

Report on the

Baldwin County Board of Education

Baldwin County, Alabama

October 1, 2014 through September 30, 2015

Filed: April 15, 2016



Department of Examiners of Public Accounts

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Ronald L. Jones, Chief Examiner



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Ronald L. Jones
Chief Examiner

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

Dear Sir:

Under the authority of the *Code of Alabama 1975*, Section 41-5-21, we submit this report on the results of the audit of the Baldwin County Board of Education, Baldwin County, Alabama, for the period October 1, 2014 through September 30, 2015.

Sworn to and subscribed before me this
the 28th day of March, 20 16.

Ann Baum
Notary Public

Commission Expires:
October 12, 2019

Sworn to and subscribed before me this
the 4th day of April, 20 16.

Christina Smith
Notary Public

Respectfully submitted,

M. Lynn Benson

M. Lynn Benson
Examiner of Public Accounts

David A. Quick

David A. Quick
Examiner of Public Accounts

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| Exhibit #14 | Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133 – a report on internal controls over compliance with requirements of laws, regulations, contracts, and grants applicable to major federal programs and an opinion on whether the Board complied with laws, regulations, and the provisions of contracts or grant agreements which could have a direct and material effect on each major program. | 66 |
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Department of
Examiners of Public Accounts

SUMMARY

**Baldwin County Board of Education
October 1, 2014 through September 30, 2015**

The Baldwin County Board of Education (the "Board") is governed by a seven-member body elected by the citizens of Baldwin County. The members and administrative personnel in charge of governance of the Board are listed on Exhibit 12. The Board is the governmental agency that provides general administration and supervision for Baldwin County public schools, preschool through high school.

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

An unmodified opinion was issued on the financial statements, which means that the Board's financial statements present fairly, in all material respects, its financial position and the results of its operations for the fiscal year ended September 30, 2015.

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

The following officials/administrative personnel were invited to an exit conference to discuss this report: Dr. Alan Lee, Superintendent; Robert Owen, Superintendent; Hope Zeanah, Interim Superintendent; John Wilson, Chief School Financial Officer; and Board Members: Elmer McDaniel, Norman Moore, Angie Swiger, Robert Callahan, Jr., David Cox, Shannon Cauley, Tony Myrick, Cecil Christenberry, and David Tarwater. The following individuals attended the exit conference held at the offices of the Baldwin County Board of Education: John Wilson, Chief School Financial Officer; Tony Myrick, Board Member; and representatives from the Department of Examiners of Public Accounts: Brian Wheeler, Audit Manager; and Lynn Benson, Examiner. The following individuals participated in the exit conference via teleconference: Board Members: Cecil Christenberry, David Tarwater and Shannon Cauley.

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Independent Auditor's Report

Independent Auditor's Report

To: Members of the Baldwin 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 Baldwin County Board of Education, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Baldwin County Board of Education's basic financial statements as listed in the table of contents as Exhibits 1 through 6.

Management's Responsibility for the Financial Statements

The management of the Baldwin 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 Baldwin County Board of Education, as of September 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 12 to the financial statements, in the fiscal year ended 2015, the Baldwin County Board of Education adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement Number 68, ***Accounting and Financial Reporting for Pensions*** – an amendment of GASB Statement Number 27. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Baldwin County Board of Education's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 11) as required by U. S. Office of Management and Budget Circular A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***, 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 March 2, 2016, on our consideration of the Baldwin 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 Baldwin 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

March 2, 2016

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

**BALDWIN COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For The Year Ended September 30, 2015**

The Baldwin County Board of Education's (the "Board") discussion and analysis presents the overall financial position and operating results of the fiscal year that ended September 30, 2015. Readers are encouraged to read it in conjunction with the transmittal letter at the front of this report and the Board's financial statements, which follow this analysis. The Management's Discussion and Analysis (MD&A) reflects 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*.

Financial Highlights

The Board's activities revenues were \$330,544,436 in FY 2015 and \$313,032,685 in FY 2014, resulting in an increase of \$17,511,751 or 6 % more than prior year. Local ad valorem increased by 3%; and sales tax increased by 6%. The FY 2015 expenditures increased slightly from 2014 by 0.5%. Refer to Table 2 for specific details of each category. The drastic decrease in the Board's Net Position in FY 2015 was prompted by the Board's adoption of GASBS 68 which required restatement of State required pension expenses. Details are outlined in the notes to the financial statements.

The General Fund revenues and other sources of funds exceeded expenditures and other uses by \$14,779,868. Additionally, the General Fund on the full accrual basis reflects a fund balance of \$70,052,446 which exceeds the State required fund balance of one month. In comparison to the previous year's General Fund balance of \$55,272,579 the Board realized a significant increase in fund balance at year end. The General Fund and Capital Projects Fund are consolidated for the purposes of presenting financials in accordance with GASB standards.

Overview of the Financial Statement and Use of This Report

The following graphic is provided for your review and understanding of the financial statements and this report as a whole. This annual financial report consists of four parts:

- Independent Auditor's Report
- Required Supplementary Information (including the MD&A)
- Basic Financial Statements (District-wide or Board-wide and Fund Financial Statements)
- Supplemental Information

**BALDWIN COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For The Year Ended September 30, 2015**

**Required Components of Annual Financial Report
Figure 1**

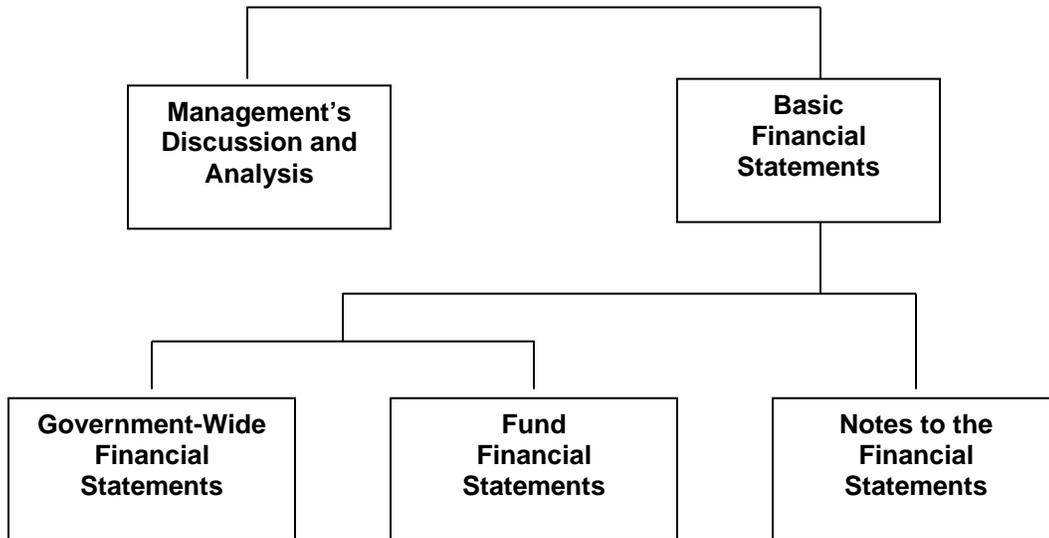


Figure 1 depicts the major features of the Board’s financial statements. The focus of the financial statements is on the Board as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Board’s accountability.

Government-Wide Financial Statements

The first two statements are government-wide financial statements - the *Statement of Net Position* and the *Statement of Activities*. These provide both long-term and short-term information about the Board's overall financial status. The focus of the *Statement of Net Position* (the “Unrestricted Net Position”) is designed to be similar to bottom line results for the Board and its activities.

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

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

**BALDWIN COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For The Year Ended September 30, 2015**

Fund Financial Statements

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

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

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

Required Supplementary Information

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

**BALDWIN COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For The Year Ended September 30, 2015**

Financial Analysis of the Board as a Whole

As noted earlier, the Baldwin County Board of Education has no business-type activities. Consequently, the Board's net position is reported as Governmental Activities. The following table reflects a Summary of Net Position compared to the prior year. For more detailed information see the Statement of Net Position.

**Table 1
Summary of Net Position
As of September 30, 2015**

| | <u>FY 2015</u> | <u>FY 2014</u> | <u>Variance</u> |
|-------------------------------------|-----------------------|----------------------|------------------------|
| Current and Other Assets | \$ 183,143,803 | \$158,566,561 | \$ 24,577,542 |
| Capital Assets, Net of Depreciation | 390,609,282 | 389,523,074 | 1,086,208 |
| Total Assets | 573,753,085 | 548,089,635 | 25,663,450 |
| Deferred Outflows of Resources | 35,768,472 | 2,406,616 | 33,721,856 |
| Current and Other Liabilities | 22,346,138 | 20,445,433 | 1,900,705 |
| Long-Term Liabilities | 412,686,477 | 212,523,982 | 200,162,495 |
| Total Liabilities | 435,032,615 | 232,969,415 | 202,063,200 |
| Deferred Inflows of Resources | 58,224,095 | 42,435,972 | 15,788,123 |
| Net Investment in Capital Assets | 195,625,190 | 182,828,687 | 12,796,503 |
| Restricted for: | | | |
| Capital Projects | 25,437,599 | 17,596,323 | 7,841,276 |
| Debt Service | 5,784,479 | 5,266,527 | 517,952 |
| Other Purpose | 4,362,778 | 5,197,786 | (835,008) |
| Unrestricted | (114,945,199) | 63,841,541 | (178,786,740) |
| Total Net Position | \$ 116,264,847 | \$274,730,864 | \$(158,466,017) |

