

Report on the

Lauderdale County Board of Education

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

Sworn to and subscribed before me this
the 15 day of May, 2017.

Alicia Sanders
Notary Public

Respectfully submitted,

April S. Purser

April S. Purser
Examiner of Public Accounts

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Table of Contents

	<i>Page</i>
Summary	A
Contains items pertaining to federal, state and local legal compliance, Board operations, and other matters.	
Schedule of State and Local Compliance and Other Findings	C
Contains detailed information about findings pertaining to state and local legal compliance, and other findings.	
Independent Auditor's Report	E
Reports on whether the financial information constitutes a fair presentation of the financial position and results of financial operations in accordance with generally accepted accounting principles (GAAP).	
Management's Discussion and Analysis	I
Provides information required by the Governmental Accounting Standards Board (GASB) that is prepared by management of the Board introducing the basic financial statements and providing an analytical overview of the Board's financial activities for the year. This information has not been audited, and no opinion is provided about the information.	
<u>Basic Financial Statements</u>	1
Provides the minimum combination of financial statements and notes to the financial statements that is required for the fair presentation of the Board's financial position and results of operations in accordance with GAAP.	
Exhibit #1 Statement of Net Position	2
Exhibit #2 Statement of Activities	3
Exhibit #3 Balance Sheet – Governmental Funds	5
Exhibit #4 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	7
Exhibit #5 Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	8

Table of Contents

	<i>Page</i>
Exhibit #6 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	10
Exhibit #7 Statement of Fiduciary Net Position	11
Exhibit #8 Statement of Changes in Fiduciary Net Position	12
Notes to the Financial Statements	13
<u>Required Supplementary Information</u>	35
Provides information required by the Governmental Accounting Standards Board (GASB) to supplement the basic financial statements. This information has not been audited and no opinion is provided about the information.	
Exhibit #9 Schedule of the Employer's Proportionate Share of the Net Pension Liability	36
Exhibit #10 Schedule of the Employer's Contributions	37
Exhibit #11 Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	38
Exhibit #12 Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Special Revenue Fund	42
<u>Supplementary Information</u>	46
Contains financial information and notes relative to federal financial assistance.	
Exhibit #13 Schedule of Expenditures of Federal Awards	47
Notes to the Schedule of Expenditures of Federal Awards	48

Table of Contents

	<i>Page</i>
<u>Additional Information</u>	49
Provides basic information related to the Board, including reports and items required by generally accepted government auditing standards and/or Title 2 U. S. <i>Code of Federal Regulations</i> Part 200, <i>Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards</i> (<i>Uniform Guidance</i>) for federal compliance audits.	
Exhibit #14 Board Members and Administrative Personnel – a listing of the Board members and administrative personnel.	50
Exhibit #15 Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> – a report on internal controls related to the financial statements and on whether the Board complied with laws and regulations which could have a direct and material effect on the Board’s financial statements.	51
Exhibit #16 Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the <i>Uniform Guidance</i> – a report on internal controls over compliance with requirements of federal statutes, regulations, and the terms and conditions of federal awards applicable to major federal programs and an opinion on whether the Board complied with federal statutes, regulations, and the terms and conditions of its federal awards which could have a direct and material effect on each major program.	54
Exhibit #17 Schedule of Findings and Questioned Costs – a schedule summarizing the results of audit findings relating to the financial statements as required by <i>Government Auditing Standards</i> and findings and questioned costs for federal awards as required by the <i>Uniform Guidance</i> .	57
Exhibit #18 Summary Schedule of Prior Audit Findings – a report, prepared by the management of the Board, which provides the status of all audit findings included in the prior audit report’s Schedule of Findings and Questioned Costs.	59
Exhibit #19 Auditee Response – a response by the Board on the results of the audit.	60



Department of
Examiners of Public Accounts

SUMMARY

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

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

Findings are numbered and reported by the fiscal year in which the finding originally occurred.

An instance of noncompliance with state and local laws and regulations was found during the audit as shown on the Schedule of State and Local Compliance and Other Findings and it is summarized below.

CURRENT FINDING

- ◆ 2016-001 relates to deficit balances in local school activities and an extension of credit to nonpublic activities.

The following officials/administrative personnel were invited to an exit conference to discuss the findings and recommendations appearing in this report: Superintendent: Jennifer Gray; Chief School Financial Officer: Larry Vance; Board Members: Daniel Patterson, Barbara Cornelius, Ronnie Owens, Chad Holden, Jerry Fulmer and Ralph Thompson. The following individuals attended the exit conference, held at the Board's offices: Chief School Financial Officer: Larry Vance; Board Members: Daniel Patterson, Barbara Cornelius, Ronnie Owens and Jerry Fulmer; and representatives of the Department of Examiners of Public Accounts: Randy O'Bannon, Audit Manager and April Purser, Examiner of Public Accounts.

*Schedule of State and Local
Compliance and Other Findings*

Schedule of State and Local Compliance and Other Findings
For the Year Ended September 30, 2016

Ref. No.	Finding/Noncompliance
2016-001	<p><u>Finding:</u> Section 94 of the <i>Constitution of Alabama 1901</i>, provides that the Board cannot lend credit or grant public money or a thing of value to any individual, association, or corporation. Several of the schools have non-public activities with deficit fund balances at year-end. Therefore, it appears the schools are using public funds to finance operations of their non-public activities. Additionally, Board policy requires all activity directors at local schools to work with the bookkeepers and principals to prevent any account from ending in a deficit balance at June 30th each year. In the event an activity ends the year with a deficit, the Principal should authorize a transfer from another activity to eliminate the deficit. Several schools had deficit balances in some of their public activities at the end of the year and did not follow established Board policy regarding transferring funds to eliminate the deficits.</p> <p><u>Recommendation:</u> The Board should ensure compliance with the <i>Constitution of Alabama 1901</i> and Board policy regarding deficit activity balances.</p>

Independent Auditor's Report

Independent Auditor's Report

To: Members of the Lauderdale County Board of Education, Superintendent and Chief School Financial Officer

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lauderdale 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 Lauderdale County Board of Education's basic financial statements as listed in the table of contents as Exhibits 1 through 8.

Management's Responsibility for the Financial Statements

The management of the Lauderdale 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, each major fund, and the aggregate remaining fund information of the Lauderdale County Board of Education, as of September 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), the Schedule of the Employer's Proportionate Share of 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 9 through 12), be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with ***Government Auditing Standards***, we have also issued our report dated May 11, 2017, on our consideration of the Lauderdale 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 Lauderdale 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

May 11, 2017

Management's Discussion and Analysis
(Required Supplementary Information)

**Lauderdale County Board of Education
Management's Discussion and Analysis (MD&A)
September 30, 2016**

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

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

Financial Highlights: Significant Items to Note

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

- ✓ The assets of the Board exceeded its liabilities at the close of the 2016 Fiscal Year by \$1.56 million (net position), which is a 27% decline from its \$2.13 million net position at the close of the 2015 Fiscal Year. This apparent decline in the Board's net financial position is primarily due to changes in the future pension liability that the Board is required to carry on its books by the Governmental Accounting Standards Board. Because of the requirement to show this liability on its financial statements, the unrestricted financial resources of the Board reflect a deficit of \$47.5 million for the Fiscal Year Ended September 30, 2016. In layman's terms, after subtracting amounts that are restricted to purposes defined by law or by debt service obligations, the Board is \$47.5 million short of having ZERO financial resources to use toward other costs of its future operations. Another way of stating this is to say that in order for the Board to pay off all of its future liabilities on September 30, 2016, it would have to borrow funds and/or liquidate capital assets totaling \$47.5 million. It is worth noting that the Board's pension liability is a function of the rules set by the Retirement Systems of Alabama pursuant to state law. The Board has absolutely no control whatsoever over these rules or the liabilities they create.
- ✓ The total cost of the Board's programs for the year was \$77.4 million. After taking away a portion of these costs paid for with charges or fees, intergovernmental aid, interest earnings and other miscellaneous sources, the net cost that required funding from Lauderdale County taxpayers was \$17.7 million. (The State provided \$50 million towards the cost of the programs.)
- ✓ For the General Fund, expenditures during the year exceeded revenues received by \$1.8 million.
- ✓ At the end of the fiscal year, unassigned fund balance for the General Fund was \$6.6 million, or 11% of the total general fund expenditures, before other financing uses.

