |
| Capital Assets, Not Being Depreciated: | | | | |
| Land and Land Improvements | \$ 516,805.25 | \$ 95,756.08 | \$ | \$ 612,561.33 |
| Construction in Progress | 134,085.07 | 711,804.95 | (95,274.47) | 750,615.55 |
| Total Capital Assets, Not Being Depreciated | 650,890.32 | 807,561.03 | (95,274.47) | 1,363,176.88 |
| Capital Assets Being Depreciated: | | | | |
| Buildings and Building Improvements | 20,033,998.47 | 269,499.30 | | 20,303,497.77 |
| Equipment | 5,040,825.93 | 1,043,436.37 | | 6,084,262.30 |
| Total Capital Assets Being Depreciated | 25,074,824.40 | 1,312,935.67 | | 26,387,760.07 |
| Less Accumulated Depreciation for: | | | | |
| Buildings and Building Improvements | (9,203,551.38) | (358,738.82) | | (9,562,290.20) |
| Equipment | (4,080,375.84) | (309,605.25) | | (4,389,981.09) |
| Total Accumulated Depreciation | (13,283,927.22) | (668,344.07) | | (13,952,271.29) |
| Total Capital Assets Being Depreciated, Net | 11,790,897.18 | 644,591.60 | | 12,435,488.78 |
| Total Governmental Activities Capital Assets, Net | \$ 12,441,787.50 | \$ 1,452,152.63 | \$(95,274.47) | \$ 13,798,665.66 |
| (*) Included in "Additions and Deletions" is a reclassification in the amount of \$95,274.47 from Construction in Progress to Building Improvements. | | | | |

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

| | Current Year Depreciation Expense |
|--|---|
| Governmental Activities: | |
| Instruction | \$290,728.42 |
| Operations and Maintenance | 39,478.52 |
| Auxiliary Services: | |
| Food Service | 75,386.53 |
| Student Transportation | 214,259.90 |
| General Administrative and Central Support | 13,822.53 |
| Other | 34,668.17 |
| Total Depreciation Expense – Governmental Activities | \$668,344.07 |

Notes to the Financial Statements

For the Year Ended September 30, 2016

Note 6 – Defined Benefit Pension Plan

A. Plan Description

The Teachers' Retirement System of Alabama (the "TRS"), a cost-sharing multiple-employer public employee retirement plan, was established as of September 15, 1939, under the provisions of Act Number 419, Acts of Alabama 1939, for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by State-supported educational institutions. The responsibility for 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). The *Code of Alabama 1975*, Section 16-25-2, 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.

B. 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 Number 2012-377, Acts of Alabama, 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 creditable 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.

Notes to the Financial Statements
For the Year Ended September 30, 2016

C. 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, 2014, 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 Board were \$1,571,866.96 for the year ended September 30, 2016.

D. 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 \$21,938,000.00 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 0.209623%, which was a decrease of 0.002442% from its proportion measured as of September 30, 2014.

Notes to the Financial Statements
For the Year Ended September 30, 2016

For the year ended September 30, 2016, the Board recognized pension expense of \$1,492,000.00. At September 30, 2016, the Board 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 | \$ | \$119,000.00 |
| Net difference between projected and actual earnings on pension plan investments | 1,436,000.00 | |
| Changes in proportion and differences between Employer Contributions and proportionate share of contributions | | 714,000.00 |
| Employer contributions subsequent to the measurement date | 1,571,866.96 | |
| Total | \$3,007,866.96 | \$833,000.00 |

The \$1,571,866.96 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ending | |
|--------------------|----------------|
| September 30, 2017 | \$ 38,000.00 |
| 2018 | \$ 38,000.00 |
| 2019 | \$ 38,000.00 |
| 2020 | \$504,000.00 |
| 2021 | \$ (15,000.00) |
| Thereafter | \$ |

Notes to the Financial Statements

For the Year Ended September 30, 2016

E. 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 | 3.50% - 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 | 100.00% | |
| (*) Includes assumed rate of inflation of 2.50%. | | |