The Board's total net position was \$116,264,847 at the close of the fiscal year 2015. As already stated, the decrease in net position is a direct result of the Board's adoption of GASBS 65 which required a restatement of State required pension expenses. The Board's total net position amount is indicative of the Board's ability to operate and pay bills for the next year. The Board's total revenues and expenditures are reflected in the following Table 2 that depicts a comparison to fiscal year 2014. The impact of the restatement on the net position as previously reported is as follows:

| | <u>Net Position</u> |
|---|-------------------------|
| Net Position Balance, September 30, 2014, as Previously Reported | \$ 274,730,863.60 |
| Restatement of Pension Expenses | (193,980,000.00) |
| Governmental Activities Net Position, September 30, 2014, as Restated | <u>\$ 80,750,863.60</u> |

**BALDWIN COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For The Year Ended September 30, 2015**

**Table 2
Baldwin County Board of Education
Changes in Net Position**

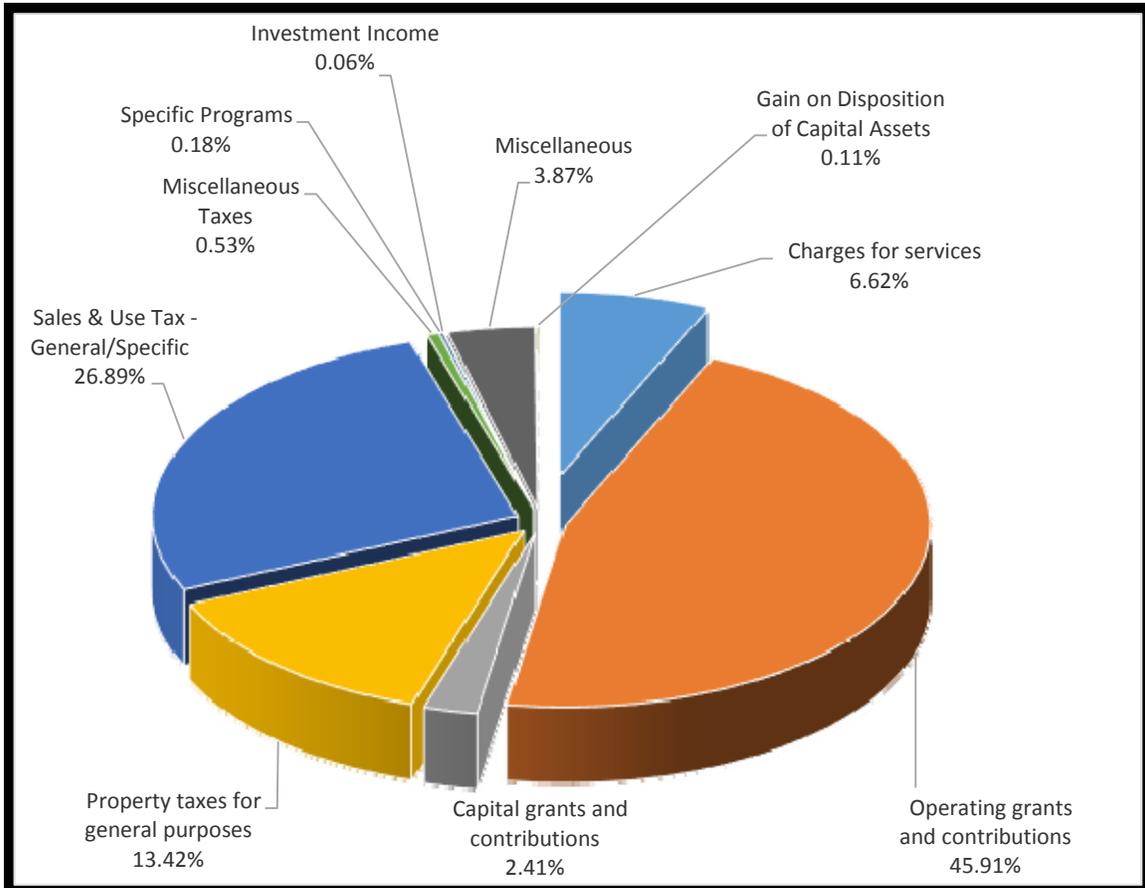
| | <u>FY 2015</u> | <u>FY 2014</u> | <u>Variance</u> |
|--|----------------------|----------------------|------------------------|
| <u>Revenues</u> | | | |
| Program Revenues: | | | |
| Charges for Services | \$ 21,891,184 | \$ 21,133,809 | \$ 757,375 |
| Operating Grants and Contributions | 151,753,048 | 145,667,760 | 6,085,288 |
| Capital Grants and Contributions | 7,968,079 | 6,683,563 | 1,284,516 |
| General Revenues: | | | |
| Property Taxes for General Purposes | 44,357,707 | 42,945,204 | 1,412,503 |
| Sales and Use Tax – General/Specific | 88,880,928 | 84,162,520 | 4,718,408 |
| Miscellaneous Taxes | 1,757,534 | 1,644,541 | 112,993 |
| Grants and Contributions not Restricted for Specific Programs | 584,803 | 583,171 | 1,632 |
| Investment Income | 202,111 | 191,444 | 10,667 |
| Net Inc. (Dec.) in Fair Value of Investment Miscellaneous | 12,783,849 | 9,981,928 | 2,801,921 |
| Gain on Disposition of Capital Assets | 365,193 | 38,745 | 326,448 |
| Gain on Extinguishment of Debt | | | |
| Total Revenues | 330,544,436 | 313,032,685 | 17,511,751 |
| <u>Expenses</u> | | | |
| Governmental Activities: | | | |
| Instruction | 161,216,068 | 166,154,462 | (4,938,394) |
| Instructional Support Services | 46,779,844 | 42,579,770 | 4,200,074 |
| Operation and Maintenance | 30,966,933 | 28,534,267 | 2,432,666 |
| Auxiliary Services: | | | |
| Student Transportation Services | 14,123,548 | 13,791,957 | 331,591 |
| Food Services | 15,835,238 | 14,743,141 | 1,092,097 |
| General Administration and Central Support | 8,194,430 | 9,908,192 | (1,713,762) |
| Other | 8,511,598 | 8,938,042 | (426,444) |
| Interest on Long-Term Debt | 9,402,794 | 8,958,664 | 444,130 |
| Total Expenses | 295,030,453 | 293,608,495 | 1,421,958 |
| Change in Net Position | 35,513,983 | 19,424,190 | 16,089,793 |
| Net Position – Beginning of Year, as Restated | 80,750,864 | 255,306,674 | (174,555,810) |
| Net Position – End of Year | \$116,264,847 | \$274,730,864 | \$(158,466,017) |

**BALDWIN COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For The Year Ended September 30, 2015**

Graph 1 reflected below depicts the percentage breakdown of revenues. Program revenues, specifically operating grants and contributions, are the largest component of total revenues.

- Operating grants and contributions contribute 45.9% of total revenues. The major sources of revenues in this category are State foundation program funds, state transportation operating funds, and state and federal funds restricted for specific programs.
- Local tax revenues, primarily property taxes and sales taxes make up 40.3% of all revenues and are used to provide \$133,238,635 for expenses not covered by program revenues. (See Table 2)

Graph 1



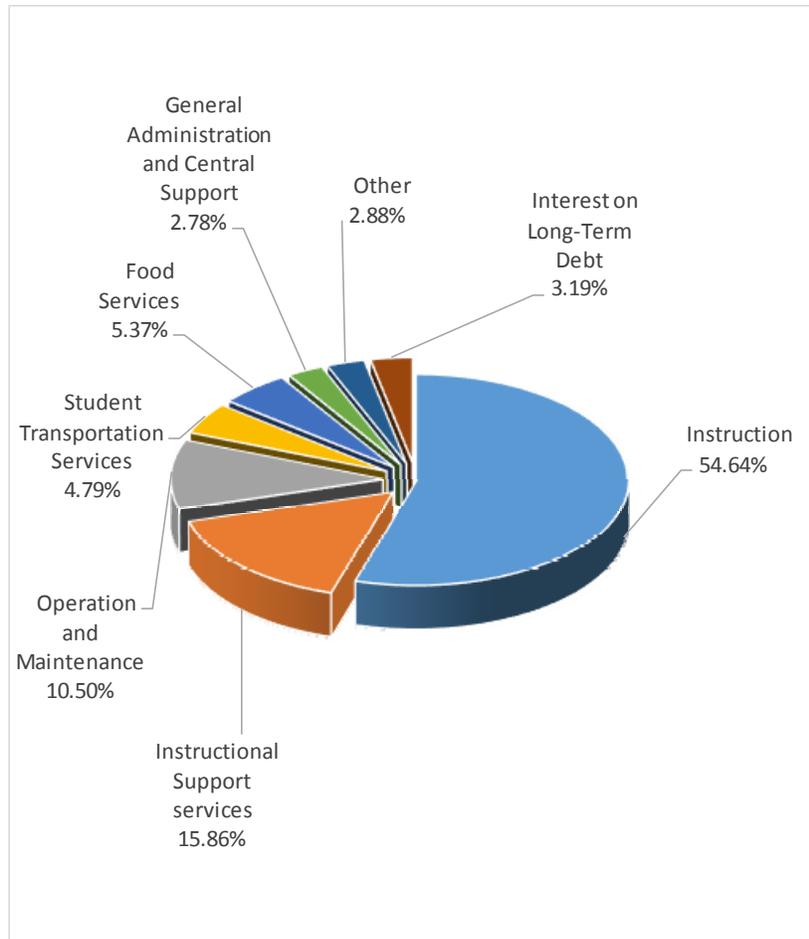
**BALDWIN COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For The Year Ended September 30, 2015**

Instructional services expenses, primarily salaries and benefits for classroom teachers, are the largest expense function of the Board (54.6%). The expenses are reflected in Table 2 as well as in Graph 2 below showing the percentage breakdown of expense categories.

