

Report on the

Dale County Board of Education

Dale County, Alabama

October 1, 2015 through September 30, 2016

Filed: June 23, 2017



Department of Examiners of Public Accounts

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Ronald L. Jones, Chief Examiner



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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 Dale County Board of Education, Dale County, Alabama, for the period October 1, 2015 through September 30, 2016.

Sworn to and subscribed before me this
the 6th day of June, 2017.

Cathy B Smith
Notary Public

Respectfully submitted,

Michael J. Lambert
Michael L. Lambert
Examiner of Public Accounts

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Department of
Examiners of Public Accounts

SUMMARY

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

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

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

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

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

The following officials/administrative personnel were invited to an exit conference to discuss the results of this report: Superintendent: Ben Baker; Interim Superintendent: Lamar Brooks; former Superintendent: Donald R. Bynum; Chief School Financial Officer: Jesse James; and Board Members: Braxton Bell, Larry Ezell, Bill McSween, Dale Sutton, and Don Williams. The following individuals attended the exit conference, held at the Board’s offices: Superintendent: Ben Baker; Chief School Financial Officer: Jesse James; Board Members: Braxton Bell and Larry Ezell; and representatives from the Department of Examiners of Public Accounts: Cherie Raffle, Audit Manager and Michael L. Lambert, Examiner of Public Accounts.

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Independent Auditor's Report

Independent Auditor's Report

Members of the Dale County Board of Education,
Superintendent and Chief School Financial Officer
Ozark, Alabama

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Dale 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 Dale County Board of Education's basic financial statements as listed in the table of contents as Exhibits 1 through 6.

Management's Responsibility for the Financial Statements

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Dale 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 Discussion and Analysis (MD&A), the Schedule of the Employer's Proportionate Share of the Net Pension Liability, the Schedule of the Employer's Contributions, and the Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual, (Exhibits 7 through 10), be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Dale County Board of Education has not presented a Management's Discussion and Analysis (MD&A) that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Dale County Board of Education's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 11) 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 Dale 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 Dale 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

Basic Financial Statements

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Statement of Net Position
September 30, 2016

	Governmental Activities
Assets	
Cash	\$ 7,140,360.35
Cash With Fiscal Agent	1,383,594.99
Investments	1,799,695.39
Ad Valorem Property Taxes Receivable	1,387,111.40
Receivables (Note 4)	981,615.08
Inventories	78,140.71
Capital Assets (Note 5):	
Nondepreciable	253,558.92
Depreciable, Net	17,814,970.67
Total Assets	<u>30,839,047.51</u>
Deferred Outflows of Resources	
Employer Pension Contribution	1,661,272.01
Proportionate Share of Collective Deferred Outflows Related to Net Pension Liability	1,874,000.00
Total Deferred Outflows of Resources	<u>3,535,272.01</u>
Liabilities	
Accounts Payable	366,668.33
Unearned Revenue	16,463.09
Salaries and Benefits Payable	2,131,589.45
Accrued Interest Payable	36,393.09
Long-Term Liabilities (Note 8):	
Portion Due or Payable Within One Year	545,864.37
Portion Due or Payable After One Year	34,817,162.64
Total Liabilities	<u>37,914,140.97</u>
Deferred Inflows of Resources	
Unavailable Revenue - Property Taxes	1,387,111.40
Revenue Received in Advance - Motor Vehicle Taxes	151,789.32
Proportionate Share of Collective Deferred Inflows Related to Net Pension Liability	125,000.00
Total Deferred Inflows of Resources	<u>1,663,900.72</u>
Net Position	
Net Investment in Capital Assets	7,299,502.58
Restricted for:	
Debt Service	1,347,201.90
Capital Projects	1,025,699.61
Child Nutrition	771,896.19
Other Purposes	3,101.14
Unrestricted	<u>(15,651,123.59)</u>
Total Net Position	<u>\$ (5,203,722.17)</u>

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

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	\$ 16,197,536.26	\$ 524,634.34	\$ 12,536,756.25
Instructional Support	3,663,838.01	34,194.86	2,878,199.75
Operation and Maintenance	1,991,826.00	135,399.54	1,335,451.87
Auxiliary Services:			
Student Transportation	2,043,463.78	53,199.48	1,672,892.56
Food Service	1,920,739.75	1,634,949.89	103,216.47
General Administration and Central Support	1,485,030.53	255.31	763,409.81
Interest and Fiscal Charges	484,660.50		
Other Expenses	884,191.09	360,249.77	70,552.71
Total Governmental Activities	<u>\$ 28,671,285.92</u>	<u>\$ 2,742,883.19</u>	<u>\$ 19,360,479.42</u>

General Revenues:

Taxes:

 Property Taxes for General Purposes

 Sales Tax

 Other Taxes

Grants and Contributions Not Restricted
for Specific Programs

Investment Earnings

Gain on Disposition of Capital Assets

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>
\$ 276,741.47	\$ (2,859,404.20)
614,717.53	(751,443.40)
	93,742.94
242,530.00	(74,841.74)
	(182,573.39)
5,408.00	(715,957.41)
	(484,660.50)
	(453,388.61)
<u>\$ 1,139,397.00</u>	<u>(5,428,526.31)</u>

1,687,542.91
3,445,566.24
32,746.64
2,120.00
34,293.31
2,250.00
858,981.25
<u>6,063,500.35</u>
634,974.04
<u>(5,838,696.21)</u>
<u>\$ (5,203,722.17)</u>