- ✓ Work was substantially complete on HVAC replacement for Brooks High School and on stadium lighting projects throughout the county, all funded by the State's "Capital Purchase" allocation, also called "PSF" (Public School Fund).
- ✓ The Board reduced its outstanding long-term debt by \$400,000 from \$2,145,000 to \$1,745,000, or 19%.

Using the Financial Statements - An Overview for the User

The Board's basic financial statements are comprised of three components: 1) *government-wide financial statements*, 2) *fund financial statements*, and 3) *notes to the basic financial statements*.

Government-wide financial statements - The focus of these statements is to provide readers with a broad overview of the Board's finances as a whole instead of on an individual fund basis, in a manner similar to a private-sector business, indicating both long-term and short-term information about the Board's overall financial status. It is important to note that all of the activities of the board reported in the *government-wide financial statements* are classified as governmental activities. These activities include the following:

- Instruction includes teacher salaries and benefits, teacher aides, substitute teachers, textbooks, depreciation of instructional buildings, professional development, and classroom instructional materials, supplies, and equipment.
- Instructional Support includes salaries and benefits for school principals, assistant principals, librarians, counselors, school secretaries, school bookkeepers, speech therapists, school nurses, and professional development expenses.
- Operation and maintenance includes utilities, security services, janitorial services, maintenance services, and depreciation of maintenance vehicles and maintenance buildings.
- Auxiliary services includes student transportation expenses, such as bus driver salaries and benefits, mechanics, bus aides, vehicle maintenance and repair expenses, vehicle fuel, depreciation of buses and bus shops, fleet insurance, food service salaries and benefits, donated and purchased food, food preparation and service supplies, kitchen and lunchroom equipment, and depreciation of food service equipment and facilities.
- General administration and central support includes salaries and benefits for the superintendent, assistants, clerical and financial staff, and other personnel that provide system-wide support for the schools. Also included are legal expenses, liability insurance, training for board members and general administrative staff, printing costs, and depreciation of central office equipment and facilities.
- Interest and fiscal charges included interest, but not principal payments, on long-term debt issues and other expenses related to the issuance and continuance of debt issues.
- Other includes the salaries and benefits for adult and continuing education teachers, preschool teachers and aides, extended day personnel, and community education instructors. Also included are the materials, supplies, equipment, related depreciation, and other expenses for operating programs outside of those for educating students in the kindergarten through 12th grade instructional programs.

Government-wide Statements report the capitalization of capital assets and depreciation of all exhaustible capital assets and the outstanding balances of long-term debt and other obligations, which has not been the case in the past. These statements report all assets, deferred outflows of resources, liabilities and deferred inflows of resources perpetuated by these activities using the accrual basis of accounting. The accrual basis takes into account all of the Board's current year revenues and expenses regardless of when received or paid. The following *government-wide financial statements* report on all of the governmental activities of the Board as a whole.

The *Statement of Net Position* (Exhibit # 1) is most closely related to a balance sheet. It presents information on all of the board's assets (what it owns), deferred outflows of resources, liabilities (what it owes) and deferred inflows of resources with the difference between the two reported as net position. The net position reported in this statement represent the accumulation of changes in net position for the current fiscal year and all fiscal years in the past combined. Over time, the increases or decreases in net position reported in this statement may serve as a useful indicator of whether the financial position of the school board is improving or deteriorating.

The *Statement of Activities* (Exhibit # 2) is most closely related to an income statement. It presents information showing how the Board's net position changed during the current fiscal year only. All of the current year's revenues and expenses are accounted for in the *Statement of Activities* regardless of when cash is received or paid. This statement shows gross expenses and offsetting program revenues to arrive at net cost information for each major expense function or activity of the Board. By showing the change in net position for the year, the reader may be able to determine whether the Board's financial position has improved or deteriorated over the course of the current fiscal year. The change in net position may be financial or non-financial in nature. Non-financial factors which may have an impact on the Board's financial condition include: age and condition of facilities, mandated educational programs for which little or no funding is provided, and increases or decreases in funding from state and federal governments, to name a few.

Fund financial statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Board used fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Board is required to present financial statements on a fund basis, but with some modifications. All of the funds of the Board can be classified into two categories: governmental funds and fiduciary funds.

Governmental Funds - Governmental *Fund Financial Statements* are shown on Exhibit #3. These statements account for basically the same governmental activities reported in the *Government-wide Financial Statements*. Before the implementation of GASB Statement 34, fund information had been reported in the aggregate by type of fund. As required under the GASB 34 reporting model, the *Fund Financial Statements* presented herein display information on each of the Board's most important governmental funds or *major funds*. This is required in order to better assess the Board's accountability for significant governmental programs or certain dedicated revenue. The Board's *major funds* are the General Fund, the Special Revenue Fund, and the Capital Projects Fund.

The *Fund Financial Statements* are still measured on the modified-accrual basis of accounting, where revenues and expenditures are recorded when they become measurable and available. As a result, the *Fund Financial Statements* focus more on the near term use and availability of spendable resources. The information provided in these statements is useful in determining the Board's immediate financial needs. This is in contrast to the accrual-based *Government-wide Financial Statements* which focus more on overall long-term availability of spendable resources. The relationship between governmental activities reported in the *Government-wide Financial Statements* and the governmental funds reported in the *Fund Financial Statements* are reconciled in Exhibit #4 and Exhibit #6 of these financial statements. These reconciliations are useful to readers in understanding the long-term impact of the Board's short-term financing decisions.

Fiduciary Funds - The Board is the trustee, or fiduciary, for some of its booster and parent organization activity funds which are under the control and administration of its schools. Fiduciary funds also include the balances of agency funds, such as accounts payable clearing and payroll clearing funds. All of the Board's fiduciary activities are reported in a separate *Statement of Fiduciary Net Position* shown on Exhibit #7. These funds are not available to the Board to finance its operations, and therefore not included in the *government-wide financial statements*. The Board is responsible for ensuring that the assets reported by these funds are used for their intended purposes.

Notes to the Basic Financial Statements - The *Notes to the Basic Financial Statements* provide additional information that is essential for the statements to fairly represent the Board's financial position and its operations. The notes contain important information that is not part of the basic financial statements. However, the notes are an integral part of the statements, not an appendage to them. The *Notes to the Basic Financial Statements* begin immediately following the financial statements.

After the presentation of the basic financial statements, the reporting model requires additional required supplemental information to be presented following the notes to the basic financial statements. The required supplemental information provides a comparison of the original adopted budgets to the final amended budgets of the Board's General Fund and Special Revenue Fund which are then further compared to the actual operating results for the fiscal year. The comparison of this data allows users to assess management's ability to project and plan for its operations throughout the year.

Analysis of the School Board's Overall Financial Position

As indicated earlier, net position may serve over time as a useful indicator of a government's financial position. Refer to *Table 1* when reading the following analysis of net position. The Board's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$2.13 million at September 30, 2015, and by \$1.56 million at September 30, 2016.

- ✓ Of this figure, \$36.6 million at September 30, 2015 and \$37.2 million at September 30, 2016, reflects the Board's net investment in capital assets. Since these capital assets represent investment in land, buildings, school buses, furniture, and equipment, this portion of net position is not available for future spending or funding of operations.

- ✓ Restricted net position is reported separately to show the external legal constraints from debt covenants and enabling legislation that limit the Board's ability to use its position for other day-to-day operations. As of September 30, 2016, \$9 million is reserved for capital projects, \$284,093.58 is reserved for debt service, and \$2.5 million is reserved for the operations of the Child Nutrition Program.
- ✓ The \$47.5 million deficit in unrestricted net position is primarily the result of the aforementioned requirement to disclose future pension liabilities. Under this new financial reporting paradigm, after subtracting amounts that are restricted to purposes defined by law or by debt service obligations, the Board is \$47.5 million short of having ZERO financial resources to use toward other costs of its future operations. Another way of stating this is to say that in order for the Board to pay off all of its future liabilities on September 30, 2016, it would have to borrow funds and/or liquidate capital assets totaling \$47.5 million.