Notes to the Financial Statements
For the Year Ended September 30, 2016

F. 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 plan 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.

G. Sensitivity of the Board's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the Board's proportionate share of the net pension liability calculated using the discount rate of 8%, as well as what the Board'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 Rate (8.00%) | 1% Increase (9.00%) |
|---|------------------------|-------------------------|------------------------|
| Board's proportionate share of collective net pension liability | \$29,023 | \$21,938 | \$15,930 |
| (Dollar amounts in thousands) | | | |

H. 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 Number 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.

Notes to the Financial Statements

For the Year Ended September 30, 2016

Note 7 – Other Postemployment Benefits (OPEB)

A. Plan Description

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

B. Funding Policy

The Public Education Employees’ Health Insurance Fund (PEEHIF) was established in 1983 under the provisions of Act Number 83-455, Acts of Alabama, to provide a uniform plan of health insurance for current and retired employees of state educational institutions. The plan is administered by the PEEHIB. Any Trust 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:

| Premium Rates for Fiscal Year 2016 | Premium | Premium w/ Spouse |
|---|---------|----------------------|
| Individual Coverage – Non-Medicare Eligible | \$ 151 | N/A |
| Individual Coverage – Medicare Eligible | \$ 10 | N/A |
| Family Coverage – Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) | \$ 391 | \$416 |
| Family Coverage – Non-Medicare Eligible Retired Member and Dependent Medicare Eligible | \$ 250 | \$260 |
| Family Coverage – Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) | \$ 250 | \$275 |
| Family Coverage – Medicare Eligible Retired Member and Dependent Medicare Eligible | \$ 109 | \$119 |
| Surviving Spouse – Non-Medicare Eligible | \$ 740 | N/A |
| Surviving Spouse – Non-Medicare Eligible and Dependent Non-Medicare Eligible | \$ 987 | N/A |
| Surviving Spouse – Non-Medicare Eligible and Dependent Medicare Eligible | \$1,033 | N/A |
| Surviving Spouse – Medicare Eligible | \$ 425 | N/A |
| Surviving Spouse – Medicare Eligible and Dependent Non-Medicare Eligible | \$ 679 | N/A |
| Surviving Spouse – Medicare Eligible and Dependent Medicare Eligible | \$ 725 | N/A |

Notes to the Financial Statements
For the Year Ended September 30, 2016

For employees that retire other than for disability on or after October 1, 2005 and before January 1, 2012, for each year under 25 years of service, the retiree pays two percent of the employer premium and for each year over 25 years of service, the retiree premium is reduced by two percent of the employer premium. Employees who retire on or after January 1, 2012, with less than 25 years of service, are required to pay 4% for each year under 25 years of service. In addition, non-Medicare eligible employees are required to pay 1% more for each year less than 65 (age premium) and to pay the net difference between the active employee subsidy and the non-Medicare eligible retiree subsidy (subsidy premium). When the retiree becomes Medicare eligible, the age and subsidy premium no longer applies, but the years of service premium (if applicable to the retiree) will continue to be applied throughout retirement. These changes are being phased in over a 5 year period. The tobacco premium is \$50.00 per month for retired members that use tobacco.

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

| Fiscal Year Ended September 30, | Active Health Insurance Premiums Paid By Board | Amount of Premium Attributable to Retirees | Percentage of Active Employee Premiums Attributable to Retirees | Total Amount Paid Attributable to Retirees | Percentage of Required Amount Contributed |
|------------------------------------|---|---|---|---|--|
| 2016 | \$780.00 | \$211.21 | 27.08% | \$867,230.50 | 100% |
| 2015 | \$780.00 | \$180.76 | 23.17% | \$726,088.76 | 100% |
| 2014 | \$714.00 | \$220.09 | 30.83% | \$910,764.75 | 100% |

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

Note 8 – Short-Term Debt

In December 2015, the Board approved a short-term note payable for covering operational needs of the Board. The proceeds were repaid January 2016.