- In addition to teacher salaries and benefits, instructional services includes teacher aides, substitute teachers, textbooks, depreciation of instructional buildings, professional development, and classroom instructional materials, supplies, and equipment.
- Instructional support services includes salaries and benefits for school principals, assistant principals, librarians, counselors, school secretaries, school bookkeepers, speech therapists, and school nurses, and professional development expenses.
- Operation and maintenance services include utilities, security services, janitorial services, maintenance services, and depreciation of maintenance vehicles.
- Auxiliary Services includes transportation and food service expenses. In addition to bus driver salaries and benefits, student transportation services includes mechanics, bus aides, vehicle maintenance and repair expenses, vehicle fuel, depreciation of buses and bus shops, and fleet insurance. Food services includes salaries and benefits for cooks, servers, lunchroom managers, and cashiers, as well as donated and purchased food, food preparation and service supplies, kitchen and lunchroom equipment, and depreciation of equipment and facilities.
- General administrative services include salaries and benefits for the superintendent, assistants, clerical and financial staff, and other personnel that provide system-wide support for the schools. Also included are legal expenses, liability insurance, training for board members and general administrative staff, printing costs, and depreciation of central office equipment and facilities.
- Debt service includes interest, but not principal payments, on long-term debt issues and other expenses related to the issuance and continuance of debt issues.
- Other expenses include 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 K through 12 instructional programs.

**BALDWIN COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For The Year Ended September 30, 2015**

Graph 2



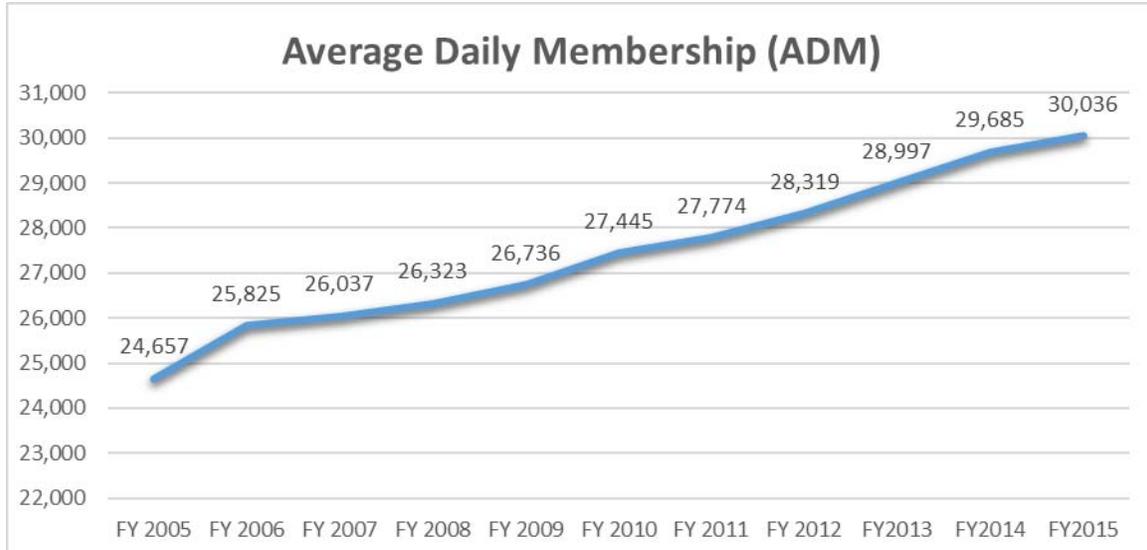
Despite additional growth in student population, the Board was able to reduce expenses. While increases in enrollment requires increased expenditures, the Board was able to keep it to a minimum by allowing only a .05% increase in total expenses for FY15 in comparison to FY14.

The Board experienced an increase in fund balance in FY15 as total Program revenues increased by 5.6%. The level of increase in revenues can be attributed to the following factors:

- Sales Tax revenue increased by 5.6% from the previous year
- Ad valorem revenue increased by 3.3% due to continued growth and increasing enrollment in student population. Graph 3 (shown below) depicts the steady increase in Average Daily Membership (ADM) of 22% in the last ten years.
- Miscellaneous revenue increased drastically for FY15 due to the BP settlement from the recent oil spill.

**BALDWIN COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For The Year Ended September 30, 2015**

Graph 3



Net Cost of Services

Total cost of services was \$295,030,453. The net cost of governmental activities was a negative -\$113,418,142 as shown in Table 3. This means that the local funds portion of revenue was used to fund the amount not covered from various program revenues.

**Table 3
Net Cost of Services**

| | <u>FY2015</u> | | <u>FY 2014</u> | |
|--|-------------------------------|-----------------------------|-------------------------------|-----------------------------|
| | <u>Total Cost of Services</u> | <u>Net Cost of Services</u> | <u>Total Cost of Services</u> | <u>Net Cost of Services</u> |
| Instruction | \$ 161,216,068 | \$ (50,045,656) | \$ 166,154,462 | \$ (59,194,502) |
| Instructional Support | 46,779,844 | (20,697,389) | 42,579,770 | (17,972,735) |
| Operation and Maintenance | 30,966,933 | (22,572,372) | 28,534,267 | (20,848,050) |
| Student Transportation | 14,123,548 | (2,768,243) | 13,791,957 | (2,384,422) |
| Food Service | 15,835,238 | (1,917,467) | 14,743,141 | (2,751,745) |
| General Admin & Central Supp. | 8,194,430 | (5,740,604) | 9,908,192 | (6,857,439) |
| Other | 9,402,794 | (1,164,813) | 8,938,042 | (1,155,807) |
| Interest on Long-Term Debt | 8,511,598 | (8,511,598) | 8,958,664 | (8,958,664) |
| | \$ 295,030,453 | \$ (113,418,142) | \$ 293,608,495 | \$ (120,123,364) |

**BALDWIN COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For The Year Ended September 30, 2015**

Financial Analysis of the Board's Funds

The analysis of governmental funds serves the purpose of looking at what resources came into the funds, how they were spent, and what is available for future expenditures. Did the Board generate enough revenue to pay for current obligations? What is available for spending at the end of the year? 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 \$117,834,570. Approximately \$67,205,115 of this amount constitutes unreserved fund balance of the General Fund that is available as of the end of the fiscal year for spending on future operations. Again, this specific amount of fund balance is due to the full accrual of salaries required for financial statement presentation.

General Fund – The General Fund is the primary operating fund of the Board in providing educational services to students from kindergarten through 12th grade including pupil transportation. Table 4 reflects a summary of General Fund Revenues for the most recent two-year period.

**Table 4
General Fund Revenues**

| | <u>FY2015</u> | <u>FY2014</u> | <u>Variance</u> | <u>Percentage</u> |
|----------------|-----------------------|-----------------------|----------------------|-------------------|
| State | \$ 135,237,158 | \$ 128,169,243 | \$ 7,067,915 | 5.51% |
| Federal | 0 | 3,165 | (3,165) | (100%) |
| Local | 122,639,526 | 113,051,807 | 9,587,719 | 8.48% |
| Other | 4,210,447 | 977,122 | 3,233,325 | 330.90% |
| Total | <u>\$ 262,087,131</u> | <u>\$ 242,201,337</u> | <u>\$ 19,885,794</u> | <u>8.21%</u> |

Total General Fund revenue increased by \$19,885,795 from the previous year due to a 5.51% increase in State revenues as a result of an increase in enrollment; local revenue increased by 8.48%. It should be noted that each school system is required to provide a minimum equivalent of ten mills of ad valorem tax to participate in the Foundation Program. The ten mill equivalent match for Baldwin County was \$39,463,438 in Fiscal Year 2015, still representing one of the highest in the State. Table 5 reflects a comparison of General Fund expenditures for FY 2015 and FY 2014.

**BALDWIN COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For The Year Ended September 30, 2015**

**Table 5
General Fund Expenditures**

| | FY2015 | FY2014 | Increase (Decrease) | Percentage |
|--|-----------------------|-----------------------|--------------------------------|-------------------|
| Instruction | \$ 136,564,195 | 133,752,055 \$ | 2,812,140 | 2.10% |
| Instructional Support | 41,201,016 | 36,995,970 | 4,205,046 | 11.37% |
| Operation and Maintenance | 13,798,683 | 12,450,903 | 1,347,780 | 10.82% |
| Auxiliary Services | 11,333,054 | 11,138,680 | 194,374 | 1.75% |
| General Admin & Central Supp. | 6,825,674 | 9,018,928 | -2,193,254 | -24.32% |
| Other | 3,827,552 | 3,059,290 | 768,262 | 25.11% |
| Capital Outlay | 8,318,790 | 6,377,717 | 1,941,072 | 30.44% |
| Debt Service | | | | |
| Principal Retirement | 5,873,026 | 5,792,462 | 80,564 | 1.39% |
| Interest and Fiscal Charges | 3,826,541 | 166,774 | 3,659,767 | 2194.45% |
| Debt Issuance Cost | | 0 | | |
| | \$ 231,568,531 | \$ 218,752,779 | 12,815,751 | 5.86% |

General Fund expenditures increased by \$12,815,751 or 5.86% from the previous fiscal year. The increase in expenditures is directly related to our student enrollment increase which can be seen on Graph 2 as well as an increase in capital outlay projects throughout the County to address the growing student population. General Administrative and Central Support expenditures were reduced by 24% for the year in General Fund!