Table 1: Summary of Net Position
As of September 30, 2015 and 2016

	2015	2016	
	Governmental Activities	Governmental Activities	Percent of Total
Current and Other Assets	32,643,390.38	35,128,642.53	47.43%
Net Capital Assets	38,813,877.14	38,942,918.26	52.57%
Total Assets	71,457,267.52	74,071,560.79	100.00%
Employer Pension Contribution	4,605,806.36	4,659,518.24	50.20%
Proportionate Share of Collective			
Deferred Outflows Related to Net Pension Liability	223,000.00	4,622,000.00	49.80%
Total Deferred Outflows of Resources	4,828,806.36	9,281,518.24	100.00%
Current and Other Liabilities	4,815,049.97	6,265,469.28	8.55%
Long-term Liability	58,586,065.58	66,990,000.00	91.45%
Total Liabilities	63,401,115.55	73,255,469.28	100.00%
Unavailable Property Taxes	5,735,050.12	7,393,400.70	86.64%
Motor Vehicle Taxes Received in Advance	787,332.92	787,332.92	9.23%
Deferred Inflows Related to Net Pension Liability	4,231,000.00	353,000.00	4.14%
Total Deferred Inflows of Resources	10,753,383.04	8,533,733.62	100.00%
Net Position:			
Net Invested in Capital Assets	36,656,811.56	37,197,918.26	
Restricted for:			
Capital Projects	8,474,388.74	9,045,939.46	
Debt Service	276,160.46	284,093.58	
Child Nutrition Program	2,281,974.62	2,563,872.74	
Unrestricted	(45,557,760.09)	(47,527,947.91)	
Total Net Position	2,131,575.29	1,563,876.13	

The results of this fiscal year's operations as a whole are reported in detail in the *Summary of Changes in Net Position From Operation Results* shown in Table 2. This table condenses the results of operations for the fiscal year into a format where the reader can easily see the total revenues of the Board for the year. It also shows the impact the operations had on changes in net position as of September 30, 2016.

Table 2: Summary of Changes in Net Position From Operation Results
Fiscal Year Ended September 30, 2015 and 2016

	2015 Governmental Activities	2016 Governmental Activities	2016 Percent of Total
Revenues			
Program Revenues:			
Charges for Services	6,918,568.71	7,135,496.99	9.28%
Operating Grants and Contributions	49,695,595.48	50,088,963.46	65.16%
Capital Grants and Contributions	2,572,957.66	2,522,025.00	3.28%
General Revenues:			
Property Taxes for General Purposes	8,457,374.56	8,936,291.54	11.63%
Sales and Use Taxes	4,370,869.10	4,604,022.98	5.99%
Miscellaneous Taxes	136,201.80	98,285.20	0.13%
Grants and Contributions not Restricted for Specific Programs	3,364.50	6,047.53	0.01%
Investment Earnings	519,518.21	86,614.87	0.11%
Miscellaneous	3,015,993.69	3,389,638.40	4.41%
Total Revenues	75,690,443.71	76,867,385.97	100.00%
Expenses			
Instructional Services	46,005,878.41	47,211,612.14	60.97%
Instructional Support Services	9,759,375.69	10,033,732.95	12.96%
Operation and Maintenance	6,342,264.50	6,220,089.87	8.03%
Auxiliary Services:			
Student Transportation Services	3,976,762.99	4,185,886.46	5.41%
Food Services	5,168,386.29	5,152,756.49	6.65%
General Administrative Services	2,813,345.19	2,590,299.25	3.35%
Interest and Fiscal Charges	69,664.70	61,206.02	0.08%
Other Expenses	1,691,651.35	1,979,501.95	2.56%
Total Expenses	75,827,329.12	77,435,085.13	100.00%
Increase in Net Position	(136,885.41)	(567,699.16)	
Net Position - Beginning	2,268,460.70	2,131,575.29	
Net Position - Ending	2,131,575.29	1,563,876.13	

Governmental Activities - As shown in *Table 2*, the Board's net position decreased by \$567,699.16 during 2016. The total cost of services rendered by the Board was \$77.43 million and its revenues were \$76.87 million for the year ended September 30, 2016. It is important to note that not all of these costs were borne by the taxpayers of Lauderdale County:

- ✓ Some of the cost, \$7.13 million, was paid by users who benefited from services provided during the year, such as school lunches, summer school, drivers' education instruction, and transfer tuition.

- ✓ State and federal governments subsidized certain programs with grants and contributions totaling \$50 million.
- ✓ Other general revenue sources, such as interest earnings, sale of surplus property, etc., provided \$3.48 million in revenues.

\$13.64 million of the Board's total costs of \$77.43 million was financed by district and state taxpayers, as follows: \$8.94 million in property taxes, \$4.6 million in sales and use taxes, and \$98,285.20 in other taxes (business privilege tax, mineral lease documentary tax, helping-school vehicle tags, and manufactured home registration fees).

Table 3 is a condensed statement taken from Exhibit #2, *Statement of Activities*, showing the total cost for providing identified services for major Board activities. Total cost of services is compared to the net cost of providing these services. The net cost of services is the remaining cost of services after subtracting grants and charges for services that the Board used to offset the program's total cost. In other words, the net cost shows the financial burden that was borne locally by the taxpayers in Lauderdale County for each of these activities. This information allows citizens to consider the cost of the each program in comparison to the benefits they believe are provided.

Table 3: Net Cost of Governmental Activities

Fiscal Year Ended September 30, 2016

	Total Cost of Services	Net Cost of Services
Instructional Services	47,211,612.14	6,896,443.64
Instructional Support Services	10,033,732.95	1,846,021.33
Operation and Maintenance Services	6,220,089.87	5,471,601.73
Auxiliary Services:		
Student Transportation Services	4,185,886.46	626,276.56
Food Services	5,152,756.49	908,391.78
General Administrative Services	2,590,299.25	1,474,584.06
Interest and Fiscal Charges	61,206.02	61,206.02
Other Expenses	1,979,501.95	404,074.56
Total	77,435,085.13	17,688,599.68

Performance of School Board Funds

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

Governmental Funds - The focus of the Board's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Board's financial requirements (Note that the relationship between the *Fund Financial Statements* and the *Government-wide Financial Statements* are reconciled in Exhibit #4 and Exhibit #6. The financial performance of the Board as a whole is reflected in its governmental funds as well. At the end of the fiscal year, the Board's governmental funds reported combined ending fund balances of \$20.68 million.

General Fund - The general fund is the primary operating fund of the Board. The \$1,827,035.77 decrease in general fund balance as a result of operations this year was primarily due to declines in state funding due to the decrease in funded teacher units arising from declines in enrollment. Increases in medical and retirement benefit costs for local teacher units and support personnel, along with the cost of step raises, also contributed to the decline in general fund balance for the year.

Special Revenue Fund - The Special Revenue Fund is comprised of several different funding sources, which includes Title I, Special Education, and Child Nutrition. The ending fund balance of \$4,754,973.01 is an increase of \$624,034.19 for the fiscal year 2016.

Capital Projects Fund – The Capital Projects Fund is comprised of several different funding sources, which includes Fleet Renewal, Public School Funds, and PSCA Funds. The ending fund balance of \$9,045,939.46 is an increase of \$571,550.72 for the fiscal year 2016.

Other Governmental Funds – This fund is a combined total of all other governmental funds not considered major funds.

Budgetary Highlights of Major Funds

On or before October 1 of each year, the Board is mandated by state law to prepare and submit to the State Superintendent of Education the annual budget adopted by the Board. The State Department of Education normally requires the budget to be submitted by September 15. The original 2016 Fiscal Year budget was adopted by the Board on September 14, 2015. Over the course of the year, the Board revised the annual budget to include various federal grants and state allocations that were not available at the time of the original budget approval.

Capital Assets and Debt Administration

Capital Assets - The Board's investment in capital assets for its governmental activities for the year ended September 30, 2016, amounted to \$38.94 million, net of accumulated depreciation. The Board's investment in capital assets includes, land at estimated historical cost, buildings and improvements at estimated historical cost, equipment and furniture at estimated historical cost, and construction in progress, and is shown in *Table 4*.

Depreciation on capital assets is provided on the straight-line basis over each asset's 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 listed in the notes to the financial statements.