Notes to the Financial Statements
For the Year Ended September 30, 2016

Short-term activity for the year ended September 30, 2016, was as follows:

| | Beginning Balance | Proceeds | Repaid | Ending Balance |
|---------------------------------|----------------------|----------------|------------------|-------------------|
| <u>Governmental Activities:</u> | | | | |
| General Fund | \$ | \$1,400,250.00 | \$(1,400,250.00) | \$ |

Note 9 – Long-Term Debt

In June 2005, the Board issued Qualified Zone Academy Bonds, called 2005 Certificates of Participation on the financial statements, for the purpose of making improvements to local schools through equipment purchases and renovations. The Board is required to make annual payments of \$59,096.98 for ten years to an escrow fund. The principal amount of \$783,000 is to be paid by the escrow agent from the proceeds and earning of the annual payments when the bonds become due in 2021. These Qualified Zone Academy Bonds are general obligations of the Board and are paid from the Capital Projects Fund.

During fiscal year 2015, the Board, as part of a pooled bond issuance with other school systems within the State of Alabama, issued Capital Improvement Bonds, Series 2015-C in anticipation of their Public School Fund allocations, which are received from the Alabama Department of Education. The Alabama Department of Education withholds the required debt service payments from the Board’s Public School Fund allocation. The proceeds from these bonds provided funds for the upgrade of technology, technology infrastructure and building of a new career center.

During fiscal year 2016, the Board issued Special Tax School Warrants, Series 2016. These Warrants are being issued to provide funds needed to acquire, construct and equip various capital improvements to certain of the public school facilities operated by the Board and to pay issuance expenses. Work on the said capital improvement is expected to commence on or about September 30, 2016, and is expected to take approximately fifteen (15) months.

Notes to the Financial Statements
For the Year Ended September 30, 2016

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

| | Debt Outstanding 10/01/2015 | Issued/ Increased | Repaid/ Decreased | Debt Outstanding 09/30/2016 | Amounts Due Within One Year |
|--|-----------------------------------|------------------------|-----------------------|-----------------------------------|-----------------------------------|
| Governmental Activities: | | | | | |
| Notes Payable: | | | | | |
| 2016 School Buses | \$ | \$ 987,135.00 | \$ | \$ 987,135.00 | \$ 88,840.01 |
| Certificates of Participation Payable: | | | | | |
| 2005 Certificates of Participation Payable QZAB | 783,000.00 | | | 783,000.00 | |
| Bonds and Warrants: | | | | | |
| Special Tax School Warrants, Series 2016 | | 7,885,000.00 | | 7,885,000.00 | 190,000.00 |
| Capital Outlay Pool Bonds Series 2015-C | 1,927,541.21 | | (54,601.65) | 1,872,939.56 | 62,843.41 |
| Total Bonds and Warrants Payable | <u>1,927,541.21</u> | <u>7,885,000.00</u> | <u>(54,601.65)</u> | <u>9,757,939.56</u> | <u>252,843.41</u> |
| Other Liabilities: | | | | | |
| Unamortized Premium | | 324,519.65 | (324,519.65) | | |
| Compensated Absences | 100,629.51 | 17,212.45 | | 117,841.96 | 117,841.96 |
| Net Pension Liability | 19,265,000.00 | 2,673,000.00 | | 21,938,000.00 | |
| Total Other Liabilities | <u>19,365,629.51</u> | <u>3,014,732.10</u> | <u>(324,519.65)</u> | <u>22,055,841.96</u> | <u>117,841.96</u> |
| Total Governmental Activities Long-Term Liabilities | <u>\$22,076,170.72</u> | <u>\$11,886,867.10</u> | <u>\$(379,121.30)</u> | <u>\$33,583,916.52</u> | <u>\$459,525.38</u> |