General Fund revenues exceeded expenditures and uses of funds by \$14,779,867.

Special Revenue Fund – The Special Revenue Fund accounts for all of the federal funds that flow through the State Department of Education which includes the Child Nutrition Fund. In addition, this fund includes the restricted Sales Tax Fund, the e-Rate Fund and the Local School Public Funds. The beginning fund balance was \$29,588,087. Recognizing an excess of \$2,720,612 for the fiscal year, the ending fund balance for FY 2015 reflected \$32,308,699. The excess for the year is primarily comprised of excesses in the Child Nutrition Fund and the Sales Tax Fund.

Overall, the Board's governmental funds reflected more revenues/sources of funds than expenditures/uses at the end of the fiscal year.

General Fund Budgetary Highlights

The FY 2015 Budget, adopted on September 18, 2014, was based on known sources at the time of adoption. The budget reflected only guaranteed revenues and necessary expenditures as some of the state-funded programs had not been authorized at this point. The Board complied with State Department of Education requirements for budget amendments. The Board submitted Amendment #1 on January 15, 2015 to address changes in federal, state, and local funds and other revisions to the General Fund. Amendment #2 was submitted on June 15, 2015 to make final budgetary adjustments to all funds and programs.

**BALDWIN COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For The Year Ended September 30, 2015**

The comparison of General Fund original budget to the final amended budget is reflected in the supplemental information in the report. The General Fund budget was amended to correct beginning fund balances and account for changes in state and local sources.

Capital Assets and Debt Administration

Capital Assets - At September 30, 2015, the Board had \$504,552,954 invested in capital assets including land, buildings, equipment costing \$5,000 or more, vehicles, buildings and equipment under capital lease, and construction in progress. This amount is net of accumulated depreciation to date. An increase is reflected due to an increase in capital projects completed during FY 2015. Table 6 below reflects a summary comparison of Capital Assets for fiscal year 2015 to fiscal year 2014.

**Table 6
Capital Assets (net of depreciation)**

| | <u>FY 2015</u> | <u>FY 2014</u> | <u>Variance</u> |
|--|-----------------------|-----------------------|---------------------|
| Land and Inexhaustible Land Improvements | \$ 7,682,311 | \$ 7,668,730 | \$ 13,581 |
| Exhaustible Land Improvements | 2,579,915 | 1,774,885 | 805,030 |
| Buildings | 317,657,027 | 322,794,102 | (5,137,075) |
| Building Improvements | 36,328,458 | 34,628,571 | 1,699,887 |
| Equipment & Furniture | 5,742,156 | 5,462,328 | 279,828 |
| Vehicles | 11,928,177 | 10,552,232 | 1,375,945 |
| Assets Under Capital Lease | 1,196,593 | 1,753,143 | (556,550) |
| Construction in Progress | 7,494,645 | 4,889,083 | 2,605,562 |
| | <u>\$ 390,609,282</u> | <u>\$ 389,523,074</u> | <u>\$ 1,086,208</u> |

Long-Term Debt – At year-end the Board had \$209,138,477 in warrants payable, notes payable, and other long-term debt outstanding as of 9-30-2015. The Board made debt service payments as well as added warrants payable as reflected in Table 7. (Additional information on the Board's long-term debt is presented in the notes to the basic financial statements.)

**BALDWIN COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For The Year Ended September 30, 2015**

**Table 7
Outstanding Long-Term Debt
For the Year Ended September 30, 2015**

| | Debt | | | Debt | |
|--|-------------------|------------------|---------------------|-------------------|------------------|
| | Outstanding | Issued/ | Repaid/ | Outstanding | Amounts |
| | 10/01/2014 | Increased | Decreased | 09/30/2015 | Due Within |
| | | | | | One Year |
| <u>Governmental Activities:</u> | | | | | |
| Warrants Payable | \$ 198,526,507.14 | \$ 83,500,000.00 | \$ (99,231,121.29) | \$ 182,795,385.85 | \$ 10,087,898.75 |
| Deferred Amounts: | | | | | |
| Unamortized Premium | 6,096,905.58 | 15,587,222.85 | (1,080,127.33) | 20,604,001.10 | 1,363,531.53 |
| Unamortized Discount | (1,075,563.53) | | 1,075,563.53 | - | |
| Total Warrants Payable | 203,547,849.19 | 99,087,222.85 | (99,235,685.09) | 203,399,386.95 | 11,451,430.08 |
| Other Liabilities: | | | | | |
| Certificates of Participation (QZAB) | 1,000,000.00 | - | - | 1,000,000.00 | - |
| Notes Payable | 91,866.38 | 36,000.00 | (71,478.31) | 56,388.07 | 28,388.07 |
| Capital Leases | 4,682,016.40 | - | (3,251,414.99) | 1,430,601.41 | 1,021,194.21 |
| Estimated Liabilities for | | | | | |
| Compensated Absences | 3,202,250.01 | 49,850.52 | | 3,252,100.53 | 325,210.06 |
| Total Other Liabilities | 8,976,132.79 | 85,850.52 | (3,322,893.30) | 5,739,090.01 | 1,374,792.34 |
| Governmental Activities Long-Term Liabilities | \$ 212,523,981.98 | \$ 99,173,093.37 | \$ (102,558,578.39) | \$ 209,138,476.96 | \$ 12,826,222.42 |

Economic Factors and Next Year's Budget

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

- Baldwin County Board of Education receives local funding from sales taxes and ad valorem taxes. There are several economic factors contributing to these local taxes. Baldwin County continues to see strong development growth around the county. The largest growth areas in the county are areas impacted by tourism which are projecting an increase in the Gulf Shores and Orange Beach area. This growth has resulted in increased stability and growth of 5.6% from sales tax revenue recognized in FY 2015.
- Based on the county abstract for FY 2016, we anticipate that property valuations have bottomed and will increase. The county and school board estimate Ad Valorem Revenue to increase approximately \$2.2 million (4.8%) in FY 2016.
- The funding formula to appropriate state funds to each public school system requires the equivalent of 10 mills of ad valorem tax to be provided locally to participate in the Foundation Program. The match resulted in a total of \$36,890,870 for FY 2014 and dropped modestly to \$35,764,780 in 2015 due to the reassessment of property values in the prior year. The match is currently 29.6% of the total State Foundation funds earned by the system!

**BALDWIN COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For The Year Ended September 30, 2015**

- On March 1, 2016, the board will bring the renewal of four of our twelve mills of ad valorem funds where 3 mills will expire on September 30, 2016 and one mill will expire September 30, 2017 if not renewed by the voters of Baldwin County.

Financial Contact

The Board's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Board's finances and to demonstrate the Board's accountability. If you have questions about the report or need additional financial information, contact the Division of Business and Finance, Baldwin County Board of Education, 2600 North Hand Avenue, Bay Minette, Alabama 36507, 251-937-0312.

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Basic Financial Statements

Statement of Net Position
September 30, 2015

| | Governmental Activities |
|---|------------------------------------|
| <u>Assets</u> | |
| Cash and Cash Equivalents | \$ 121,354,224.85 |
| Cash with Fiscal Agent | 5,838,282.61 |
| Investments | 403,267.45 |
| Ad Valorem Property Taxes Receivable | 41,452,434.85 |
| Receivables (Note 4) | 10,445,643.70 |
| Inventories | 968,531.14 |
| Prepaid Items | 2,681,418.79 |
| Capital Assets (Note 5): | |
| Nondepreciable | 15,176,956.27 |
| Depreciable, Net | 375,432,325.50 |
| Total Assets | <u>573,753,085.16</u> |
| <u>Deferred Outflows of Resources</u> | |
| Loss on Refunding of Debt | 10,902,284.89 |
| Employer Pension Contribution | 17,214,187.29 |
| Proportionate Share of Collective Deferred Outflows Related to Net Pension Liability | 7,652,000.00 |
| Total Deferred Outflows of Resources | <u>35,768,472.18</u> |
| <u>Liabilities</u> | |
| Accounts Payable | 6,401,694.24 |
| Unearned Revenue | 464,562.88 |
| Salaries and Benefits Payable | 15,479,881.09 |
| Long-Term Liabilities: | |
| Portion Payable Within One Year: | |
| Warrants Payable | 10,087,898.75 |
| Add: Unamortized Premium | 1,363,531.33 |
| Notes Payable | 28,388.07 |
| Capital Leases | 1,021,194.20 |
| Compensated Absences | 325,210.06 |
| Portion Payable After One Year: | |
| Warrants Payable | 172,707,487.10 |
| Add: Unamortized Premium | 19,240,469.77 |
| Qualified Zone Academy Bonds | 1,000,000.00 |
| Notes Payable | 28,000.00 |
| Capital Leases | 409,407.21 |
| Compensated Absences | 2,926,890.47 |
| Net Pension Liability | 203,548,000.00 |
| Total Liabilities | <u>\$ 435,032,615.17</u> |