Balance Sheet
Governmental Funds
September 30, 2016

	General Fund	Special Revenue Fund
<u>Assets</u>		
Cash	\$ 3,413,054.43	\$ 1,204,848.63
Cash With Fiscal Agents		
Investments	1,753,482.69	46,212.70
Ad Valorem Property Taxes Receivable	1,387,111.40	
Receivables (Note 4)	583,082.90	398,532.18
Inventories		78,140.71
Total Assets	<u>7,136,731.42</u>	<u>1,727,734.22</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>		
<u>Liabilities</u>		
Accounts Payable	230,684.73	124,225.92
Unearned Revenue		16,463.09
Salaries and Benefits Payable	2,044,642.41	86,947.04
Total Liabilities	<u>2,275,327.14</u>	<u>227,636.05</u>
<u>Deferred Inflows of Resources</u>		
Unearned Revenue - Property Taxes	1,387,111.40	
Revenue Received in Advance - Motor Vehicle Taxes	151,789.32	
Total Deferred Inflows of Resources	<u>1,538,900.72</u>	
<u>Fund Balances</u>		
Nonspendable:		
Inventories		78,140.71
Restricted:		
Debt Service		
Capital Projects		
Child Nutrition		693,755.48
Other Purposes		3,101.14
Assigned:		
Local Schools		725,100.84
Unassigned	3,322,503.56	
Total Fund Balances	<u>3,322,503.56</u>	<u>1,500,098.17</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 7,136,731.42</u>	<u>\$ 1,727,734.22</u>

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

Debt Service Fund	Capital Projects Fund	Total Governmental Funds
\$ 1,383,594.99	\$ 2,522,457.29	\$ 7,140,360.35
		1,383,594.99
		1,799,695.39
		1,387,111.40
		981,615.08
		78,140.71
<u>1,383,594.99</u>	<u>2,522,457.29</u>	<u>12,770,517.92</u>
	11,757.68	366,668.33
		16,463.09
		<u>2,131,589.45</u>
	<u>11,757.68</u>	<u>2,514,720.87</u>
		1,387,111.40
		<u>151,789.32</u>
		<u>1,538,900.72</u>
		78,140.71
1,383,594.99		1,383,594.99
	2,510,699.61	2,510,699.61
		693,755.48
		3,101.14
		725,100.84
		<u>3,322,503.56</u>
<u>1,383,594.99</u>	<u>2,510,699.61</u>	<u>8,716,896.33</u>
<u>\$ 1,383,594.99</u>	<u>\$ 2,522,457.29</u>	<u>\$ 12,770,517.92</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)	\$ 8,716,896.33
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.	
The Cost of Capital Assets is	\$ 33,080,324.99
Accumulated Depreciation is	<u>(15,011,795.40)</u>
	18,068,529.59
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.	3,410,272.01
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Current Portion of Long-Term Debt	545,864.37
Noncurrent Portion of Long-Term Debt	<u>\$ 34,817,162.64</u>
	(35,363,027.01)
Interest on long-term debt is not accrued in the funds but rather is recognized as an expenditure when due.	<u>(36,393.09)</u>
Total Net Position - Governmental Activities (Exhibit 1)	<u><u>\$ (5,203,722.17)</u></u>

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	\$ 17,661,995.54	\$
Federal	96,070.80	2,792,676.75
Local	5,352,800.91	1,942,415.09
Other	216,461.11	78,559.21
Total Revenues	23,327,328.36	4,813,651.05
<u>Expenditures</u>		
Current:		
Instruction	13,354,848.23	1,818,297.45
Instructional Support	3,247,896.65	369,939.84
Operation and Maintenance	1,745,635.33	182,607.22
Auxiliary Services:		
Student Transportation	1,730,983.19	34,960.25
Food Service		1,988,834.23
General Administration and Central Support	1,263,549.02	184,990.31
Other	219,177.87	663,771.95
Capital Outlay	107,487.76	21,186.00
Debt Service:		
Principal Retirement		4,454.64
Interest and Fiscal Charges		737.28
Debt Issuance Costs	3,597.00	
Total Expenditures	21,673,175.05	5,269,779.17
Excess (Deficiency) of Revenues Over Expenditures	1,654,153.31	(456,128.12)
<u>Other Financing Sources (Uses)</u>		
Indirect Cost	149,788.89	
Long-Term Debt Issued		
Transfers In	79,017.97	722,287.14
Other Sources	2,571.02	
Sale of Capital Assets	2,250.00	
Transfers Out	(1,375,687.88)	(79,017.97)
Total Other Financing Sources (Uses)	(1,142,060.00)	643,269.17
Net Changes in Fund Balances	512,093.31	187,141.05
Fund Balances - Beginning of Year	2,810,410.25	1,312,957.12
Fund Balances - End of Year	\$ 3,322,503.56	\$ 1,500,098.17