Notes to the Financial Statements
For the Year Ended September 30, 2016

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

| Fiscal Year Ending | Note Payable 2016 School Buses | | Certificates of Participation Payable | | Capital Improvement Pool Bonds Series 2015-C | |
|--------------------|-----------------------------------|--------------|--|----------|---|--------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| September 30, 2017 | \$ 88,840.01 | \$ 22,919.36 | \$ | | \$ 62,843.41 | \$ 87,150.68 |
| 2018 | 90,902.71 | 20,856.66 | | | 65,934.07 | 84,008.50 |
| 2019 | 93,013.29 | 18,746.08 | | | 69,230.77 | 80,711.80 |
| 2020 | 95,127.44 | 16,631.93 | | | 72,733.52 | 77,250.26 |
| 2021 | 97,381.55 | 14,377.82 | 783,000.00 | | 76,236.26 | 73,613.58 |
| 2022-2026 | 521,870.00 | 36,926.89 | | | 442,788.46 | 306,893.46 |
| 2027-2031 | | | | | 551,579.66 | 198,011.32 |
| 2032-2036 | | | | | 531,593.41 | 68,066.64 |
| 2037-2041 | | | | | | |
| 2042-2046 | | | | | | |
| Totals | \$987,135.00 | \$130,458.74 | \$783,000.00 | (*) | \$1,872,939.56 | \$975,706.24 |

(*) Interest-free obligation

Pledged Revenues

The Board, as part of a pooled bond issuance with other school systems within the State of Alabama, issued Capital Improvement Pool Bonds, Series 2015-C, which is pledged to be repaid from their allocation of public school funds received from the State of Alabama. The proceeds were provided for the upgrade of technology, technology infrastructure and construction of a new career center. Future revenues in the amount of \$2,848,645.80 are pledged to repay the principal and interest on the bonds at September 30, 2016. Public school funds in the amount of \$653,122.40 were received by the Board during the fiscal year ended September 30, 2016. Pledged funds in the amount of \$149,802.89 were used to pay principal and interest on the warrants during the fiscal year ended September 30, 2016. The Capital Improvement Pool Bonds, Series 2015-C, will mature in fiscal year 2035.

The Board issued Special Tax School Warrant, Series 2016, which is pledged to be repaid from proceeds of sales taxes received by the Board. The proceeds of the warrants were provided for the to acquire, construct and equip various capital improvements to certain of the public school facilities operated by the Board and to pay issuance expenses. Future revenue in the amount of \$12,055,237.50 are pledged to repay the principal and interest on the bonds at September 30, 2016. No principal or interest payments were made during the fiscal year ended September 30, 2016. The Special Tax School Warrants, Series 2016, will mature in 2044.

Notes to the Financial Statements
For the Year Ended September 30, 2016

| Special Tax School Warrant, Series 2016 | | Total Principal and Interest Requirements to Maturity |
|--|-----------------------|--|
| Principal | Interest | |
| \$ 190,000.00 | \$ 240,487.50 | \$ 692,240.96 |
| 195,000.00 | 234,700.00 | 691,401.94 |
| 200,000.00 | 230,800.00 | 692,501.94 |
| 205,000.00 | 226,800.00 | 693,543.15 |
| 210,000.00 | 222,700.00 | 1,477,309.21 |
| 1,100,000.00 | 1,049,500.00 | 3,457,978.81 |
| 1,255,000.00 | 904,500.00 | 2,909,090.98 |
| 1,510,000.00 | 638,800.00 | 2,748,460.05 |
| 1,800,000.00 | 348,000.00 | 2,148,000.00 |
| 1,220,000.00 | 73,950.00 | 1,293.950.00 |
| <u>\$7,885,000.00</u> | <u>\$4,170,237.50</u> | <u>\$16,804,477.04</u> |

Note 10 – Risk Management

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

Notes to the Financial Statements
For the Year Ended September 30, 2016

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

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

Note 11 – Interfund Transactions

Interfund Receivables and Payables

The interfund receivables and payables at September 30, 2016, were as follows:

| | <u>Interfund Receivables</u> | |
|----------------------------|----------------------------------|--------------------|
| | General Fund | Total |
| <u>Interfund Payables:</u> | | |
| Special Revenue Fund | \$91,991.76 | \$91,991.76 |
| Totals | <u>\$91,991.76</u> | <u>\$91,991.76</u> |

Notes to the Financial Statements
For the Year Ended September 30, 2016

Interfund Transfers

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

| | Transfers Out | | | Totals |
|--------------------------|---------------------|----------------------|-----------------------|---------------------|
| | General Fund | Special Revenue Fund | Capital Projects Fund | |
| <u>Transfers In:</u> | | | | |
| General Fund | \$ 702.47 | \$17,174.64 | \$ | \$ 17,877.11 |
| Special Revenue Fund | 573,182.76 | | | 573,182.76 |
| Capital Projects Fund | | | 71,747.92 | 71,747.92 |
| Other Governmental Funds | 71,747.92 | | | 71,747.92 |
| Totals | \$645,633.15 | \$17,174.64 | \$71,747.92 | \$734,555.71 |