Table 4: Capital Assets
Fiscal Year Ended September 30, 2016

	Balance 10/1/2015	Additions	Retirements	Balances 9/30/2016
<u>Governmental Activities:</u>				
Capital Assets, Not Being Depreciated				
Land	1,396,049.40			1,396,049.40
Construction in Progress		1,700,321.47		1,700,321.47
Total Capital Assets, Not Being Depreciated	1,396,049.40	1,700,321.47		3,096,370.87
Capital Assets Being Depreciated:				
Land Improvements - Exhaustible	1,305,464.59	143,416.00	(50,000.00)	1,398,880.59
Buildings	47,439,362.09			47,439,362.09
Building Improvements	10,549,203.58	131,934.34	(87,189.50)	10,593,948.42
Equipment and Vehicles	13,416,495.55	464,042.03	(62,367.55)	13,818,170.03
Total Capital Assets Being Depreciated	72,710,525.81	739,392.37	(199,557.05)	73,250,361.13
Less Accumulated Depreciation for:				
Land Improvements	(707,510.45)	(58,858.63)	50,000.00	(716,369.08)
Buildings	(20,148,711.43)	(906,641.28)		(21,055,352.71)
Building Improvements	(5,049,202.20)	(411,984.07)	82,830.12	(5,378,356.15)
Equipment and Vehicles	(9,387,273.99)	(928,829.36)	62,367.55	(10,253,735.80)
Total Accumulated Depreciation	(35,292,698.07)	(2,306,313.34)	195,197.67	(37,403,813.74)
Total Capital Assets Being Depreciated, Net	37,417,827.74	(1,566,920.97)	(4,359.38)	35,846,547.39
Total Governmental Activities Capital Assets, Net	\$ 38,813,877.14	\$ 133,400.50	\$ (4,359.38)	\$ 38,942,918.26

Depreciation expense was charged to governmental functions/programs as follows:

	Current Year Depreciation
<u>Governmental Activities:</u>	
Instruction	\$ 1,731,452.16
Instructional Support	48,035.51
Operation and Maintenance	62,925.85
Auxiliary Services:	
Student Transportation	339,184.93
Food Service	110,606.44
General Administration and Central Support	14,108.45
Total Depreciation Expense - Governmental Activities	<u>\$ 2,306,313.34</u>

Long-Term Debt - At year-end, the Board had \$1.745 million in general obligation bonds payable. This is a reduction of 19% in debt from last year, as shown in *Table 5* below.

Table 5: Long-Term Debt
Fiscal 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:					
Capital Outlay School Warrants, Series 2010:	2,145,000.00		(400,000.00)	1,745,000.00	415,000.00
Total Bonds and Notes Payable	2,145,000.00		(400,000.00)	1,745,000.00	415,000.00
Other Liabilities:					
Net Pension Liability	56,429,000.00	8,816,000.00		65,245,000.00	
Other Long-Term Liabilities	12,065.58		(12,065.58)		
Total Other Liabilities	56,441,065.58	8,816,000.00	(12,065.58)	65,245,000.00	
Governmental Activities Long-Term Liabilities	58,586,065.58	8,816,000.00	(412,065.58)	66,990,000.00	415,000.00

Economic Factors and Next Year's Budget

The following are currently known Lauderdale County economic factors considered going into the 2015-2016 fiscal year.

- According to the U.S. Bureau of Labor Statistics, the unemployment rate in the Florence/Muscle Shoals MSA for February 2017 was 6.5%, which is a decrease from the December 2015 rate of 7.1%. Lauderdale County's February 2017 unemployment rate was slightly higher than Alabama's average unemployment rate of 6.2%, and higher than the national average unemployment rate of 4.5%.
- The latest estimate available from the U.S. Census Bureau places Lauderdale County's population at 92,709 as of the 2010 Census. This is an increase of 3,110 over the last official count of 87,966 from the 2000 census. The Lauderdale County Schools' latest student enrollment figure for the 2016-2017 school year is 8,403, down 45 students from the 2015-2016 enrollment of 8,448.

CONTACTING THE SCHOOL BOARD'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Board's finances and to show the Board's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Larry Vance, Chief School Financial Officer, at the Lauderdale County Board of Education, P.O. Box 278, Florence, Alabama 35631, or call (256) 760-1322 during regular office hours, Monday through Friday, from 8:00 a.m. to 4:00 p.m., central time.

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Basic Financial Statements

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Statement of Net Position

September 30, 2016

	Governmental Activities
<u>Assets</u>	
Cash and Cash Equivalents	\$ 25,320,078.93
Investments	119,207.71
Cash With Fiscal Agent	284,093.58
Due From Other Governments	1,708,193.28
Ad Valorem Taxes Receivable	7,393,400.70
Inventories	303,668.33
Capital Assets (Note 4):	
Nondepreciable	3,096,370.87
Depreciable, Net	35,846,547.39
Total Assets	<u>74,071,560.79</u>
<u>Deferred Outflows of Resources</u>	
Employer Pension Contribution	4,659,518.24
Proportionate Share of Collective Deferred Outflows Related to Net Pension Liability	4,622,000.00
Total Deferred Outflows of Resources	<u>9,281,518.24</u>
<u>Liabilities</u>	
Accounts Payable	940.00
Unearned Revenue	286.51
Salaries and Benefits Payable	6,264,242.77
Long-Term Liabilities:	
Portion Due and Payable Within One Year:	
Warrants Payable	415,000.00
Portion Due and Payable After One Year:	
Warrants Payable	1,330,000.00
Net Pension Liability	65,245,000.00
Total Liabilities	<u>73,255,469.28</u>
<u>Deferred Inflows of Resources</u>	
Unavailable Revenue - Property Taxes	7,393,400.70
Revenue Received in Advance - Motor Vehicle Taxes	787,332.92
Proportionate Share of Collective Deferred Inflows Related to Net Pension Liability	353,000.00
Total Deferred Inflows of Resources	<u>8,533,733.62</u>
<u>Net Position</u>	
Net Investment in Capital Assets	37,197,918.26
Restricted for:	
Capital Projects	9,045,939.46
Debt Service	284,093.58
Child Nutrition Program	2,563,872.74
Unrestricted	<u>(47,527,947.91)</u>
Total Net Position	<u>\$ 1,563,876.13</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	\$ 47,211,612.14	\$ 1,373,304.15	\$ 36,828,343.16
Instructional Support	10,033,732.95	419,755.61	7,767,956.01
Operation and Maintenance	6,220,089.87	595,550.62	101,846.71
Auxiliary Services:			
Student Transportation	4,185,886.46	132,019.60	3,070,177.30
Food Services	5,152,756.49	3,921,577.11	322,787.60
General Administration and Central Support	2,590,299.25		1,115,715.19
Other	1,979,501.95	693,289.90	882,137.49
Interest and Fiscal Charges	61,206.02		
Total Governmental Activities	\$ 77,435,085.13	\$ 7,135,496.99	\$ 50,088,963.46

General Revenues:

Taxes:

Property Taxes for General Purposes

Sales and Use Tax - General Purposes

Miscellaneous Taxes

Grants and Contributions Not Restricted
for Specific Purposes

Investment Earnings

TVA in Lieu of Taxes

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.

		Net (Expenses) Revenues and Changes in Net Position	
Capital Grants and Contributions		Total Governmental Activities	
\$	2,113,521.19	\$	(6,896,443.64)
			(1,846,021.33)
	51,090.81		(5,471,601.73)
	357,413.00		(626,276.56)
			(908,391.78)
			(1,474,584.06)
			(404,074.56)
			(61,206.02)
\$	2,522,025.00		(17,688,599.68)

8,936,291.54
4,604,022.98
98,285.20
6,047.53
86,614.87
1,001,078.40
2,388,560.00
<u>17,120,900.52</u>
(567,699.16)
<u>2,131,575.29</u>
<u>\$ 1,563,876.13</u>

Balance Sheet
Governmental Funds
September 30, 2016

	General Fund	Special Revenue Fund
<u>Assets</u>		
Cash	\$ 11,933,770.07	\$ 4,340,369.40
Investments		119,207.71
Cash With Fiscal Agent		
Due From Other Governments	1,004,131.74	704,061.54
Ad Valorem Taxes Receivable	7,393,400.70	
Interfund Receivables	424,865.58	
Inventories	58,250.74	245,417.59
Total Assets	20,814,418.83	5,409,056.24
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>		
<u>Liabilities</u>		
Accounts Payable		940.00
Interfund Payables		424,865.58
Unearned Revenue		286.51
Salaries and Benefits Payable	6,036,251.63	227,991.14
Total Liabilities	6,036,251.63	654,083.23
<u>Deferred Inflows of Resources</u>		
Unavailable Revenue - Property Taxes	7,393,400.70	
Revenue Received in Advance - Motor Vehicle Taxes	787,332.92	
Total Deferred Inflows of Resources	8,180,733.62	
<u>Fund Balances</u>		
Nonspendable:		
Inventories	58,250.74	245,417.59
Restricted for:		
Debt Service		
Capital Projects		
Child Nutrition Program		2,318,455.15
Assigned to:		
Local Schools		2,191,100.27
Unassigned	6,539,182.84	
Total Fund Balances	6,597,433.58	4,754,973.01
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 20,814,418.83	\$ 5,409,056.24