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

Debt Service Fund	Capital Projects Fund	Total Governmental Funds
\$ 386,248.78	\$ 750,734.22	\$ 18,798,978.54
		2,888,747.55
23,476.53		7,318,692.53
		295,020.32
<u>409,725.31</u>	<u>750,734.22</u>	<u>29,301,438.94</u>
		15,173,145.68
		3,617,836.49
	14,900.00	1,943,142.55
		1,765,943.44
		1,988,834.23
	20,408.00	1,468,947.33
		882,949.82
	447,263.78	575,937.54
420,065.01		424,519.65
483,802.24		484,539.52
		3,597.00
<u>903,867.25</u>	<u>482,571.78</u>	<u>28,329,393.25</u>
<u>(494,141.94)</u>	<u>268,162.44</u>	<u>972,045.69</u>
		149,788.89
	1,500,000.00	1,500,000.00
653,400.74		1,454,705.85
		2,571.02
		2,250.00
		(1,454,705.85)
<u>653,400.74</u>	<u>1,500,000.00</u>	<u>1,654,609.91</u>
159,258.80	1,768,162.44	2,626,655.60
1,224,336.19	742,537.17	6,090,240.73
<u>\$ 1,383,594.99</u>	<u>\$ 2,510,699.61</u>	<u>\$ 8,716,896.33</u>

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

Total Net Changes in Fund Balances - Total Governmental Funds (Exhibit 5) \$ 2,626,655.60

Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) are different because:

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

Capital Outlays	\$	575,937.54	
Depreciation Expense		<u>(1,270,567.22)</u>	(694,629.68)

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. (1,500,000.00)

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. 424,519.65

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. These items consist of:

Pension Expense, Current Year (Increase)/Decrease	\$	(225,047.55)	
Accrued Interest Payable - Current Year (Increase)/Decrease		<u>3,476.02</u>	<u>(221,571.53)</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ 634,974.04

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

A. Reporting Entity

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

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

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the Board. These statements include the financial activities of the overall government. 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. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds in the Other Governmental Fund column. All funds are major for the current fiscal year.

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.
- ◆ **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.
- ◆ **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

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. 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, which is recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. General long-term debt issued and acquisitions under capital leases are reported as other financing sources.

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

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

1. Deposits and Investments

Cash includes cash on hand and demand deposits.

Statutes authorize the Board to invest in obligations of the U. S. Treasury, obligations of any state of the United States, general obligations of any Alabama County or City board of education secured by the pledged of the three-mill school tax and certificates of deposit.

Investments consist of certificate of deposits and are reported at cost. Amounts invested with fiscal agent are reported at fair value.

Notes to the Financial Statements

For the Year Ended September 30, 2016

2. Receivables

Sales tax receivables are based on the amounts collected within 60 days after year-end.

Millage rates for property taxes are levied at the first regular meeting of the County Commission in February of each year. Property 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.

4. Restricted Assets

Certain funds received from the State Department of Education for capital projects and improvements, as well as certain resources set aside for repayment of debt, included in cash and cash with fiscal agent on the balance sheet, are considered restricted assets because they are maintained separately and their use is limited. The Public School Capital Projects, Fleet Renewal, Bond Issue Payments, Bonds and Warrants, and Qualified Zone Academy Bonds 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 becomes 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.

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

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

	Capitalization Threshold	Estimated Useful Life
Land Improvements	\$50,000	20 years
Buildings	\$50,000	25 – 50 years
Building Improvements	\$50,000	7 – 30 years
Equipment and Furniture	\$ 5,000	5 – 15 years
Vehicles	\$ 5,000	8 – 10 years
Equipment Under Capital Lease	\$ 5,000	5 – 15 years

6. Deferred Outflows of Resources

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

7. Long-Term Obligations

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

In the fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Deferred Inflows of Resources

Deferred inflows of resources are reported in the government-wide and fund financial statements. Deferred inflows of resources are defined as an acquisition of net position/fund 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

9. 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.

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

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

- ◆ **Unrestricted** – 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 authorized the Superintendent or Chief School Financial Officer to make a determination of the assigned amounts of fund balance. Such assignments may not exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. Assigned fund balances require the same level of authority to remove the constraint.
- E. Unassigned fund balances include all spendable amounts not contained in the other classifications. This portion of the total fund balance in the General Fund is available to finance operating expenditures.

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

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

11. Minimum Fund Balance Policies

The Board has established a minimum fund balance policy. The Board's policy states that a General Fund reserve fund balance be maintained of an amount not less than one month's operating expenditures. Operating expenditures shall include all funds necessary to support the normal operations of the school district for one month. The Superintendent or Chief School Financial Officer will inform the Board, before the Board votes on a budget or budget amendment, if the approval of the budget or the budget amendment will prevent the establishment or maintenance of one month's operating balance. A one month operating balance shall be determined by dividing the General Fund expenditures and fund transfers out by twelve. In determining the General Fund expenditures and transfers out, the proposed budget or budget amendment shall be used.

Note 2 – Stewardship, Compliance, and Accountability

Budgets

Budgets are adopted on a basis of accounting consistent with accounting principles generally accepted in the United States of America (GAAP) for the General Fund and 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. Also, in the General Fund, sales and ad valorem taxes are budgeted only to the extent expected to be received 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.

Notes to the Financial Statements

For the Year Ended September 30, 2016

Note 3 – Deposits and Investments

A. Deposits

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

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

B. Cash with Fiscal Agents

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 pledge of the three-mill school tax and other obligations as outlined in the *Code of Alabama 1975*, Section 19-3-120 and Section 19-3-120.1.

As of September 30, 2016, the Board had cash with fiscal agents invested as follows:

Investments	Maturities	Rating	Fair Value
Dreyfus Treasury Prime Cash Management Funds	Various	S&P AAAM	\$ 694,753.22
U. S. Treasury Notes	Various		688,841.77
Total			<u>\$1,383,594.99</u>

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

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 investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increased interest rates.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The credit rating, if applicable and available, is presented in the table of investments. The Board does not have an investment policy that addresses credit risk.