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

Note 12 – Construction and Other Significant Commitments

The Board has obligated \$6,799,000.00 for the construction of the Pickens County Career and College Center. The Board paid \$420,238.72 in constructions costs, resulting in a remaining obligation of \$6,378,761.28 at September 30, 2016.

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Required Supplementary Information

***Schedule of the Employer's Proportionate Share of the
Net Pension Liability
For the Year Ended September 30, 2016
(Dollar amounts in thousands)***

| | 2016 | 2015 |
|--|-------------|-------------|
| Employer's proportion of the net pension liability | 0.209623% | 0.212065% |
| Employer's proportionate share of the net pension liability | \$ 21,938 | \$ 19,265 |
| Employer's covered-employee payroll during the measurement period (*) | \$ 13,244 | \$ 13,453 |
| Employer's proportionate share of the collective net pension liability as a percentage of its covered-employee payroll | 165.64% | 143.20% |
| Plan fiduciary net position as a percentage of the total collective pension liability | 67.51% | 71.01% |

(*) Employer's covered-employee payroll during the measurement period is the total payroll paid to covered employees (not just pensionable payroll). For fiscal year 2016, the measurement period is October 1, 2014 through September 30, 2015.

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

***Schedule of the Employer's Contributions
For the Year Ended September 30, 2016
(Dollar amounts in thousands)***

| | 2016 | 2015 |
|--|-----------------|-----------------|
| Contractually required contribution | \$ 1,572 | \$ 1,547 |
| Contributions in relation to the contractually required contribution | <u>\$ 1,572</u> | <u>\$ 1,547</u> |
| Contribution deficiency (excess) | \$ | \$ |
| Employer's covered-employee payroll | \$ 13,253 | \$ 13,254 |
| Contributions as a percentage of covered-employee payroll | 11.86% | 11.67% |

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended September 30, 2016***

| | Budgeted Amounts | | Actual Amounts Budgetary Basis |
|--|------------------------|------------------------|-----------------------------------|
| | Original | Final | |
| <u>Revenues</u> | | | |
| State | \$ 15,832,193.00 | \$ 15,908,501.00 | \$ 15,899,666.82 |
| Federal | 1,500.00 | 1,500.00 | 124,670.75 |
| Local | 3,519,185.00 | 3,519,185.00 | 3,855,618.88 |
| Other | 97,877.00 | 97,877.00 | 101,569.71 |
| Total Revenues | <u>19,450,755.00</u> | <u>19,527,063.00</u> | <u>19,981,526.16</u> |
| <u>Expenditures</u> | | | |
| Current: | | | |
| Instruction | 11,262,451.16 | 11,220,742.16 | 11,486,265.24 |
| Instructional Support | 3,076,352.31 | 3,117,051.81 | 3,125,171.04 |
| Operation and Maintenance | 1,522,687.00 | 1,592,033.77 | 1,566,074.02 |
| Auxiliary Services: | | | |
| Student Transportation | 1,806,369.00 | 1,806,369.00 | 1,855,520.53 |
| General Administrative and Central Support | 927,675.00 | 927,675.00 | 1,023,608.09 |
| Other | 182,991.00 | 217,192.00 | 236,297.17 |
| Capital Outlay | 50,000.00 | 50,000.00 | 56,551.37 |
| Total Expenditures | <u>18,828,525.47</u> | <u>18,931,063.74</u> | <u>19,349,487.46</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>622,229.53</u> | <u>595,999.26</u> | <u>632,038.70</u> |
| <u>Other Financing Sources (Uses)</u> | | | |
| Indirect Cost | 132,912.77 | 134,406.82 | 125,156.04 |
| Transfers In | 29,001.00 | 29,001.00 | 17,877.11 |
| Other Financing Sources | | | 3,520.87 |
| Transfers Out | (573,182.76) | (573,182.76) | (645,633.15) |
| Total Other Financing Sources (Uses) | <u>(411,268.99)</u> | <u>(409,774.94)</u> | <u>(499,079.13)</u> |
| Net Changes in Fund Balances | 210,960.54 | 186,224.32 | 132,959.57 |
| Fund Balances - Beginning of Year | <u>1,500,000.00</u> | <u>1,663,301.02</u> | <u>1,650,782.47</u> |
| Fund Balances - End of Year | <u>\$ 1,710,960.54</u> | <u>\$ 1,849,525.34</u> | <u>\$ 1,783,742.04</u> |