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

Capital Projects Fund	Other Governmental Fund	Total Governmental Funds
\$ 9,045,939.46	\$	\$ 25,320,078.93
		119,207.71
	284,093.58	284,093.58
		1,708,193.28
		7,393,400.70
		424,865.58
		303,668.33
9,045,939.46	284,093.58	35,553,508.11
		940.00
		424,865.58
		286.51
		6,264,242.77
		6,690,334.86
		7,393,400.70
		787,332.92
		8,180,733.62
		303,668.33
	284,093.58	284,093.58
9,045,939.46		9,045,939.46
		2,318,455.15
		2,191,100.27
		6,539,182.84
9,045,939.46	284,093.58	20,682,439.63
\$ 9,045,939.46	\$ 284,093.58	\$ 35,553,508.11

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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) \$ 20,682,439.63

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

Capital assets used in governmental activities are not financial resources and,
therefore, are not reported as assets in governmental funds. These assets
were added as net capital assets in the following amount (Note 4). 38,942,918.26

Deferred outflows and inflows of resources related to pensions are applicable to
future periods and, therefore, are not reported in the governmental funds. 8,928,518.24

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

	Amounts Due and Payable Within One Year	Amounts Due and Payable After One Year	
Warrants Payable	\$ 415,000.00	\$ 1,330,000.00	
Net Pension Liability		65,245,000.00	
Total Long-Term Liabilities	\$ 415,000.00	\$ 66,575,000.00	(66,990,000.00)

Total Net Position - Governmental Activities (Exhibit 1) \$ 1,563,876.13

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	\$ 45,689,919.73	\$
Federal	233,793.98	6,326,827.17
Local	14,235,761.43	6,232,668.06
Other	508,939.53	206,035.70
Total Revenues	60,668,414.67	12,765,530.93
<u>Expenditures</u>		
Current:		
Instruction	40,252,806.82	4,661,265.67
Instructional Support	8,379,159.71	1,535,803.13
Operation and Maintenance	5,314,631.52	776,246.30
Auxiliary Services:		
Student Transportation	3,789,936.03	37,100.10
Food Service		5,386,921.89
General Administration and Central Support	2,406,381.36	154,928.13
Other	954,934.69	1,034,666.45
Capital Outlay	42,000.00	285,263.37
Debt Service:		
Principal Retirement		12,065.58
Interest and Fiscal Charges		1,868.52
Debt Issuance Costs/Other Debt Service		
Total Expenditures	61,139,850.13	13,886,129.14
Excess (Deficiency) of Revenues Over Expenditures	(471,435.46)	(1,120,598.21)
<u>Other Financing Sources (Uses)</u>		
Indirect Cost	362,984.96	
Transfers In	209,814.63	1,954,447.03
Sale of Capital Assets	26,047.13	
Transfers Out	(1,954,447.03)	(209,814.63)
Total Other Financing Sources (Uses)	(1,355,600.31)	1,744,632.40
Net Changes in Fund Balances	(1,827,035.77)	624,034.19
Fund Balances - Beginning of Year	8,424,469.35	4,130,938.82
Fund Balances - End of Year	\$ 6,597,433.58	\$ 4,754,973.01

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

Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ 2,516,050.00	\$	\$ 48,205,969.73
		6,560,621.15
428,432.00	467,270.62	21,364,132.11
		714,975.23
2,944,482.00	467,270.62	76,845,698.22
210,054.26		45,124,126.75
		9,914,962.84
50,426.55		6,141,304.37
		3,827,036.13
		5,386,921.89
		2,561,309.49
		1,989,601.14
2,112,450.47		2,439,713.84
	400,000.00	412,065.58
	58,012.50	59,881.02
	1,325.00	1,325.00
2,372,931.28	459,337.50	77,858,248.05
571,550.72	7,933.12	(1,012,549.83)
		362,984.96
		2,164,261.66
		26,047.13
		(2,164,261.66)
		389,032.09
571,550.72	7,933.12	(623,517.74)
8,474,388.74	276,160.46	21,305,957.37
\$ 9,045,939.46	\$ 284,093.58	\$ 20,682,439.63

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

Net Changes in Fund Balances - Total Governmental Funds (Exhibit 5) \$ (623,517.74)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay (\$2,439,713.84) exceeds depreciation expense (\$2,306,313.34) in the current period. 133,400.50

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. 412,065.58

In the Statement of Activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. The change in net position differs from the change in fund balances by the book value of the capital assets sold. (4,359.38)

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.

Pension Expense, Current Year (Increase)/Decrease (485,288.12)

Change in Net Position of Governmental Activities (Exhibit 2) \$ (567,699.16)

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

Statement of Fiduciary Net Position
September 30, 2016

	Private-Purpose Trust Funds	Agency Funds
<u>Assets</u>		
Cash	\$ 38,798.49	\$ 168,881.34
Investments	20,000.00	
Accounts Receivable		166,819.77
Total Assets	<u>58,798.49</u>	<u>335,701.11</u>
<u>Liabilities</u>		
Salaries and Benefits Payable		68,158.58
Due to External Organizations		267,542.53
Total Liabilities		<u>\$ 335,701.11</u>
<u>Net Position</u>		
Held in Trust for Other Purposes	<u>\$ 58,798.49</u>	

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

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

	Private-Purpose Trust Funds
<u>Additions</u>	
Earnings on Investments	\$ 70.00
Other Sources	28,721.50
Total Additions	<u>28,791.50</u>
<u>Deductions</u>	
Instruction	85,027.52
Other	10,458.06
Total Deductions	<u>95,485.58</u>
Changes in Net Position	(66,694.08)
Net Position - Beginning of Year	<u>125,492.57</u>
Net Position - End of Year	<u>\$ 58,798.49</u>

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

Notes to the Financial Statements

For the Year Ended September 30, 2016

Note 1 – Summary of Significant Accounting Policies

The financial statements of the Lauderdale 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 cities having a 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, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

Notes to the Financial Statements

For the Year Ended September 30, 2016

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

Fund Financial Statements

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

The Board reports the following major governmental funds:

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

Notes to the Financial Statements

For the Year Ended September 30, 2016

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

Governmental Fund Type

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

The Board reports the following fiduciary fund types:

Fiduciary Fund Types

- ◆ **Private-Purpose Trust Funds** – These funds are used to report all trust agreements under which principal and income benefit individuals, private organizations, or other governments.
- ◆ **Agency Funds** – These funds are used to report assets held by the Board in a purely custodial capacity. The Board collects these assets and transfers them to the proper individual, private organizations, or other government.

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

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

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

Notes to the Financial Statements

For the Year Ended September 30, 2016

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

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 pledge of the three-mill school tax and certificates of deposit.

Investments, which consist of certificates of deposit, are reported at fair value.

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.

Notes to the Financial Statements

For the Year Ended September 30, 2016

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

Receivables from external parties are amounts that are being held in a trustee or agency capacity by the fiduciary funds.

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 agents on the balance sheet are considered as restricted assets because they are maintained separately and their use is limited. The Public School Capital Projects funding sources are used to report proceeds that are restricted for use in various construction projects and the purchase of school buses. The Debt Service Fund is used to report resources set aside to pay the principal and interest on debt as it become due.

5. Capital Assets

Capital assets, which include property and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Additions, improvements and other capital outlays that significantly extend the useful life of 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 – 20 years
Vehicles	\$ 5,000	8 – 15 years
Equipment Under Capital Lease	\$ 5,000	5 – 20 years

6. Deferred Outflows of Resources

Deferred outflows of resources are reported in 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 applicable governmental activities Statement of Net Position.