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’s investment policy does not limit the amount of securities that can be held by counterparties.

Concentrations 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 investment policy that limits the amount the Board may invest in any one issuer.

Note 4 – Receivables

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

	General Fund	Special Revenue Fund	Total
<u>Receivables:</u>			
Taxes	\$494,544.86	\$	\$494,544.86
Accounts		9,820.92	9,820.92
Intergovernmental	88,538.04	388,711.26	477,249.30
Total Receivables	<u>\$583,082.90</u>	<u>\$398,532.18</u>	<u>\$981,615.08</u>

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:

	Balance 10/01/2015	Additions	Retirements	Balance 09/30/2016
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 198,371.94	\$	\$	\$ 198,371.94
Construction in Progress	18,560.00	36,626.98		55,186.98
Total Capital Assets, Not Being Depreciated	<u>216,931.94</u>	<u>36,626.98</u>		<u>253,558.92</u>
Capital Assets Being Depreciated:				
Land Improvements	85,004.65			85,004.65
Buildings	12,741,504.75			12,741,504.75
Buildings Improvements	14,676,913.33	168,106.80		14,845,020.13
Equipment and Furniture	996,478.25	45,841.76	(12,650.00)	1,029,670.01
Vehicles	3,786,840.53	325,362.00		4,112,202.53
Equipment Under Capital Leases	13,364.00			13,364.00
Total Capital Assets Being Depreciated	<u>32,300,105.51</u>	<u>539,310.56</u>	<u>(12,650.00)</u>	<u>32,826,766.07</u>
Less Accumulated Depreciation for:				
Land Improvements	(70,128.80)	(4,250.23)		(74,379.03)
Buildings	(6,780,991.96)	(236,742.00)		(7,017,733.96)
Buildings Improvements	(4,025,815.09)	(715,102.47)		(4,740,917.56)
Equipment and Furniture	(533,294.91)	(48,390.36)	12,650.00	(569,035.27)
Vehicles	(2,343,201.94)	(265,191.22)		(2,608,393.16)
Equipment Under Capital Lease	(445.48)	(890.94)		(1,336.42)
Total Accumulated Depreciation	<u>(13,753,878.18)</u>	<u>(1,270,567.22)</u>	<u>12,650.00</u>	<u>(15,011,795.40)</u>
Total Capital Assets Being Depreciated, Net	<u>18,546,227.33</u>	<u>(731,256.66)</u>		<u>17,814,970.67</u>
Governmental Activities Capital Assets, Net	<u>\$ 18,763,159.27</u>	<u>\$ (694,629.68)</u>	<u>\$</u>	<u>\$ 18,068,529.59</u>

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

	Current Year Depreciation Expense
Governmental Activities:	
Instruction	\$ 882,601.07
Instructional Support	12,961.80
Operation and Maintenance	42,214.21
Auxiliary Services:	
Food Service	71,732.34
Transportation	259,564.60
General Administration and Central Support	1,493.20
Total Depreciation Expense – Governmental Activities	<u>\$1,270,567.22</u>

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 (TRS), a cost-sharing multiple-employer public employee retirement plan (the "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, 2016, was 11.94% of annual pay for Tier 1 members and 10.84% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the Board were \$1,661,272.01 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 \$23,109,000.00 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 .220812%, which was an increase of .001535% 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 \$1,888,000.00. At September 30, 2016, the Board reported deferred outflows of resources of 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	\$	\$125,000.00
Net difference between projected and actual earnings on pension plan investments	1,513,000.00	
Changes in proportion and differences between employer contributions and proportionate share of contributions	361,000.00	
Employer contributions subsequent to the measurement date	1,661,272.01	
Total	<u>\$3,535,272.01</u>	<u>\$125,000.00</u>

The \$1,661,272.01 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	\$356,000.00
2018	\$356,000.00
2019	\$356,000.00
2020	\$680,000.00
2021	\$ 1,000.00
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	\$30,572	\$23,109	\$16,780
(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> under the Employers' Financial Reports section.

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

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:

	Fiscal Year 2016
Individual Coverage – Non-Medicare Eligible	\$ 151.00
Individual Coverage – Medicare Eligible Retired Member	\$ 10.00
Family Coverage – Non-Medicare Eligible Retired Member and Non-Medicare Eligible Non-Spousal Dependent(s)	\$ 391.00
Family Coverage – Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) with Non-Medicare Eligible Spouse	\$ 416.00
Family Coverage – Non-Medicare Eligible Retired Member and Non-Spousal Dependent Medicare Eligible	\$ 250.00
Family Coverage – Non-Medicare Eligible Retired Member and Spouse Dependent Medicare Eligible	\$ 260.00
Family Coverage – Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) – No Spouse	\$ 250.00
Family Coverage – Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) – with Non-Medicare Eligible Spouse	\$ 275.00
Family Coverage – Medicare Eligible Retired Member and Non-Spousal Dependent Medicare Eligible	\$ 109.00
Family Coverage – Medicare Eligible Retired Member and Spousal Dependent Medicare Eligible	\$ 119.00
Surviving Spouse – Non-Medicare Eligible	\$ 740.00
Surviving Spouse – Non-Medicare Eligible and Dependent Non-Medicare Eligible	\$ 987.00
Surviving Spouse – Non-Medicare Eligible and Dependent Medicare Eligible	\$1,033.00
Surviving Spouse – Medicare Eligible	\$ 425.00
Surviving Spouse – Medicare Eligible and Dependent Non-Medicare Eligible	\$ 679.00
Surviving Spouse – Medicare Eligible and Dependent Medicare Eligible	\$ 725.00

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%	\$890,382.28	100%
2015	\$780.00	\$180.76	23.17%	\$759,488.97	100%
2014	\$714.00	\$220.09	30.83%	\$932,361.85	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 – Long-Term Debt

The Board issued the Capital Outlay Tax Anticipation Warrants, Series 2008, to provide funds for the construction and renovation of G. W. Long Elementary and High Schools.