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

| | Governmental Activities |
|--|------------------------------------|
| <u>Deferred Inflows of Resources</u> | |
| Unavailable Revenue - Property Taxes | \$ 41,452,434.85 |
| Revenue Received in Advance - Motor Vehicle Taxes | 1,510,660.23 |
| Proportionate Share of Collective Deferred Inflows Related to Net Pension Liability | <u>15,261,000.00</u> |
| Total Deferred Inflows of Resources | <u>58,224,095.08</u> |
| <u>Net Position</u> | |
| Net Investment in Capital Assets | 195,625,190.23 |
| Restricted for: | |
| Debt Service | 5,784,478.44 |
| Capital Projects | 25,437,599.31 |
| Other Purposes | 4,362,777.90 |
| Unrestricted | <u>(114,945,198.79)</u> |
| Total Net Position | <u>\$ 116,264,847.09</u> |

Statement of Activities
For the Year Ended September 30, 2015

| Functions/Programs | Expenses | Program Revenues | |
|--|--------------------------|-------------------------|------------------------------------|
| | | Charges for Services | Operating Grants and Contributions |
| <u>Governmental Activities</u> | | | |
| Instruction | \$ 161,216,067.96 | \$ 4,416,885.63 | \$ 102,815,103.55 |
| Instructional Support | 46,779,843.62 | 1,634,967.01 | 24,447,487.78 |
| Operation and Maintenance | 30,966,932.98 | 1,143,408.65 | 6,615,455.20 |
| Auxiliary Services: | | | |
| Student Transportation Services | 14,123,547.91 | 704,162.65 | 9,361,142.03 |
| Food Services | 15,835,238.49 | 11,179,767.47 | 634,044.26 |
| General Administration and Central Support | 8,194,430.02 | 9,651.84 | 2,444,174.79 |
| Interest and Fiscal Charges | 8,511,598.16 | | |
| Other Expenses | 9,402,794.23 | 2,802,340.84 | 5,435,640.57 |
| Total Governmental Activities | <u>\$ 295,030,453.37</u> | <u>\$ 21,891,184.09</u> | <u>\$ 151,753,048.18</u> |

General Revenues:

Taxes:

Property Taxes for General Purposes

Local Sales Tax

Alcohol Beverage Tax

Other Taxes

Grants and Contributions Not Restricted
for Specific Programs

Investment Earnings

Gain on Disposition of Capital Assets

Miscellaneous

Total General Revenues

Changes in Net Position

Net Position - Beginning of Year, as Restated (Note 12)

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 | |
| \$ | 3,938,422.56 | \$ | (50,045,656.22) |
| | 635,696.88 | | (20,697,388.83) |
| | 1,290,000.00 | | (22,572,372.25) |
| | 2,103,959.52 | | (2,768,243.23) |
| | | | (1,917,467.24) |
| | | | (5,740,603.39) |
| | | | (8,511,598.16) |
| | | | (1,164,812.82) |
| \$ | 7,968,078.96 | | (113,418,142.14) |

| |
|---------------------------------|
| 44,357,707.51 |
| 88,880,927.56 |
| 309,259.99 |
| 1,448,274.52 |
| 584,803.46 |
| 202,110.56 |
| 365,192.97 |
| 12,783,849.06 |
| <u>148,932,125.63</u> |
| 35,513,983.49 |
| <u>80,750,863.60</u> |
| <u>\$ 116,264,847.09</u> |

Balance Sheet
Governmental Funds
September 30, 2015

| | General Fund | Special Revenue Fund |
|--|--------------------------|-------------------------------------|
| <u>Assets</u> | | |
| Cash and Cash Equivalents | \$ 81,021,263.99 | \$ 30,697,818.66 |
| Cash with Fiscal Agent | | |
| Investments | | 403,267.45 |
| Ad Valorem Property Taxes Receivable | 41,452,434.85 | |
| Receivables (Note 4) | 6,406,475.97 | 4,039,167.73 |
| Interfund Receivables | 120,725.98 | 333,965.23 |
| Inventories | 135,912.80 | 832,618.34 |
| Prepaid Items | 2,681,418.79 | |
| Total Assets | <u>131,818,232.38</u> | <u>36,306,837.41</u> |
| <u>Liabilities, Deferred Inflows of Resources and Fund Balances</u> | | |
| <u>Liabilities</u> | | |
| Accounts Payable | 3,536,018.55 | 2,865,675.69 |
| Interfund Payables | 333,891.23 | 120,799.98 |
| Unearned Revenues | | 464,562.88 |
| Salaries and Benefits Payable | 14,932,781.36 | 547,099.73 |
| Total Liabilities | <u>18,802,691.14</u> | <u>3,998,138.28</u> |
| <u>Deferred Inflows of Resources</u> | | |
| Unavailable Revenue - Property Taxes | 41,452,434.85 | |
| Revenue Received in Advance - Motor Vehicle Taxes | 1,510,660.23 | |
| Total Deferred Inflows of Resources | <u>42,963,095.08</u> | |
| <u>Fund Balances</u> | | |
| Nonspendable: | | |
| Inventories | 135,912.80 | 832,618.34 |
| Prepaid Items | 2,681,418.79 | |
| Restricted for: | | |
| Debt Service | | |
| Child Nutrition Program | | 2,594,061.45 |
| Capital Outlay and Maintenance | | 15,748,652.94 |
| Other Purposes | 30,000.00 | 1,044,158.14 |
| Assigned to: | | |
| Local Schools | | 11,807,190.07 |
| Unassigned | 67,205,114.57 | 282,018.19 |
| Total Fund Balances | <u>70,052,446.16</u> | <u>32,308,699.13</u> |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | <u>\$ 131,818,232.38</u> | <u>\$ 36,306,837.41</u> |

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

| Other Governmental Funds | Total Governmental Funds |
|---|---|
| \$ 9,635,142.20 | \$ 121,354,224.85 |
| 5,838,282.61 | 5,838,282.61 |
| | 403,267.45 |
| | 41,452,434.85 |
| | 10,445,643.70 |
| | 454,691.21 |
| | 968,531.14 |
| | 2,681,418.79 |
| <u>15,473,424.81</u> | <u>183,598,494.60</u> |
| | 6,401,694.24 |
| | 454,691.21 |
| | 464,562.88 |
| | 15,479,881.09 |
| | <u>22,800,829.42</u> |
| | 41,452,434.85 |
| | 1,510,660.23 |
| | <u>42,963,095.08</u> |
| | 968,531.14 |
| | 2,681,418.79 |
| 5,784,478.44 | 5,784,478.44 |
| | 2,594,061.45 |
| 9,688,946.37 | 25,437,599.31 |
| | 1,074,158.14 |
| | 11,807,190.07 |
| | 67,487,132.76 |
| <u>15,473,424.81</u> | <u>117,834,570.10</u> |
| <u>\$ 15,473,424.81</u> | <u>\$ 183,598,494.60</u> |

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***Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Position
September 30, 2015***

Total Fund Balances - Governmental Funds (Exhibit 3) \$ 117,834,570.10

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

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

| | | |
|-------------------------------|-------------------------|----------------|
| The Cost of Capital Assets is | \$ 504,553,254.20 | |
| Accumulated Depreciation is | <u>(113,943,972.43)</u> | 390,609,281.77 |

| | |
|--|---------------|
| Losses on refunding of debt are reported as deferred outflows of resources and are not available to pay for current-period expenditures and, therefore, are deferred on the Statement of Net Position. | 10,902,284.89 |
|--|---------------|

| | |
|--|--------------|
| Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds. | 9,605,187.29 |
|--|--------------|

Long-term liabilities, including warrants payable, are not due and payable in the current
period and, therefore, are not reported as liabilities in the funds.

| | | |
|--------------------------------------|--------------------------|-------------------------|
| Current Portion of Long-Term Debt | 12,826,222.41 | |
| Noncurrent Portion of Long-Term Debt | <u>\$ 399,860,254.55</u> | <u>(412,686,476.96)</u> |

| | |
|--|---------------------------------|
| Total Net Position - Governmental Activities (Exhibit 1) | <u><u>\$ 116,264,847.09</u></u> |
|--|---------------------------------|

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

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2015

| | General Fund | Special Revenue Fund |
|---|-------------------------|----------------------------|
| <u>Revenues</u> | | |
| State | \$ 135,237,158.07 | \$ 1,370,173.91 |
| Federal | | 24,126,249.96 |
| Local | 122,639,526.43 | 35,357,012.53 |
| Other | 4,210,446.94 | 460,337.23 |
| Total Revenues | <u>262,087,131.44</u> | <u>61,313,773.63</u> |
| <u>Expenditures</u> | | |
| Current: | | |
| Instruction | 136,564,195.00 | 17,298,511.23 |
| Instructional Support | 41,201,015.94 | 5,081,843.48 |
| Operation and Maintenance | 13,798,683.43 | 16,644,808.47 |
| Auxiliary Services: | | |
| Student Transportation Services | 11,333,054.57 | 847,629.07 |
| Food Services | | 15,978,877.33 |
| General Administration and Central Support | 6,825,674.25 | 741,536.71 |
| Other | 3,827,551.81 | 5,568,349.00 |
| Capital Outlay | 8,318,789.59 | 1,917,645.54 |
| Debt Service: | | |
| Principal Retirement | 5,873,025.54 | 71,478.31 |
| Interest and Fiscal Charges | 3,826,540.73 | 3,725.96 |
| Total Expenditures | <u>231,568,530.86</u> | <u>64,154,405.10</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>30,518,600.58</u> | <u>(2,840,631.47)</u> |
| <u>Other Financing Sources (Uses)</u> | | |
| Indirect Cost | 1,589,412.38 | |
| Long-Term Debt Issued | | 36,000.00 |
| Premiums on Long Term Debt Issued | | |
| Transfers In | 2,545,344.08 | 7,572,547.24 |
| Other Financing Sources | 103,838.89 | 35,260.41 |
| Sale of Capital Assets | 140,818.51 | 462,779.94 |
| Transfers Out | (20,118,146.78) | (2,545,344.08) |
| Payments to Refunding Escrow Agent | | |
| Total Other Financing Sources (Uses) | <u>(15,738,732.92)</u> | <u>5,561,243.51</u> |
| Net Changes in Fund Balances | 14,779,867.66 | 2,720,612.04 |
| Fund Balances - Beginning of Year | 55,272,578.50 | 29,588,087.09 |
| Fund Balances - End of Year | <u>\$ 70,052,446.16</u> | <u>\$ 32,308,699.13</u> |