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

8. Deferred Inflows of Resources

Deferred inflows of resources are reported in the government-wide and governmental 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, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets plus or minus any deferred outflows of resources and deferred inflows of resources that are attributable to those assets or related debt. Any significant unspent related debt proceeds and any deferred outflows or inflows at year-end related to capital assets are not included in this calculation.
- ◆ **Restricted** – Constraints imposed on net position by external creditors, grantors, contributors, laws or regulations of other governments, or law through constitutional provision or enabling legislation.
- ◆ **Unrestricted** – is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted portion of net position. Assignments and commitments of unrestricted net position should not be reported on the face of the Statement of Net Position.

Notes to the Financial Statements

For the Year Ended September 30, 2016

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

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

Notes to the Financial Statements

For the Year Ended September 30, 2016

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 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. The Special Revenue Fund budgets on a basis of accounting consistent with GAAP with the exception of salaries and benefits, which are budgeted only to the extent expected to be paid rather than on the modified accrual basis of accounting. All other governmental funds adopt budgets on the modified accrual basis of accounting, with the exception of the Capital Projects Fund which adopts project-length budgets. All appropriations lapse at fiscal year-end.

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

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.

Notes to the Financial Statements

For the Year Ended September 30, 2016

B. Investment of Cash with Fiscal Agent

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.

The Board does not have a formal investment policy.

As of September 30, 2016, the Board had the following investments in Cash with Fiscal Agent accounts:

Investments	Maturities	Fair Value
Dreyfus Treasury Prime Cash Management Fund	Unknown	\$284,093.58

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

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. GASB Statement 40 requires that governments provide information about the credit risk associated with their investments by disclosing the credit quality ratings of investment in debt securities as described by nationally recognized statistical rating organizations such as Standard & Poor's, Moody's Investors Service, and Fitch Ratings, rating agencies, as of the date of the financial statements. The Board does not have a formal investment policy requiring investments to be rated in the highest category rating. As of September 30, 2016, the Board's investments in the Money Market Funds were rated AAAm by Standard and Poor's and Aaa-mf by Moody's.

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

Notes to the Financial Statements

For the Year Ended September 30, 2016

Note 4 – 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
<u>Governmental Activities:</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,396,049.40	\$	\$	\$ 1,396,049.40
Construction in Progress		1,700,321.47		1,700,321.47
Total Capital Assets, Not Being Depreciated	1,396,049.40	1,700,321.47		3,096,370.87
Capital Assets Being Depreciated:				
Land Improvements – Exhaustible	1,305,464.59	143,416.00	(50,000.00)	1,398,880.59
Buildings	47,439,362.09			47,439,362.09
Buildings Improvements	10,549,203.58	131,934.34	(87,189.50)	10,593,948.42
Equipment and Vehicles	13,416,495.55	464,042.03	(62,367.55)	13,818,170.03
Total Capital Assets Being Depreciated	72,710,525.81	739,392.37	(199,557.05)	73,250,361.13
Less Accumulated Depreciation for:				
Land Improvements	(707,510.45)	(58,858.63)	50,000.00	(716,369.08)
Buildings	(20,148,711.43)	(906,641.28)		(21,055,352.71)
Buildings Improvements	(5,049,202.20)	(411,984.07)	82,830.12	(5,378,356.15)
Equipment and Vehicles	(9,387,273.99)	(928,829.36)	62,367.55	(10,253,735.80)
Total Accumulated Depreciation	(35,292,698.07)	(2,306,313.34)	195,197.67	(37,403,813.74)
Total Capital Assets Being Depreciated, Net	37,417,827.74	(1,566,920.97)	(4,359.38)	35,846,547.39
Total Governmental Activities Capital Assets, Net	\$ 38,813,877.14	\$ 133,400.50	\$ (4,359.38)	\$ 38,942,918.26

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

	Current Year Depreciation Expense
<u>Governmental Activities:</u>	
Instruction	\$1,731,452.16
Instructional Support	48,035.51
Operation and Maintenance	62,925.85
Auxiliary Services:	
Student Transportation	339,184.93
Food Service	110,606.44
General Administration and Central Support	14,108.45
Total Depreciation Expense – Governmental Activities	<u>\$2,306,313.34</u>

Notes to the Financial Statements

For the Year Ended September 30, 2016

Note 5 – 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 \$4,659,518.24 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 \$65,245,000.00 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 .623418%, which was an increase of .002264% 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 \$5,139,000.00. At September 30, 2016, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$	\$353,000.00
Net difference between projected and actual earnings on pension plan investments	4,272,000.00	
Changes in proportion and differences between employer contributions and proportionate share of contributions	350,000.00	
Employer contributions subsequent to the measurement date	4,659,518.24	
Total	<u>\$9,281,518.24</u>	<u>\$353,000.00</u>

\$4,659,518.24 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	\$ 813,000.00
2018	\$ 813,000.00
2019	\$ 813,000.00
2020	\$1,838,000.00
2021	\$ (8,000.00)
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, 2011. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012.

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

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

	Target Allocation	Long-Term Expected Rate of Return (*)
Fixed Income	25.00%	5.00%
U. S. Large Stocks	34.00%	9.00%
U. S. Mid Stocks	8.00%	12.00%
U. S. Small Stocks	3.00%	15.00%
International Developed Market Stocks	15.00%	11.00%
International Emerging Market Stocks	3.00%	16.00%
Real Estate	10.00%	7.50%
Cash	2.00%	1.50%
Total	<u>100.00%</u>	
(*) Includes assumed rate of inflation of 2.50%.		

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 pan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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	\$86,314,000	\$65,245,000	\$47,375,000

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 6 – 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
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
Individual Coverage – Medicare Eligible	\$ 10.00
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 smoke.

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%	\$2,499,997.44	100%
2015	\$780.00	\$180.76	23.17%	\$2,146,369.11	100%
2014	\$714.00	\$220.09	30.83%	\$2,644,914.73	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.

Notes to the Financial Statements

For the Year Ended September 30, 2016

Note 7 – Long-Term Debt

The Board issued \$3,780,000.00 in Capital Outlay School Refunding Warrants, Series 2010, dated May 1, 2010, to currently refund and redeem the Board's outstanding Capital Outlay Warrants, Series 1998. Interest rates for the various scheduled maturities range from 2.09% to 3.25%. Payments on the Series 2010 warrants are made by the debt service fund with local taxes.

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	Additions	Reductions	Debt Outstanding 09/30/2016	Amount Due within One Year
Governmental Activities:					
Capital Outlay School Warrants, Series 2010	\$ 2,145,000.00	\$	\$(400,000.00)	\$ 1,745,000.00	\$415,000.00
Total Warrants Payable	2,145,000.00		(400,000.00)	1,745,000.00	415,000.00
Other Liabilities:					
Notes Payable	12,065.58		(12,065.58)		
Net Pension Liability	56,429,000.00	8,816,000.00		65,245,000.00	
Total Other Liabilities	56,441,065.58	8,816,000.00	(12,065.58)	65,245,000.00	
Governmental Activities Long-Term Liabilities	\$58,586,065.58	\$8,816,000.00	\$(412,065.58)	\$66,990,000.00	\$415,000.00

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

Fiscal Year Ending	2010 Warrants Payable		Total Principal and Interest Requirements to Maturity
	Principal	Interest	
September 30, 2017	\$ 415,000.00	\$ 47,306.25	\$ 462,306.25
2018	430,000.00	35,150.00	465,150.00
2019	440,000.00	21,825.00	461,825.00
2020	460,000.00	7,475.00	467,475.00
Total	<u>\$1,745,000.00</u>	<u>\$111,756.25</u>	<u>\$1,856,756.25</u>

Notes to the Financial Statements

For the Year Ended September 30, 2016

Pledged Revenues

The Board issued Series 2010 Tax Anticipation Warrants which are pledged to be repaid from the proceeds of a special sales tax levied by the Lauderdale County Commission pursuant to the provisions of Act Number 548, Acts of Alabama 1975. The warrant proceeds were used to refund the Series 1998 warrants. Future revenues in the amount of \$1,856,756.25 are pledged to repay the principal and interest on the bonds at September 30, 2016. Proceeds of the special sales tax in the amount of \$4,604,022.98 were received by the Board during the fiscal year ended September 30, 2016, of which \$458,012.50 was used to pay principal and interest on the warrants. The Series 2010 Tax Anticipation Warrants will mature in fiscal year 2020.