The Board issued the Capital Outlay Tax Anticipation Refunding Warrants, Series 2007, to refund the Capital Outlay Refunding Warrants, Series 1997, and to refund the Capital Outlay Tax Anticipation Warrants, Series 2002.

Notes to the Financial Statements

For the Year Ended September 30, 2016

During fiscal year 2010, the Board, as part of a pooled bond issuance with other school systems within the State of Alabama, issued Capital Improvement Pool Bonds, Series 2009-B, in anticipation of their Public School Fund allocations, which are received from the Alabama Department of Education. The proceeds from these warrants were used to refund on a current basis Series 1999D Capital Improvement Pool Bonds.

In June 2011, the Alabama Public School and College Authority (PSCA) issued Capital Improvement Pool Qualified Zone Academy Bonds, Series 2011, on behalf of various Boards of Education in the State. The Board's share of the bonds, issuance costs, and net proceeds were \$2,500,000.00, \$9,400.00, and \$2,490,600.00 respectively. The interest rates on these bonds are 4.60%, however, the PSCA expects to receive subsidy payments from the United States Treasury in amounts equal to the interest due on the bonds making the effective interest payment due from the Board equal zero. The Board is required to make sinking fund deposits of \$125,239.03 on May 1 of each year for fifteen years so that such deposits and any interest earned thereon shall be used to pay the principal of the bonds upon maturity and are pledged to pay the debt service requirements of the bonds. The sinking fund deposits and interest payments are payable from and secured by a pledge of the Board's allocable share of Public School Capital Outlay Funds.

In fiscal year 2016, the Board issued School Tax Warrants (Qualified Zone Academy Project), Series 2016-A, in the amount of \$1,500,000.00 at 0% interest. The Board is required to make annual payments in July of \$100,000.00 for 15 years. The warrants are payable from and secured by the special sales tax levied by the Dale County Commission.

The following is a summary of long-term debt transactions 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:					
Bonds/Warrants Payable:					
2016-A School Tax Warrants (Qualified Zone Academy Project)	\$	\$1,500,000.00	\$	\$ 1,500,000.00	\$100,000.00
2011 QZAB Capital Outlay Pool Warrants	2,500,000.00			2,500,000.00	
2009-B Capital Improvement Pool Refunding Bonds	518,894.86		(120,065.01)	398,829.85	126,108.84
2007 Capital Outlay Tax Anticipation Refunding Warrants	5,285,000.00		(220,000.00)	5,065,000.00	230,000.00
2008 Capital Outlay Tax Anticipation Warrants	2,865,000.00		(80,000.00)	2,785,000.00	85,000.00
Total Bonds/Warrants Payable	11,168,894.86	1,500,000.00	(420,065.01)	12,248,829.85	541,108.84
Other Liabilities:					
Capital Leases Payable	9,651.80		(4,454.64)	5,197.16	4,755.53
Net Pension Liability	19,920,000.00	3,189,000.00		23,109,000.00	
Total Other Liabilities	19,929,651.80	3,189,000.00	(4,454.64)	23,114,197.16	4,755.53
Governmental Activities Long-Term Liabilities	\$31,098,546.66	\$4,689,000.00	\$(424,519.65)	\$35,363,027.01	\$545,864.37

Notes to the Financial Statements

For the Year Ended September 30, 2016

Payments on the Series 2016-A School Tax Warrants are made from the Debt Service Fund with sales and use taxes. Payments on the Series 2007 and 2008 warrants payable are made from the Debt Service Fund with sales and use taxes. Payments of the Capital Improvement Pool Refunding Bonds, Series 2009-B, are made with Public School Funds withheld from the Board's allocation from the Alabama Department of Education. Payments on the 2011 QZAB issue will be made from the Public School Funds allocated by the State Department of Education. The capital leases are paid using local school funds.

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

Fiscal Year Ending	Capital Outlay Tax Anticipation Warrants, Series 2008		Capital Outlay Tax Anticipation Warrants, Series 2007		School Tax Warrants (Qualified Zone Academy Project) Series 2016-A	
	Principal	Interest	Principal	Interest	Principal	Interest
September 30, 2017	\$ 85,000.00	\$ 123,753.00	\$ 230,000.00	\$ 207,112.50	\$ 100,000.00	
2018	85,000.00	120,438.00	240,000.00	197,827.50	100,000.00	
2019	90,000.00	116,890.00	245,000.00	188,127.50	100,000.00	
2020	95,000.00	113,005.00	255,000.00	178,063.75	100,000.00	
2021	100,000.00	108,910.00	270,000.00	167,432.50	100,000.00	
2022-2026	550,000.00	476,878.00	1,520,000.00	656,612.50	500,000.00	
2027-2031	700,000.00	336,658.00	1,880,000.00	299,642.50	500,000.00	
2032-2036	880,000.00	154,552.00	425,000.00	9,137.50		
2037-2041	200,000.00	4,700.00				
Totals	<u>\$2,785,000.00</u>	<u>\$1,555,784.00</u>	<u>\$5,065,000.00</u>	<u>\$1,903,956.25</u>	<u>\$1,500,000.00</u>	<u>(*)</u>

(*) Interest Free

Pledged Revenues

The Board issued Series 2009-B Capital Improvement Pool Refunding Bonds, which are pledged to be repaid from their allocation of public school funds received from the State of Alabama. The proceeds are to be used to pay the cost of refunding and retiring the Series 1999-D Capital Improvement Pool Bonds. Future revenues in the amount of \$439,420.46 are pledged to repay the principal and interest on the bonds at September 30, 2016. Pledged funds in the amount of \$146,009.75 were used to pay principal and interest on the bonds during the fiscal year ended September 30, 2016. The Series 2009-B bonds will mature in fiscal year 2019.