| | Budget to GAAP Differences | Actual Amounts GAAP Basis |
|-----|---------------------------------------|--------------------------------------|
| | \$ | \$ 15,899,666.82 |
| | | 124,670.75 |
| (1) | (35,338.05) | 3,820,280.83 |
| | | 101,569.71 |
| | <u>(35,338.05)</u> | <u>19,946,188.11</u> |
| (2) | (101,479.97) | 11,587,745.21 |
| (2) | 6,398.56 | 3,118,772.48 |
| (2) | (3,023.13) | 1,569,097.15 |
| (2) | (7,258.13) | 1,862,778.66 |
| (2) | (2,549.85) | 1,026,157.94 |
| (2) | 6,732.43 | 229,564.74 |
| | | 56,551.37 |
| | <u>(101,180.09)</u> | <u>19,450,667.55</u> |
| | <u>(136,518.14)</u> | <u>495,520.56</u> |
| | | 125,156.04 |
| | | 17,877.11 |
| | | 3,520.87 |
| | | <u>(645,633.15)</u> |
| | | <u>(499,079.13)</u> |
| | (136,518.14) | (3,558.57) |
| (3) | <u>(1,701,737.86)</u> | <u>(50,955.39)</u> |
| | <u>\$ (1,838,256.00)</u> | <u>\$ (54,513.96)</u> |

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended September 30, 2016***

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

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

- (1) The Board budgets motor vehicle ad valorem and sales taxes when they are received, rather than on the modified accrual basis (GAAP).
- (2) The Board budgets for salaries and benefits only to the extent they are expected to be paid in the current fiscal period, rather than on the modified accrual basis (GAAP).

Net Decrease in Fund Balance - Budget to GAAP

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

\$ (35,338.05)

(101,180.09)

\$ (136,518.14)

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Special Revenue Fund
For the Year Ended September 30, 2016***

| | Budgeted Amounts | | Actual Amounts |
|--|------------------|-----------------|-----------------|
| | Original | Final | Budgetary Basis |
| Revenues | | | |
| State | \$ | \$ | \$ 797.92 |
| Federal | 3,633,186.00 | 3,846,777.84 | 3,498,673.23 |
| Local | 1,960,541.00 | 1,960,541.00 | 1,715,185.33 |
| Other | 68,270.00 | 68,270.00 | 37,825.13 |
| Total Revenues | 5,661,997.00 | 5,875,588.84 | 5,252,481.61 |
| Expenditures | | | |
| Current: | | | |
| Instruction | 1,739,718.17 | 1,788,983.33 | 1,634,788.47 |
| Instructional Support | 878,140.98 | 916,070.24 | 900,736.58 |
| Operation and Maintenance | 259,537.00 | 259,537.00 | 305,262.07 |
| Auxiliary Services: | | | |
| Student Transportation | 103,429.45 | 102,429.45 | 73,490.71 |
| Food Service | 2,157,954.76 | 2,200,114.76 | 1,892,858.96 |
| General Administrative and Central Support | 304,827.25 | 306,853.43 | 295,977.91 |
| Other | 424,287.15 | 461,263.39 | 722,313.63 |
| Debt Service: | | | |
| Principal Retirement | 1,050.00 | 1,050.00 | |
| Interest and Fiscal Charges | 100.00 | 100.00 | |
| Total Expenditures | 5,869,044.76 | 6,036,401.60 | 5,825,428.33 |
| Excess (Deficiency) of Revenues Over Expenditures | (207,047.76) | (160,812.76) | (572,946.72) |
| Other Financing Sources (Uses) | | | |
| Transfers In | 646,692.76 | 646,692.76 | 573,182.76 |
| Transfers Out | (102,511.00) | (102,511.00) | (17,174.64) |
| Total Other Financing Sources (Uses) | 544,181.76 | 544,181.76 | 556,008.12 |
| Net Change in Fund Balances | 337,134.00 | 383,369.00 | (16,938.60) |
| Fund Balances - Beginning of Year | 466,623.62 | 1,267,608.39 | 1,267,608.39 |
| Fund Balances - End of Year | \$ 803,757.62 | \$ 1,650,977.39 | \$ 1,250,669.79 |