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

| Other Governmental Funds | Total Governmental Funds |
|--------------------------------|--------------------------------|
| \$ 6,597,905.05 | \$ 143,205,237.03 |
| | 24,126,249.96 |
| 41,334.47 | 158,037,873.43 |
| | 4,670,784.17 |
| <u>6,639,239.52</u> | <u>330,040,144.59</u> |
| 73,986.00 | 153,936,692.23 |
| | 46,282,859.42 |
| 200,169.80 | 30,643,661.70 |
| | 12,180,683.64 |
| | 15,978,877.33 |
| 650,951.05 | 8,218,162.01 |
| | 9,395,900.81 |
| 2,546,945.38 | 12,783,380.51 |
| 7,159,510.74 | 13,104,014.59 |
| 4,198,030.61 | 8,028,297.30 |
| <u>14,829,593.58</u> | <u>310,552,529.54</u> |
| <u>(8,190,354.06)</u> | <u>19,487,615.05</u> |
| | 1,589,412.38 |
| 83,500,000.00 | 83,536,000.00 |
| 15,587,222.85 | 15,587,222.85 |
| 12,545,599.54 | 22,663,490.86 |
| | 139,099.30 |
| | 603,598.45 |
| | (22,663,490.86) |
| <u>(98,793,533.95)</u> | <u>(98,793,533.95)</u> |
| <u>12,839,288.44</u> | <u>2,661,799.03</u> |
| 4,648,934.38 | 22,149,414.08 |
| 10,824,490.43 | 95,685,156.02 |
| <u>\$ 15,473,424.81</u> | <u>\$ 117,834,570.10</u> |

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended September 30, 2015

Net Changes in Fund Balances - Total Governmental Funds (Exhibit 5) \$ 22,149,414.08

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

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

| | | |
|----------------------|------------------------|--------------|
| Capital Outlays | \$ 12,783,380.51 | |
| Depreciation Expense | <u>(11,458,767.22)</u> | 1,324,613.29 |

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. 13,104,014.59

Payments to refunding escrow agent are recorded as expenditures or other financing uses in the governmental funds, but reduces long-term liabilities in the Statement of Activities. 98,793,533.95

Proceeds from the issuance of debt are reported as financing sources in governmental funds and thus contribute to the change in fund balance. Issuing long-term debt increases liabilities in the Statement of Net Position but does not affect the Statement of Activities. (83,536,000.00)

Premiums on debt issuance are reported as other financing sources in the governmental funds, but are amortized in the Statement of Activities. (15,587,222.85)

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 this amount.

| | | |
|---------------------------------------|-------------------|--------------|
| Proceeds from Sale of Capital Assets | \$ (603,598.45) | |
| Gain on Disposition of Capital Assets | <u>365,192.97</u> | (238,405.48) |

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

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.

| | | |
|--|--------------------|---------------------|
| Compensated Absences, Current Year Increase in Noncurrent Portion | \$ 49,850.52 | |
| Amortization of Deferred Amounts | 483,300.86 | |
| Pension Expense | <u>(37,187.29)</u> | |
| | | <u>(495,964.09)</u> |

| | | |
|---|--|--------------------------------|
| Change in Net Position of Governmental Activities (Exhibit 2) | | <u><u>\$ 35,513,983.49</u></u> |
|---|--|--------------------------------|

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Notes to the Financial Statements

For the Year Ended September 30, 2015

Note 1 – Summary of Significant Accounting Policies

The financial statements of the Baldwin 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 seven members elected by the qualified electors of the County. The Board is responsible for the general administration and supervision of the public schools for the educational interests of the County.

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

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the Board. These statements include the financial activities of the overall government. 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, 2015

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

Fund Financial Statements

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

Notes to the Financial Statements

For the Year Ended September 30, 2015

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

Governmental Fund Types

- ◆ **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.

- ◆ **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.

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within sixty (60) days of the end of the current fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, 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 is 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.

Notes to the Financial Statements
For the Year Ended September 30, 2015

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

1. Deposits and Investments

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

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

Investments are reported at fair value, based on quoted market prices, except for money market investments and repurchase agreements, which are reported at amortized cost. The Board reports all money market investments – U. S. Treasury bills and bankers' acceptances having a remaining maturity at time of purchase of one year or less – at amortized cost.

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

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

3. Inventories

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

Notes to the Financial Statements

For the Year Ended September 30, 2015

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Restricted Assets

Included in Cash, Cash Equivalents and Cash with Fiscal Agent on the financial statements are 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, which are classified as restricted assets because they are maintained separately and their use is limited. The Public School Capital Projects, Fleet Renewal, Bond Issue Payments, Bonds and Warrants, and Qualified Zone Academy Bonds funds are used to report proceeds that are restricted for use in various construction projects and the purchase of school buses. The Debt Service Fund is used to report resources set aside to pay the principal and interest on debt as it become due.

6. Capital Assets

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

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

| | Capitalization Threshold | Estimated Useful Life | Salvage Value Percentage |
|-----------------------------------|-----------------------------|--------------------------|-----------------------------|
| Land | \$ 1 | N/A | N/A |
| Land Improvements (Inexhaustible) | \$ 1 | N/A | N/A |
| Land Improvements (Exhaustible) | \$50,000 | 20 years | 0% |
| Buildings | \$50,000 | 25 – 50 years | 20% |
| Building Improvements | \$50,000 | 5 – 30 years | 20% |
| Equipment and Furniture | \$ 5,000 | 5 – 20 years | 1% |
| Vehicles | \$ 5,000 | 8 – 15 years | 5% |
| Equipment Under Capital Lease | \$ 5,000 | 5 – 20 years | 1% |

Notes to the Financial Statements
For the Year Ended September 30, 2015

7. Deferred Outflows of Resources

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

8. 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. Bond/Warrant premiums and discounts are deferred and amortized over the life of the debt. Bonds/Warrants payable are reported gross of the applicable bond/warrant premium or discount. Bond/Warrant issuance costs are reported as an expense in the period incurred.

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

9. Compensated Absences

The Board has a standard leave policy for its full-time employees as to sick leave and vacation (annual) leave.

Personnel who hold twelve-month appointments earn annual leave as follows:

Employees with less than 100 months of employment in the public schools of Alabama shall accrue annual leave at the rate of one day per month. Employees with more than 100 months of employment in the public schools of Alabama shall accrue annual leave at the rate of one and one-half days per month. Annual leave may be accumulated up to but not to exceed forty-five (45) days. Personnel who terminate their employment with the school system shall be paid at their regular rate for the unused portion of accumulated annual leave.

There are no provisions for payment of unused sick leave due to termination or retirement.

Notes to the Financial Statements

For the Year Ended September 30, 2015

10. Deferred Inflows of Resources

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

11. 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.

12. 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 net position categories:

- ◆ **Net Investment in Capital Assets** – Capital assets minus accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets plus or minus any deferred outflows of resources and deferred inflows of resources that are attributable to those assets or related debt. Any significant unspent related debt proceeds and any deferred outflows or inflows at year-end related to capital assets are not included in this calculation.
- ◆ **Restricted** – Constraints imposed on net position by external creditors, grantors, contributors, laws or regulations of other governments, or law through constitutional provision or enabling legislation.
- ◆ **Unrestricted** – 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, 2015

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 in-tact. 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 school system for specific purposes. The Board authorized the Superintendent or Chief School Finance 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, 2015

Note 2 – Stewardship, Compliance, and Accountability

Budgets

Budgets are adopted on a basis of accounting consistent with accounting principles generally accepted in the United States of America (GAAP) for the General Fund and Special Revenue Fund with the exception of salaries and benefits, which are budgeted only to the extent expected to be paid rather than on the modified accrual basis of accounting. 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, 2015

B. 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.

As of September 30, 2015, the Board had the following amounts invested in cash with fiscal agent:

| Investment Type | Fair Value | Maturity | Rating |
|--|-----------------------|-----------------|--------|
| Federated U. S. Treasury Cash Reserves – Inst. Svc. Shares | \$5,097,632.70 | 90 days or less | AAAm |
| U. S. Treasury Bill | 740,649.91 | 01/09/2016 | NR |
| Total Cash with Fiscal Agent | <u>\$5,838,282.61</u> | | |
| NR = Not Rated | | | |

Interest Rate Risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways the Board manages its exposure to interest rate risk is by investing in a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the investments is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for capital projects. The Board has a formal investment policy that requires diversity of its investment portfolio and maturities of 12 months or less as a means of managing its exposure to fair value losses arising from increasing rates.

Credit Risk – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The credit rating, if applicable and available, is presented in the table of investments. The Board has an investment policy that limits investments to obligations, Treasury bills or Notes of the United States or its agencies with maturities of 12 months or less; insured or collateralized certificates of deposit with maturities of twelve months or less; overnight repurchase agreements with approved master repurchase agreement if applicable; and fully collateralized interest bearing sweep accounts if applicable.