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

Capital Improvement Pool Refunding Bonds Series 2009-B		Capital Outlay Pool Warrants Series 2011 – QZAB		Capital Leases		Total Principal and Interest Requirements to Maturity
Principal	Interest	Principal	Interest	Principal	Interest	
\$126,108.84	\$19,941.50	\$	\$ 115,000.00	\$4,755.53	\$581.00	\$ 1,012,252.37
132,459.99	13,636.05		115,000.00	441.63	8.17	1,004,811.34
140,261.02	7,013.06		115,000.00			1,002,291.58
			115,000.00			856,068.75
			115,000.00			861,342.50
		2,500,000.00	575,000.00			6,778,490.50
						3,716,300.50
						1,468,689.50
						204,700.00
\$398,829.85	\$40,590.61	\$2,500,000.00	\$1,150,000.00	\$5,197.16	\$589.17	\$16,904,947.04

The Board issued Series 2007 Tax Anticipation Refunding Warrants for the purpose of refunding the 2002 Tax Anticipation Warrants and the 1997 Refunding Warrants. The Board issued Series 2008 Tax Anticipation Warrants for the purpose of constructing classroom facilities and other capital improvements at G. W. Long Elementary and High Schools. The Board pledged to repay the tax anticipation warrants from the proceeds of a special sales tax levied by the Dale County Commission pursuant to Act Number 94-765, Acts of Alabama, of which the Board receives 100% of the proceeds. Future revenues of \$11,309,740.25 are pledged to repay the principal and interest on the warrants at September 30, 2016. Proceeds of the special sales tax in the amount of \$1,422,115.22 were received by the Board during the fiscal year ended September 30, 2016, of which \$642,857.50 was used to pay principal and interest on the Series 2007 and 2008 warrants. The Series 2007 and 2008 tax anticipation warrants will mature in fiscal years 2032 and 2037, respectively.

Notes to the Financial Statements

For the Year Ended September 30, 2016

The Board participated in the Capital Improvement Pool Qualified Zone Academy Bonds, Series 2011 issued by the Alabama Public School and College Authority (PSCA). The sinking fund deposits to be made by the Board are pledged to be paid from their allocation of public school funds received from the State of Alabama. The proceeds from the bonds are to be used to finance capital improvements at various local schools. Future revenues in the amount of \$1,252,390.30 are pledged for the payments of the sinking fund deposits on the bonds at September 30, 2016. The Series 2011 Qualified Zone Academy Bonds will mature in fiscal year 2026.

The Board issued School Tax Warrants (Qualified Zone Academy Project), Series 2016-A, for the purpose of rehabilitating or repairing the public school facility in which the Qualified Zone Academy is established or providing equipment for use at the Qualified Zone Academy. The Board pledged to repay the school tax warrants from the proceeds of a special sales tax levied by the Dale County Commission pursuant to Act Number 94-765, Acts of Alabama, of which the Board receives 100 percent of the proceeds. Future revenues of \$1,500,000.00 are pledged to repay the principal on the warrants at September 30, 2016. Proceeds of the special sales tax in the amount of \$1,422,115.22 were received by the Board and no principal payments were made during the fiscal year ended September 30, 2016. The Series 2016-A school tax warrants will mature in fiscal year 2031.

Note 9 – 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 and errors and omissions insurance are 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 10 – Interfund Transactions

Interfund Transfers

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

	Transfers In			Totals
	General Fund	Special Revenue Fund	Debt Service Fund	
Transfers Out:				
General Fund	\$	\$722,287.14	\$653,400.74	\$1,375,687.88
Special Revenue Fund	79,017.97			79,017.97
Totals	\$79,017.97	\$722,287.14	\$653,400.74	\$1,454,705.85

The Board typically used transfers to fund ongoing operating subsidies, to recoup certain expenditures paid on-behalf of the local schools, and to transfer the portion from the General Fund to the Debt Service Fund to service current-year debt requirements.

Note 11 – Subsequent Events

On December 13, 2016, the Board approved a warrant purchase agreement to refinance Capital Outlay Tax Anticipation Warrants, Series 2008, and Capital Outlay Tax Anticipation Refunding Warrants, Series 2007, with the issuance of Special Tax School Warrants, Series 2017-A, in the amount of \$9,750,000.00 and Taxable Special Tax School Warrants, Series 2017-B, in the amount of \$1,735,000.00 for a total of \$11,485,000.00. The closing, refunding, and disbursement of funds was finalized on January 10, 2017.