Note 8 – 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. Errors and omissions insurance is purchased from the Alabama Trust for Boards of Education (ATBE), a public entity risk pool. The ATBE collects the premiums and purchases excess insurance for any amount of coverage requested by pool participants in excess of the coverage provided by the pool. Automobile insurance is purchased from a local carrier. 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.

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.

Notes to the Financial Statements

For the Year Ended September 30, 2016

Note 9 – Interfund Transactions

Interfund Receivables and Payables

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

	Interfund Receivables General Fund	Totals
<u>Interfund Payables:</u>		
Special Revenue Fund	\$424,865.58	\$424,865.58
Totals	<u>\$424,865.58</u>	<u>\$424,865.58</u>

Interfund Transfers

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

	Transfers Out		
	General Fund	Special Revenue Fund	Totals
<u>Transfers In:</u>			
General Fund	\$	\$209,814.63	\$ 209,814.63
Special Revenue Fund	1,954,447.03		1,954,447.03
Totals	<u>\$1,954,447.03</u>	<u>\$209,814.63</u>	<u>\$2,164,261.66</u>

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

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	0.623418%	0.0621154%
Employer's proportionate share of the net pension liability	\$ 65,245	\$ 56,429
Employer's covered-employee payroll during the measurement period (*)	\$ 39,384	\$ 39,383
Employer's proportionate share of the collective net pension liability as a percentage of its covered-employee payroll	165.66%	143.28%
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 - 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	\$ 4,660	\$ 4,606
Contributions in relation to the contractually required contribution	\$ 4,660	\$ 4,606
Contribution deficiency (excess)	\$	\$
Employer's covered-employee payroll	\$ 39,136	\$ 39,384
Contributions as a percentage of covered-employee payroll	11.91%	11.70%

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

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

	Budgeted Amounts		Actual Amounts
	Original	Final	Budgetary Basis
<u>Revenues</u>			
State	\$ 45,490,887.00	\$ 45,669,618.00	\$ 45,689,919.73
Federal			233,793.98
Local	13,557,839.24	13,557,839.24	14,235,761.43
Other			508,939.53
Total Revenues	59,048,726.24	59,227,457.24	60,668,414.67
<u>Expenditures</u>			
Current:			
Instruction	39,664,270.94	39,823,455.82	39,053,860.07
Instructional Support	8,252,022.96	8,266,444.96	8,271,884.94
Operation and Maintenance	5,309,776.00	5,310,597.12	5,304,486.50
Auxiliary Services:			
Student Transportation	3,493,863.55	3,498,984.55	3,726,997.57
General Administration and Central Support	2,358,071.61	2,358,071.61	2,407,267.87
Other	928,083.59	928,083.59	908,885.09
Capital Outlay	100,000.00	100,000.00	42,000.00
Total Expenditures	60,106,088.65	60,285,637.65	59,715,382.04
Excess (Deficiency) of Revenues Over Expenditures	(1,057,362.41)	(1,058,180.41)	953,032.63
<u>Other Financing Sources (Uses)</u>			
Indirect Cost	383,620.11	386,747.77	362,984.96
Transfers In	1,799,031.88	1,799,031.88	209,814.63
Sale of Capital Assets			26,047.13
Transfers Out	(3,105,254.84)	(3,105,254.84)	(1,954,447.03)
Total Other Financing Sources (Uses)	(922,602.85)	(919,475.19)	(1,355,600.31)
Net Change in Fund Balances	(1,979,965.26)	(1,977,655.60)	(402,567.68)
Fund Balances - Beginning of Year	14,753,000.00	13,823,585.81	13,823,585.81
Fund Balances - End of Year	\$ 12,773,034.74	\$ 11,845,930.21	\$ 13,421,018.13

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	\$	\$ 45,689,919.73
		233,793.98
		14,235,761.43
		508,939.53
		<u>60,668,414.67</u>
(1)	(1,198,946.75)	40,252,806.82
(1)	(107,274.77)	8,379,159.71
(1)	(10,145.02)	5,314,631.52
(1)	(62,938.46)	3,789,936.03
(1)	886.51	2,406,381.36
(1)	(46,049.60)	954,934.69
		42,000.00
	<u>(1,424,468.09)</u>	<u>61,139,850.13</u>
	<u>(1,424,468.09)</u>	<u>(471,435.46)</u>
		362,984.96
		209,814.63
		26,047.13
		<u>(1,954,447.03)</u>
		<u>(1,355,600.31)</u>
	(1,424,468.09)	(1,827,035.77)
(2)	<u>(5,399,116.46)</u>	<u>8,424,469.35</u>
	<u>\$ (6,823,584.55)</u>	<u>\$ 6,597,433.58</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) Salaries of teachers and other personnel with contracts of less than 12 months are paid over a 12 month period. Expenditures for salaries (and related fringe benefits) are budgeted based on the amount that will be paid from the budgeted revenues. However, salaries (and related benefits) earned but not paid are reported as expenditures on the financial statements.

Net Decrease in Fund Balance - Budget to GAAP

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

\$ (1,424,468.09)

\$ (1,424,468.09)

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

	Budgeted Amounts		Actual Amounts
	Original	Final	Budgetary Basis
<u>Revenues</u>			
Federal	\$ 6,006,470.03	\$ 6,567,789.14	\$ 6,326,827.17
Local	5,902,763.39	5,902,763.39	6,232,668.06
Other	179,285.53	179,285.53	206,035.70
Total Revenues	12,088,518.95	12,649,838.06	12,765,530.93
<u>Expenditures</u>			
Current:			
Instruction	4,523,661.73	4,512,310.87	4,661,265.67
Instructional Support	1,287,058.27	1,676,770.38	1,535,803.13
Operation and Maintenance	465,696.02	465,696.02	776,246.30
Auxiliary Services:			
Student Transportation	24,442.71	37,774.17	37,100.10
Food Service	4,739,722.63	4,739,722.63	5,320,489.24
General Administration and Central Support	149,839.18	173,615.85	154,928.13
Other	894,215.85	894,215.85	1,034,666.45
Capital Outlay		145,849.73	285,263.37
Debt Service:			
Principal Retirement	16,700.00	16,700.00	12,065.58
Interest and Fiscal Charges	1,831.01	1,831.01	1,868.52
Total Expenditures	12,103,167.40	12,664,486.51	13,819,696.49
Excess (Deficiency) of Revenues Over Expenditures	(14,648.45)	(14,648.45)	(1,054,165.56)
<u>Other Financing Sources (Uses)</u>			
Transfers In	1,697,999.00	1,697,999.00	1,954,447.03
Transfers Out	(391,776.04)	(391,776.04)	(209,814.63)
Other Fund Uses	(17,538.14)	(17,538.14)	
Total Other Financing Sources (Uses)	1,288,684.82	1,288,684.82	1,744,632.40
Net Change in Fund Balances	1,274,036.37	1,274,036.37	690,466.84
Fund Balances - Beginning of Year	4,339,132.26	4,507,804.23	4,292,497.31
Fund Balances - End of Year	\$ 5,613,168.63	\$ 5,781,840.60	\$ 4,982,964.15

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	\$	\$ 6,326,827.17
		6,232,668.06
		206,035.70
		<u>12,765,530.93</u>
		4,661,265.67
		1,535,803.13
		776,246.30
		37,100.10
(1)	(66,432.65)	5,386,921.89
		154,928.13
		1,034,666.45
		285,263.37
		12,065.58
		1,868.52
	(66,432.65)	<u>13,886,129.14</u>
	(66,432.65)	<u>(1,120,598.21)</u>
		1,954,447.03
		(209,814.63)
		<u>1,744,632.40</u>
	(66,432.65)	624,034.19
(2)	(161,558.49)	<u>4,130,938.82</u>
	\$ (227,991.14)	<u>\$ 4,754,973.01</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) Salaries of teachers and other personnel with contracts of less than 12 months are paid over a 12 month period. Expenditures for salaries (and related fringe benefits) are budgeted based on the amount that will be paid from the budgeted revenues. However, salaries (and related benefits) earned but not paid are reported as expenditures on the financial statements.