Notes to the Financial Statements

For the Year Ended September 30, 2015

Custodial Credit Risk – Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Board’s investment policy does not specifically address securities held by a counterparty. However, the policy identifies the permissible investments/depository instruments, and requires diversification, prudence in investment decisions, and collateralization. These criteria are designed to limit all forms of credit risk.

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 has an investment policy that requires diversity of its investments with respect to maturity, security types, and/or financial institutions to avoid incurring unreasonable or unavoidable risk to principal or liquidity of the investments.

Note 4 – Receivables

On September 30, 2015, receivables for the Board’s individual major funds are as follows:

| | General Fund | Special Revenue Fund | Total |
|----------------------------|-----------------------|----------------------------|------------------------|
| <u>Receivables:</u> | | | |
| Accounts | \$ 15,290.76 | \$ 87,796.87 | \$ 103,087.63 |
| Sales Tax | 3,064,709.39 | | 3,064,709.39 |
| Intergovernmental | 3,321,144.56 | 3,901,222.89 | 7,222,367.45 |
| Other | 5,331.26 | 50,147.97 | 55,479.23 |
| Total Receivables | <u>\$6,406,475.97</u> | <u>\$4,039,167.73</u> | <u>\$10,445,643.70</u> |

Notes to the Financial Statements
For the Year Ended September 30, 2015

Note 5 – Capital Assets

Capital asset activity for the year ended September 30, 2015, was as follows:

| | Balance 10/01/2014 | Additions/ Reclassifications (*) | Retirements/ Reclassifications (*) | Balance 09/30/2015 |
|---|-----------------------|-------------------------------------|---------------------------------------|-----------------------|
| Governmental Activities: | | | | |
| Capital Assets, Not Being Depreciated: | | | | |
| Land and Land Improvements | \$ 7,377,629.38 | \$ 13,581.00 | \$ | \$ 7,391,210.38 |
| Land Improvements – Inexhaustible | 291,100.80 | | | 291,100.80 |
| Construction in Progress | 4,889,083.18 | 3,613,744.77 | (1,008,182.86) | 7,494,645.09 |
| Total Capital Assets, Not Being Depreciated | 12,557,813.36 | 3,627,325.77 | (1,008,182.86) | 15,176,956.27 |
| Capital Assets Being Depreciated: | | | | |
| Land Improvements – Exhaustible | 3,341,274.30 | 963,099.19 | | 4,304,373.49 |
| Buildings | 385,494,375.20 | 1,008,182.86 | (160,000.00) | 386,342,558.06 |
| Building Improvements | 49,239,826.80 | 3,686,312.85 | (61,500.00) | 52,864,639.65 |
| Equipment and Furniture | 14,728,733.35 | 1,327,252.83 | (104,449.57) | 15,951,536.61 |
| Vehicles | 24,223,569.98 | 3,179,389.87 | (3,609,297.15) | 23,793,662.70 |
| Assets Under Capital Lease | 6,119,527.42 | | | 6,119,527.42 |
| Total Capital Assets Being Depreciated | 483,147,307.05 | 10,164,237.60 | (3,935,246.72) | 489,376,297.93 |
| Less Accumulated Depreciation for: | | | | |
| Land Improvements – Exhaustible | (1,566,389.19) | (158,069.80) | | (1,724,458.99) |
| Buildings | (62,700,273.37) | (6,113,257.75) | 128,000.00 | (68,685,531.12) |
| Building Improvements | (14,611,255.73) | (1,974,125.87) | 49,200.00 | (16,536,181.60) |
| Equipment and Furniture | (9,266,405.92) | (1,033,783.35) | 90,808.94 | (10,209,380.33) |
| Vehicles | (13,671,338.22) | (1,622,980.25) | 3,428,832.30 | (11,865,486.17) |
| Assets Under Capital Lease | (4,366,384.02) | (556,550.20) | | (4,922,934.22) |
| Total Accumulated Depreciation | (106,182,046.45) | (11,458,767.22) | 3,696,841.24 | (113,943,972.43) |
| Total Capital Assets Being Depreciated, Net | 376,965,260.60 | (1,294,529.62) | (238,405.48) | 375,432,325.50 |
| Total Governmental Activities Capital Assets, Net | \$ 389,523,073.96 | \$ 2,332,796.15 | \$(1,246,588.34) | \$ 390,609,281.77 |
| (*) Included in the "Additions" and "Retirements" columns above are reclassifications totaling \$1,008,182.86 from Construction in Progress to Buildings. | | | | |

Notes to the Financial Statements
For the Year Ended September 30, 2015

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

| | Current Year Depreciation Expense |
|--|---|
| <u>Governmental Activities:</u> | |
| Instruction | \$ 7,303,026.22 |
| Instructional Support Services | 505,096.75 |
| Operation and Maintenance Services | 325,055.53 |
| <u>Auxiliary Services:</u> | |
| Food Services | 1,238,213.90 |
| Student Transportation Services | 1,943,635.12 |
| General Administration and Central Support | 136,665.24 |
| Other | 7,074.46 |
| Total Depreciation Expense – Governmental Activities | <u>\$11,458,767.22</u> |

Note 6 – Defined Benefit Pension Plan

A. Plan Description

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

Notes to the Financial Statements

For the Year Ended September 30, 2015

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

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.

Notes to the Financial Statements

For the Year Ended September 30, 2015

Participating employers' contractually required contribution rate for the year ended September 30, 2014 was 11.71% of annual pay for Tier 1 members and 11.08% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the System were \$17,214,187 for the year ended September 30, 2015.

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

At September 30, 2015, the Board reported a liability of \$203,548,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2013. 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, 2014, the Board's proportion was 2.240591%, which was an increase (decrease) of 0.095922% from its proportion measured as of September 30, 2013.

For the year ended September 30, 2015, the Board recognized pension expense of \$17,214,187.

At September 30, 2015, 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 |
|--|--------------------------------------|-------------------------------------|
| Difference between expected and actual experience | \$ | \$ |
| Changes of assumptions | | |
| Net difference between projected and actual earnings on pension plan investments | | 15,261,000 |
| Changes in proportion and difference between Employer Contributions and proportionate share of contributions | 7,652,000 | |
| Employer contributions subsequent to the measurement date | 17,214,187 | |
| Total | \$24,866,187 | \$15,261,000 |

Notes to the Financial Statements
For the Year Ended September 30, 2015

\$17,214,187 reported as deferred outflows or resources related to pensions resulting from System contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| | |
|--------------------|---------------|
| Year Ending: | |
| September 30, 2016 | \$(2,035,000) |
| 2017 | \$(2,035,000) |
| 2018 | \$(2,035,000) |
| 2019 | \$(2,035,000) |
| 2020 | \$ (531,000) |
| Thereafter | \$ |

E. Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of September 30, 2013, 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, 2013, were based on the results of an investigation of the economic and demographic experience for the TRS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012.

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

Notes to the Financial Statements
For the Year Ended September 30, 2015

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

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

(*) Includes assumed rate of inflation of 2.50%

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.

Notes to the Financial Statements
For the Year Ended September 30, 2015

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%) |
|---|------------------------|-------------------------|------------------------|
| The Board's proportionate share of collective net pension liability | \$277,295 | \$203,548 | \$141,042 |
| (Dollar amounts in the thousands) | | | |

H. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2014. The supporting actuarial information is included in the GASB Statement Number 67 Report for the TRS prepared as of September 30, 2014. The auditor's report dated May 1, 2015, 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, 2014, 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, 2015

Note 7 – Other Postemployment Benefits (OPEB)

A. Plan Description

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

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 fund assets used in paying administrative costs and retiree benefits are transferred to and paid from the PEEHIF. The PEEHIB periodically reviews the funds available in the PEEHIF and if excess funds are determined to be available, the PEEHIB authorizes a transfer of funds from the PEEHIF to the Trust. Retirees are required to contribute monthly as follows:

| | Fiscal Year 2015 |
|---|---------------------|
| Individual Coverage – Non-Medicare Eligible | \$151.00 |
| Individual Coverage – Medicare Eligible | \$ 10.00 |
| Family Coverage – Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) | \$391.00 |
| Family Coverage – Non-Medicare Eligible Retired Member and Dependent Medicare Eligible | \$250.00 |
| Family Coverage – Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) | \$250.00 |
| Family Coverage – Medicare Eligible Retired Member and Dependent Medicare Eligible | \$109.00 |
| Surviving Spouse – Non-Medicare Eligible | \$700.00 |
| Surviving Spouse – Non-Medicare Eligible and Dependent Non-Medicare Eligible | \$934.00 |
| Surviving Spouse – Non-Medicare Eligible and Dependent Medicare Eligible | \$907.00 |
| Surviving Spouse – Medicare Eligible | \$354.00 |
| Surviving Spouse – Medicare Eligible and Dependent Non-Medicare Eligible | \$595.00 |
| Surviving Spouse – Medicare Eligible and Dependent Medicare Eligible | \$568.00 |

Notes to the Financial Statements

For the Year Ended September 30, 2015

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 who retire on or after January 1, 2012, 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. A tobacco premium is \$28.00 per month for retired members that use tobacco.