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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	0.220812%	0.219277%
Employer's proportionate share of the net pension liability	\$ 23,109	\$ 19,920
Employer's covered-employee payroll during the measurement period (*)	\$ 13,943	\$ 13,904
Employer's proportionate share of the collective net pension liability as a percentage of its covered-employee payroll	165.74%	143.27%
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	\$ 1,661	\$ 1,627
Contributions in relation to the contractually required contribution	<u>\$ 1,661</u>	<u>\$ 1,627</u>
Contribution deficiency (excess)	\$	\$
Employer's covered-employee payroll	\$ 14,013	\$ 13,943
Contributions as a percentage of covered-employee payroll	11.85%	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***

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>
<u>Revenues</u>			
State	\$ 16,948,993.00	\$ 17,678,345.00	\$ 17,661,995.54
Federal	900.00	900.00	96,070.80
Local	4,488,620.00	4,488,620.00	5,267,904.27
Other	20,000.00	20,000.00	216,461.11
Total Revenues	<u>21,458,513.00</u>	<u>22,187,865.00</u>	<u>23,242,431.72</u>
<u>Expenditures</u>			
Current:			
Instruction	13,083,028.23	13,123,077.32	13,144,221.62
Instructional Support	3,049,847.43	3,060,847.96	3,239,339.60
Operation and Maintenance	1,618,625.14	2,332,013.41	1,740,394.51
Auxiliary Services:			
Student Transportation	1,848,053.00	1,848,053.00	1,716,041.50
General Administration and Central Support	1,210,159.28	1,382,955.92	1,263,549.02
Other	138,810.65	130,928.12	162,055.06
Capital Outlay			107,487.76
Debt Service:			
Debt Issuance Costs			3,597.00
Total Expenditures	<u>20,948,523.73</u>	<u>21,877,875.73</u>	<u>21,376,686.07</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>509,989.27</u>	<u>309,989.27</u>	<u>1,865,745.65</u>
<u>Other Financing Sources (Uses)</u>			
Indirect Cost	147,652.64	147,652.64	149,788.89
Transfers In	35,000.00	35,000.00	79,017.97
Other Sources	2,500.00	2,500.00	2,571.02
Sale of Capital Assets	2,500.00	2,500.00	2,250.00
Transfers Out	(1,398,685.40)	(1,198,685.40)	(1,375,687.88)
Total Other Financing Sources (Uses)	<u>(1,211,032.76)</u>	<u>(1,011,032.76)</u>	<u>(1,142,060.00)</u>
Net Change in Fund Balances	(701,043.49)	(701,043.49)	723,685.65
Fund Balances - Beginning of Year	<u>3,703,374.98</u>	<u>4,300,704.78</u>	<u>4,300,704.78</u>
Fund Balances - End of Year	<u>\$ 3,002,331.49</u>	<u>\$ 3,599,661.29</u>	<u>\$ 5,024,390.43</u>

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	\$	\$ 17,661,995.54
		96,070.80
(1)	84,896.64	5,352,800.91
		216,461.11
	<u>84,896.64</u>	<u>23,327,328.36</u>
(2)	(210,626.61)	13,354,848.23
(2)	(8,557.05)	3,247,896.65
(2)	(5,240.82)	1,745,635.33
(2)	(14,941.69)	1,730,983.19
		1,263,549.02
(2)	(57,122.81)	219,177.87
		107,487.76
		3,597.00
	<u>(296,488.98)</u>	<u>21,673,175.05</u>
	<u>(211,592.34)</u>	<u>1,654,153.31</u>
		149,788.89
		79,017.97
		2,571.02
		2,250.00
		<u>(1,375,687.88)</u>
		<u>(1,142,060.00)</u>
	(211,592.34)	512,093.31
(3)	<u>(1,490,294.53)</u>	<u>2,810,410.25</u>
	<u>\$ (1,701,886.87)</u>	<u>\$ 3,322,503.56</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:**

- (1) The Board budgets sales and use taxes as collected and ad valorem tax on motor vehicles as collected rather than on the modified accrual basis (GAAP).
- (2) The Board budgets salaries and benefits only to the extent expected to be paid, rather than on the modified accrual basis (GAAP).

Net Decrease in Fund Balances - 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 Balances (Exhibit 5) because of the cumulative effect of transactions such as those described above.

\$ 84,896.64

(296,488.98)

\$ (211,592.34)

***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 Budgetary Basis
	Original	Final	
Revenues			
Federal	\$ 2,535,467.00	\$ 2,654,613.35	\$ 2,792,676.75
Local	1,467,498.00	1,467,498.00	1,942,415.09
Other	124,121.00	124,121.00	78,559.21
Total Revenues	<u>4,127,086.00</u>	<u>4,246,232.35</u>	<u>4,813,651.05</u>
Expenditures			
Current:			
Instruction	1,507,333.47	1,598,536.28	1,818,297.45
Instructional Support	330,411.98	347,645.76	369,939.84
Operation and Maintenance	347,185.00	347,185.00	182,607.22
Auxiliary Services:			
Student Transportation	27,321.00	27,321.00	34,960.25
Food Service	1,975,366.60	1,975,366.60	1,979,157.05
General Administration and Central Support	228,308.59	228,308.59	184,990.31
Other	313,634.60	325,007.72	663,771.95
Capital Outlay			21,186.00
Debt Service:			
Interest and Fiscal Charges			4,454.64
Debt Issuance Costs			737.28
Total Expenditures	<u>4,729,561.24</u>	<u>4,849,370.95</u>	<u>5,260,101.99</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(602,475.24)</u>	<u>(603,138.60)</u>	<u>(446,450.94)</u>
Other Financing Sources (Uses)			
Transfers In	755,827.90	555,827.90	722,287.14
Transfers Out	(35,000.00)	(35,000.00)	(79,017.97)
Total Other Financing Sources (Uses)	<u>720,827.90</u>	<u>520,827.90</u>	<u>643,269.17</u>
Net Change in Fund Balances	118,352.66	(82,310.70)	196,818.23
Fund Balances - Beginning of Year	<u>629,188.33</u>	<u>1,390,226.98</u>	<u>1,390,226.98</u>
Fund Balances - End of Year	<u>\$ 747,540.99</u>	<u>\$ 1,307,916.28</u>	<u>\$ 1,587,045.21</u>