| | Budget to GAAP Differences | Actual Amounts GAAP Basis |
|-----|---------------------------------------|--------------------------------------|
| | \$ | \$ |
| | | 797.92 |
| | | 3,498,673.23 |
| | | 1,715,185.33 |
| | | 37,825.13 |
| | | <u>5,252,481.61</u> |
| | | 1,634,788.47 |
| | | 900,736.58 |
| | | 305,262.07 |
| | | 73,490.71 |
| (1) | (2,038.31) | 1,894,897.27 |
| | | 295,977.91 |
| | | 722,313.63 |
| | <u>(2,038.31)</u> | <u>5,827,466.64</u> |
| | <u>(2,038.31)</u> | <u>(574,985.03)</u> |
| | | 573,182.76 |
| | | (17,174.64) |
| | | <u>556,008.12</u> |
| | (2,038.31) | (18,976.91) |
| (2) | <u>(72,163.88)</u> | <u>1,195,444.51</u> |
| | <u>\$ (74,202.19)</u> | <u>\$ 1,176,467.60</u> |

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Special Revenue Fund
For the Year Ended September 30, 2016***

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

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

Net Decrease in Fund Balance - Budget to GAAP

- (2) The amount reported as "fund balance" on the budgetary basis of accounting derives from the basis of accounting used in preparing the Board's budget. This amount differs from the fund balance reported in the Statement of Revenues, Expenditures and Changes in Fund Balances (Exhibit 5) because of the cumulative effect of transactions such as those described above.

\$ (2,038.31)

\$ (2,038.31)

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Supplementary Information

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2016***

| Federal Grantor/ Pass-Through Grantor/ Program Title | Federal CFDA Number | Pass-Through Grantor's Number |
|--|---------------------------|-------------------------------------|
|--|---------------------------|-------------------------------------|

**U. S. Department of Agriculture
Passed Through Alabama Department of Education**

| | | |
|---|--------|-----|
| Child Nutrition Cluster: | | |
| School Breakfast Program - Cash Assistance | 10.553 | N/A |
| National School Lunch Program: | | |
| Cash Assistance | 10.555 | N/A |
| Non-Cash Assistance (Commodities) | 10.555 | N/A |
| Sub-Total National School Lunch Program | | |
| Summer Food Service Program for Children | 10.559 | N/A |
| Sub-Total Child Nutrition Cluster | | |
| State Administrative Expenses for Child Nutrition | 10.560 | N/A |
| Total U. S. Department of Agriculture | | |

**U. S. Department of Education
Passed Through Alabama Department of Education**

| | | |
|---|--------|-----|
| Title I Grants to Local Educational Agencies (M) | 84.010 | N/A |
| Special Education Cluster: | | |
| Special Education - Grants to States | 84.027 | N/A |
| Special Education - Preschool Grants | 84.173 | N/A |
| Sub-Total Special Education Cluster (M) | | |
| Career and Technical Education - Basic Grants to States | 84.048 | N/A |
| Rural Education | 84.358 | N/A |
| Improving Teacher Quality State Grants | 84.367 | N/A |
| Total U. S. Department of Education | | |

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

| | | |
|--|--------|-----|
| Social Security - Disability Insurance | 96.001 | N/A |
|--|--------|-----|

Total Expenditures of Federal Awards

(M) = Major Program

N/A = Not Applicable or Not Available

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

Expenditures

\$ 316,543.46
835,178.16
82,858.97
918,037.13
43,586.77
1,278,167.36
4,144.59
1,282,311.95