Net Decrease in Fund Balance - Budget to GAAP

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

\$ (66,432.65)

\$ (66,432.65)

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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	\$ 452,713.23
National School Lunch Program:			
Cash Assistance	10.555	N/A	1,860,639.78
Non-Cash Assistance (Commodities)	10.555	N/A	322,787.60
Sub-Total National School Lunch Program			<u>2,183,427.38</u>
Sub-Total Child Nutrition Cluster (M)			<u>2,636,140.61</u>
Total U.S. Department of Agriculture			<u>2,636,140.61</u>
<u>U. S. Department of the Interior</u>			
<u>Passed Through the Lauderdale County Commission</u>			
Payments in Lieu of Taxes	15.226	N/A	3,729.53
<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	1,443,024.89
Special Education Cluster:			
Special Education - Grants to States	84.027	N/A	1,838,064.98
Special Education - Preschool Grants	84.173	N/A	29,734.00
Sub-Total Special Education Cluster			<u>1,867,798.98</u>
Career and Technical Education - Basic Grants to States	84.048	N/A	100,734.61
Education for Homeless Children and Youth	84.196	N/A	10,000.00
Special Education - State Personnel Development	84.323	N/A	206,706.01
Improving Teacher Quality State Grants	84.367	N/A	290,168.52
Total U. S. Department of Education			<u>3,918,433.01</u>
<u>Social Security Administration</u>			
<u>Passed Through Alabama Department of Education</u>			
Social Security-Disability Insurance	96.001	N/A	<u>2,318.00</u>
Total Expenditures of Federal Awards			<u>\$ 6,560,621.15</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 Lauderdale 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 Lauderdale County Board of Education, it is not intended to and does not present the financial position or changes in net position of the Lauderdale County Board of Education.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the 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 Lauderdale County Board of Education has not elected 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. Jerry Fulmer	Chairman	2018
Hon. Daniel Patterson	Vice-Chairman	2016
Hon. Barbara Cornelius	Member	2016
Hon. Chad Holden (*)	Member	2016
Hon. Ronnie Owens	Member	2020
Hon. Ralph Thompson	Member	2016

Administrative Personnel

Dr. Jennifer Gray	Superintendent	2016
Mr. Larry L. Vance, CPA	Chief School Financial Officer	Indefinite

(*) Resigned in July 2016 and was replaced by Hon. Ralph Thompson.

***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

To: Members of the Lauderdale County Board of Education, Superintendent and Chief School Financial Officer

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards*** issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lauderdale 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 Lauderdale County Board of Education's basic financial statements, and have issued our report thereon dated May 11, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Lauderdale 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 Lauderdale County Board of Education's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lauderdale 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.

***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***

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 weakness may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lauderdale 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***. However, we noted certain additional matters that we have reported to the management of the Lauderdale County Board of Education in the Schedule of State and Local Compliance and Other Findings.

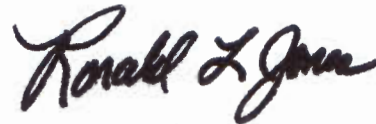
Lauderdale County Board of Education's Response to Finding

The Lauderdale County Board of Education's response to the finding identified in our audit is described in the accompanying Auditee Response. The Lauderdale County Board of Education's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

***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***

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

May 11, 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

To: Members of the Lauderdale County Board of Education, Superintendent and Chief School Financial Officer

Report on Compliance for Each Major Federal Program

We have audited the Lauderdale 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 each of the Lauderdale County Board of Education's major federal programs for the year ended September 30, 2016. The Lauderdale 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 each of the Lauderdale County Board of Education's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U. S. ***Code of Federal Regulations*** Part 200, ***Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*** (*Uniform Guidance*). Those standards and the *Uniform Guidance* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Lauderdale County Board of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Lauderdale 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 Lauderdale 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 Lauderdale 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 Lauderdale County Board of Education's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with *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 Lauderdale 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 of internal control over compliance and the results of that testing based on the requirements of the *Uniform Guidance*. Accordingly, this report is not suitable for any other purpose.



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

Montgomery, Alabama

May 11, 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? X Yes _____ 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.	

Summary Schedule of Prior Audit Findings

Lauderdale County Board of Education

Telephone (256) 760-1300 • Fax (256) 766-5815

www.lcschools.org



BOARD MEMBERS

Ronnie Owens - Chairman
Jerry Fulmer - Vice-Chairman
Barbara Cornelius
Terry Holden
Daniel Patterson

Jon Hatton - *Superintendent*
Vicky Tubbs - *Secretary*

Summary Schedule of Prior Audit Findings

For the Year Ended September 30, 2016

As required by the *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, 2 CFR 200.511, the Lauderdale County Board of Education has prepared and hereby submits the following Summary Schedule of Prior Audit Findings as of September 30, 2016.

Finding

Ref.

No.

Status of Prior Audit Finding

2015-002	Proper internal control procedures require the reconciliation of additions to capital assets with the capital outlay expenditures per the financial statements. The Board did not record any additions to capital assets during the year or at year-end. Corrective action was taken.
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Auditee Response

Lauderdale County Board of Education

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May 17, 2017

Mr. Ronald L. Jones
Chief Examiner
State of Alabama, Department of
Examiners of Public Accounts
P.O. Box 302251
Montgomery, AL 36130-2251

Dear Mr. Jones:

Attached please find our *Corrective Action Plan* and our responses to *Other Matters in Schedule of State and Local Compliance and Other Findings* for the year ended September 30, 2016. If there are any questions or problems regarding our responses, please feel free to contact me at (256) 760-1300.

Sincerely,

A handwritten signature in blue ink that reads "Jon Hatton". The signature is fluid and cursive.

Jonathan Hatton
Superintendent of Education

JH/lv

Enclosures

Lauderdale County Board of Education

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Corrective Action Plan

For the Fiscal Year Ended September 30, 2016

As required by the *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, 2 CFR 200.511(c), the Lauderdale County Board of Education has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2016.

Other Matters in Schedule of State and Local Compliance and Other Findings

For the Fiscal Year Ended September 30, 2016

Finding
Ref.
No.

2016-001 **Finding:** Section 94 of the *Constitution of Alabama 1901* provides that the Board cannot lend credit or grant public money or a thing of value to any individual, association, or corporation. Several of the schools have non-public activities with deficit fund balances at year end. Therefore, it appears the schools are using public funds to finance operations of their non-public activities. Additionally, Board policy requires all activity directors at local schools to work with the bookkeepers and principals to prevent any account from ending in a deficit balance at June 30th each year. In the event an activity ends the year with a deficit, the principal should authorize a transfer from another activity to eliminate the deficit. Several schools had deficit balances in some of their public activities at the end of the year and did not follow established Board policy regarding transferring funds to eliminate the deficits.

Response: The Board will implement the seven point corrective action plan which appears on the following page. (Contact Larry Vance, CSFO)

Corrective Action Plan for Local School Activity Deficits

Presented to the Lauderdale County Board of Education on April 26, 2017

1. As soon as practically possible, the Superintendent's staff will meet with ALL local school principals and bookkeepers together at the county office to fully explain this problem to them, to share with them our planned course of action, to educate them on necessary procedures, and to seek their feedback and ideas on ways to help solve the problem.
2. The administration and staff of the local schools will be given the entire summer to examine their records to determine if there are any deficit activity balances that are the result of accounting errors such as miscoding or mismatching of revenues to related expenditures, and to correct any such errors. Also during this time, schools with excess balances in their general fund activities may use such balances to eliminate any deficits in other public fund activities.
3. On October 1, 2017, the CSFO will examine all local school activities for any deficit balances that remain. For all activities that remain in deficit, the CSFO will deactivate all expenditure codes associated with such activities, preventing any further expenditures from such activities.
4. When a particular expenditure is deemed to be an absolute necessity, the local school principals may use the school's general fund activity for disbursements that would have otherwise been made from those activities remaining in deficit.
5. The local schools shall continue to post receipts to the activities for which they are intended, even those deficit balance activities with deactivated expenditure codes. Deficit activity receipts shall not be diverted to general fund activities in an attempt to match the corresponding expenditures.
6. To ensure the appropriate accounting treatment, all allocations to the local schools from the county office intended for activities in deficit shall be deposited into each local school's bank account by county office personnel and thereafter recorded in each local school's accounting records by the CSFO.
7. These procedures shall be followed until all activity deficits are eliminated and shall be re-implemented whenever any local school spends an activity into deficit in the future.