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	\$	\$ 2,792,676.75
		1,942,415.09
		78,559.21
		<u>4,813,651.05</u>
		1,818,297.45
		369,939.84
		182,607.22
		34,960.25
(1)	(9,677.18)	1,988,834.23
		184,990.31
		663,771.95
		21,186.00
		4,454.64
		737.28
	<u>(9,677.18)</u>	<u>5,269,779.17</u>
	<u>(9,677.18)</u>	<u>(456,128.12)</u>
		722,287.14
		<u>(79,017.97)</u>
		<u>643,269.17</u>
	(9,677.18)	187,141.05
(2)	<u>(77,269.86)</u>	<u>1,312,957.12</u>
	<u>\$ (86,947.04)</u>	<u>\$ 1,500,098.17</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 salaries and benefits only to the extent expected to be paid, rather than on the modified accrual basis (GAAP).

Net Decrease in Fund Balances - 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.

\$ (9,677.18)

\$ (9,677.18)

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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 Identifying Number	Total Federal Expenditures
<u>U. S. Department of Agriculture</u>			
<u>Passed Through Alabama Department of Education</u>			
Child Nutrition Cluster:			
School Breakfast Program - Cash Assistance	10.553	N/A	\$ 303,994.00
National School Lunch Program:			
Cash Assistance	10.555	N/A	884,235.67
Non-Cash Assistance - Commodities	10.555	N/A	103,216.47
Sub-Total National School Lunch Program			<u>987,452.14</u>
Sub-Total Child Nutrition Cluster (M)			<u>1,291,446.14</u>
Total U. S. Department of Agriculture			<u>1,291,446.14</u>
<u>U. S. Department of Education</u>			
<u>Passed Through Alabama Department of Education</u>			
Title I Grants to Local Educational Agencies	84.010	N/A	668,520.19
Special Education Cluster:			
Special Education - Grants to States	84.027	N/A	669,448.00
Special Education - Preschool Grants	84.173	N/A	10,236.00
Sub-Total Special Education Cluster			<u>679,684.00</u>
Career and Technical Education - Basic Grants to States	84.048	N/A	32,030.00
Rural Education	84.358	N/A	67,629.00
Improving Teacher Quality State Grants	84.367	N/A	129,750.16
Total U. S. Department of Education			<u>1,577,613.35</u>
<u>Social Security Administration</u>			
<u>Passed Through Alabama Department of Education</u>			
Social Security - Disability Insurance	96.001	N/A	<u>2,120.00</u>
Total Expenditures of Federal Awards			<u><u>\$ 2,871,179.49</u></u>

(M) = Major Program

N/A = Not Available or Not Applicable

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

***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 Dale 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 Dale County Board of Education, it is not intended to and does not present the financial position or changes in net position of the Dale 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 Dale County Board of Education has elected not to use the 10-percent de minimis indirect cost rate as allowed in the *Uniform Guidance*.

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Additional Information

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

Board Members		Term Expires
Hon. Braxton Bell	President	2018
Hon. Dale Sutton	Vice-President	2020
Hon. Bill McSween	Member	2016
Hon. Larry Ezell	Member	2018
Hon. Don Williams	Member	2016
<u>Administrative Personnel</u>		
Hon. Ben Baker (*)	Superintendent	2020
Lamar Brooks (**)	Interim Superintendent	2016
Hon. Donald R. Bynum (***)	Superintendent	2016
Jesse James	Chief School Financial Officer	Indefinite

(*) Appointed Superintendent August 1, 2016

(**) Appointed Interim Superintendent from May 1, 2016 through July 31, 2016.

(***) Retired April 29, 2016

***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 Dale County Board of Education,
Superintendent and Chief School Financial Officer
Ozark, 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 and each major fund of the Dale 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 Dale 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 Dale 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 Dale County Board of Education's internal control. Accordingly, we do not express an opinion on the effectiveness of the Dale County Board of Education's internal control.

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

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

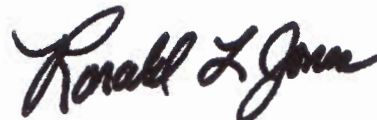
***Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance With
Government Auditing Standards***

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Dale 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 Dale County Board of Education,
Superintendent and Chief School Financial Officer
Ozark, Alabama

Report on Compliance for the Major Federal Program

We have audited the Dale 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 Dale County Board of Education's major federal program for the year ended September 30, 2016. The Dale County Board of Education's major federal program is 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 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 the Dale County Board of Education's major federal program 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 Dale 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 the major federal program. However, our audit does not provide a legal determination of the Dale 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 Dale 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 its major federal program for the year ended September 30, 2016.

Report on Internal Control Over Compliance

Management of the Dale 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 Dale County Board of Education's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 Dale County Board of Education's internal control over compliance.

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

Our consideration of 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
10.553 and 10.555	Child Nutrition 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.	