1,322,583.79

655,612.77
11,274.36
666,887.13
58,704.40
58,603.00
232,573.71
2,339,352.03

1,680.00

\$ 3,623,343.98

***Notes to the Schedule of Expenditures
of Federal Awards
For the Year Ended September 30, 2016***

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal grant activity of the Pickens County Board of Education and is presented on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U. S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of the Pickens County Board of Education, it is not intended to and does not present the financial position or changes in net position of the Pickens County Board of Education.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified-accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the *Uniform Guidance* wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Pickens County Board of Education has elected not to use the 10-percent de minimis indirect cost rate allowed in the *Uniform Guidance*.

Additional Information

Board Members and Administrative Personnel
October 1, 2015 through September 30, 2016

| Board Members | | Term Expires |
|--|--------------------------------|---------------------|
| Hon. Nicholas Tolstick | Chairman | October 2018 |
| Hon. Michael Hinton | Vice-Chairman | October 2018 |
| Hon. Debbie Holley | Member | October 2018 |
| Hon. Annie Jackson | Member | October 2018 |
| Hon. LaSonja Richardson | Member | October 2018 |
| <u>Administrative Personnel</u> | | |
| Hon. Jamie Chapman | Superintendent | December 2016 |
| Mrs. Jennifer Shirley | Chief School Financial Officer | |

***Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance With
Government Auditing Standards***

Independent Auditor's Report

Members of the Pickens County Board of Education,
Superintendent and Chief School Financial Officer
Carrollton, 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 Pickens County Board of Education, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Pickens County Board of Education's basic financial statements, and have issued our report thereon dated June 1, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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.

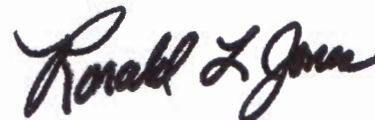
***Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance With
Government Auditing Standards***

Compliance and Other Matters

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

Purpose of this Report

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



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

Montgomery, Alabama

June 1, 2017

***Report on Compliance for Each Major Federal Program and
Report on Internal Control Over Compliance Required
by the Uniform Guidance***

Independent Auditor's Report

Members of the Pickens County Board of Education,
Superintendent and Chief School Financial Officer
Carrollton, Alabama

Report on Compliance for Each Major Federal Program

We have audited the Pickens County 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 the Pickens County Board of Education's major federal programs for the year ended September 30, 2016. The Pickens County Board of Education's major federal programs are identified in the Summary of Examiner's Results Section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Pickens County Board of Education's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States; and 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 Pickens County Board of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Report on Compliance for Each Major Federal Program and
Report on Internal Control Over Compliance Required
by the Uniform Guidance***

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

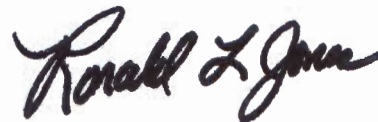
Management of the Pickens County Board of Education is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Pickens County Board of Education's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

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

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

***Report on Compliance for Each Major Federal Program and
Report on Internal Control Over Compliance Required
by the Uniform Guidance***

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



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

Montgomery, Alabama

June 1, 2017

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2016

Section I – Summary of Examiner's Results

Financial Statements

Type of opinion issued: Unmodified
Internal control over financial reporting:
Material weakness(es) identified? _____ Yes X No
Significant deficiency(ies) identified? _____ Yes X None reported
Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:
Material weakness(es) identified? _____ Yes X No
Significant deficiency(ies) identified? _____ Yes X None reported
Type of auditor's report issued on compliance for major programs: Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) of the *Uniform Guidance*? _____ Yes X No

Identification of major programs:

| CFDA Numbers | Name of Federal Program or Cluster |
|-------------------|--|
| 84.010 | Title I Grants to Local Educational Agencies |
| 84.027 and 84.173 | Special Education Cluster |

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000.00
Auditee qualified as low-risk auditee? _____ Yes X No

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2016

Section II – Financial Statement Findings (GAGAS)

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

Section III – Federal Awards Findings and Questioned Costs

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