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

| Fiscal Year Ended September 30, | Active Health Insurance Premiums Paid by the 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 |
|------------------------------------|--|---|---|--|---|
| 2015 | \$780.00 | \$180.76 | 23.17% | \$7,530,189.76 | 100% |
| 2014 | \$714.00 | \$220.09 | 30.83% | \$8,969,795.38 | 100% |
| 2013 | \$714.00 | \$216.90 | 30.38% | \$8,437,674.82 | 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, 2015

Note 8 – Lease Obligations

Capital Leases

The Board is obligated under certain leases accounted for as capital leases. Assets under capital leases totaled \$6,119,527.42 at September 30, 2015. If the Board completes the lease payments according to the schedule below, which is the stated intent of the Board, ownership of the leased equipment will pass to the Board. Until that time, the leased equipment will be identified separately on the balance sheet. The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of September 30, 2015.

| Fiscal Year Ending | Governmental Activities |
|---|----------------------------|
| September 30, 2016 | \$1,060,436.04 |
| 2017 | 419,303.63 |
| Total Minimum Lease Payments | <u>1,479,739.67</u> |
| Less: Amount Representing Interest | (49,138.26) |
| Present Value of Net Minimum Lease Payments | <u>\$1,430,601.41</u> |

Operating Leases

The Board is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected as part of the Board’s capital assets. During the fiscal year ended September 30, 2015, the Board paid a total of \$1,509,669.46 for operating leases.

The following is a schedule by fiscal years of future minimum rental payments required under operating leases for facilities and equipment that have initial or remaining noncancelable lease terms in excess of one year as of September 30, 2015:

| | Equipment |
|---------------------------------|---------------------|
| 2015-2016 | \$118,812.07 |
| 2016-2017 | 56,281.36 |
| 2017-2018 | 15,037.96 |
| Total Minimum Payments Required | <u>\$190,131.39</u> |

Notes to the Financial Statements

For the Year Ended September 30, 2015

Note 9 – Long-Term Debt

On July 1, 2005, the Board issued \$1,000,000 in certificates of participation in Qualified Zone Academy Bonds (QZAB) for the purposes of (i) financing certain school improvements and (ii) purchasing and installing equipment.

On October 25, 2006, the Board entered into a lease agreement in the amount of \$5,117,592.32 at an interest rate of 4.27% for seventy-seven buses.

On July 1, 2007, the Board issued \$150,000,000 in Capital Outlay School Warrants, with rates from 4.25% to 5.00%, for the purpose of financing the costs of constructing capital improvements to the Board's educational system.

On March 15, 2009, the Board entered into a lease agreement in the amount of \$963,974.72 at an interest rate of 2.11% for network cabling including all infrastructure needed to completely rewire existing school buildings in order to facilitate network communications throughout the school buildings. There is also a note payable associated with this lease in the amount of \$312,190.85 for a service agreement.

On October 21, 2009, the Alabama Public School and College Authority, on behalf of the various Boards of Education in the pool, issued \$174,960,000.00 in Capital Improvement Pool Refunding Bonds, Series 2009-B ("Series 2009-B") with interest rates ranging from 3.00% to 5.00% to refund and retire on a current basis \$151,170,000.00 of outstanding Capital Improvement Pool Bond Series 1999-D ("Series 1999-D") with interest rates ranging from 5.75% to 6.00% and to advance refund \$27,815,000.00 of outstanding Capital Improvement Pool Bonds, Series 2001-A ("Series 2001-A") which were scheduled to mature in fiscal years 2014 through 2018 with interest rates ranging from 5.50% to 5.625%. The Board had a 2.651% participation in the Series 2001-A. This resulted in the Board being obligated for \$691,769.38 of the total principal of \$174,960,000.00.

On December 16, 2009, the Alabama Public School and College Authority issued Capital Improvement Pool Qualified School Construction Bonds Series 2009-D (Tax Credit Bonds) with a tax credit rate of 5.76% and interest rate of 1.865% on behalf of various Boards of Education in the State. The Board had a 1.147% participation in the bonds resulting in the Board's share of principal, issuance costs and net proceeds of \$1,673,000.00, \$14,726.73 and \$1,658,273.27, respectively. The Board is required to make sinking fund deposits of \$87,064.91 on December 15 in each year for fifteen years so that such deposits and any interest earned thereon shall be used to pay the principal of the bonds upon maturity and are pledged to pay the debt service requirements of the bonds. The sinking fund deposits and interest payments are payable from and secured by a pledge of the Board's allocable share of Public School Capital Outlay Funds.

Notes to the Financial Statements
For the Year Ended September 30, 2015

On May 2, 2011, the Alabama Public School and College Authority, on behalf of the various Boards of Education in the pool, issued \$26,900,000.00 in Capital Improvement Pool Refunding Bonds, Series 2011-B (“Series 2011-B”) with interest rates ranging from 2.00% to 5.00% to refund and retire on a current basis \$29,795,000.00 of outstanding Capital Improvement Pool Bonds, Series 2001-A (“Series 2001-A”) with interest rates of 5.00%. This was the remaining amount of the Series 2001-A not refunded by Series 2009-B discussed previously. The Board had a 2.65% participation in the Series 2001-A. This resulted in the Board being obligated for \$712,850.00 of the total principal of \$26,900,000.00.

On June 2, 2011, the Board entered into a special pool loan agreement for \$4,101,000.00 with the Alabama Public School and College Authority (the “PSCA”). The PSCA issued bonds known as “qualified zone academy bonds” under Section 54E of the Internal Revenue Code of 1986 in order to finance loans to various local Boards of Education throughout the State of Alabama. The proceeds of these bonds are limited to rehabilitating, repairing or equipping public school facilities. The interest rates on these bonds are 4.60%; however, the PSCA expects to receive subsidy payments from the United States Treasury in amounts equal to the interest due on the bonds making the effective interest payment due from the Board equal zero. Annual sinking fund deposits of \$205,442.11 are required beginning in fiscal year 2012, but there is only a single principal payment due at maturity on May 1, 2026.

On March 14, 2012, the Alabama Public School and College Authority, on behalf of the various Boards of Education in the pool, issued \$79,340,000.00 in Pool Refunding Bonds, Series 2012-A (“Series 2012-A”) with interest rates ranging from 3.00% to 5.00% to refund and retire on a current basis \$57,497,698.00 of outstanding Capital Improvement Pool Bond, Series 2002-A (“Series 2002-A”) and \$21,842,302.00 of outstanding Capital Improvement and Economic Development and Training Bonds, Series 2003 (“Series 2003”) which were scheduled to mature in fiscal years 2013 through 2022 with interest rates ranging from 4.00% to 5.00%. The Board had a 27.80% participation in the Series 2002-A. This resulted in the Board being obligated for \$15,984,360.04 of the total principal of \$79,340,000.00.

On September 1, 2012, the Board issued \$39,860,000.00 in Refunding School Warrants; Series 2012 with interest rates of 2.00% to 5.00% for the advance refunding of \$40,850,000.00 of outstanding Capital Outlay School Warrants, Series 2005 with and interest rate of 3.00% to 5.00%.

Notes to the Financial Statements
For the Year Ended September 30, 2015

On September 27, 2013, the Board issued \$9,500,000.00 in Special Tax School Warrants, Series 2013, with an interest rate of 0.85% for the purpose of financing the purchase of certain technology equipment and improvements for educational use. The Series 2013 Warrant was classified as a “qualified tax exempt obligation” pursuant to Section 265 of the Internal Revenue Code and therefore “bank-qualified”. Subsequent to the designation and issuance of the Series 2013 Warrant, it was learned that the Board did not have sufficient capacity to characterize the entire 2013 issue as a “qualified tax exempt obligation” thus potentially impacting the “bank-qualified” status of the 2013 issue. Consequently, it was determined that it was in the best interest of the Board to refund and retire the Series 2013 Warrant through the issuance of its \$9,500,000 original principal amount into School Warrant, Series 2014, with an interest rate of 0.88% with a closing date of January 24, 2014.

On January 14, 2015, the Board issued \$83,500,000 in Refunding School Warrants, Series 2015 with interest rates of 3.125% - 5% for the advance refunding of \$98,648,847 of the outstanding Capital Outlay School Warrants, Series 2007. Capital Outlay School Warrants, Series 2007 has an outstanding balance of \$42,435,000.00 as of September 30, 2015.

Notes to the Financial Statements
For the Year Ended September 30, 2015

The following is a summary of long-term debt transactions for the Board for the year ended September 30, 2015:

| | Debt Outstanding 10/01/2014 (*) | Issued/ Increased | Repaid/ Decreased | Debt Outstanding 09/30/2015 | Amounts Due Within One Year |
|---|---------------------------------------|------------------------|---------------------------|-----------------------------------|-----------------------------------|
| Governmental Activities: | | | | | |
| Bonds/Warrants Payable | \$198,526,507.14 | \$83,500,000.00 | \$ (99,231,121.29) | \$182,795,385.85 | \$10,087,898.75 |
| Unamortized Amounts: | | | | | |
| Add: Unamortized Premium | 6,096,905.58 | 15,587,222.85 | (1,080,127.33) | 20,604,001.10 | 1,363,531.33 |
| Less: Unamortized Discount | (1,075,563.53) | | 1,075,563.53 | | |
| Total Bonds/Warrants Payable | <u>203,547,849.19</u> | <u>99,087,222.85</u> | <u>(99,235,685.09)</u> | <u>203,399,386.95</u> | <u>11,451,430.08</u> |
| Other Liabilities: | | | | | |
| Certificates of Participation (QZAB) | 1,000,000.00 | | | 1,000,000.00 | |
| Notes Payable | 91,866.38 | 36,000.00 | (71,478.31) | 56,388.07 | 28,388.07 |
| Capital Lease Contracts Payable | 4,682,016.40 | | (3,251,414.99) | 1,430,601.41 | 1,021,194.20 |
| Net Pension Liability | 210,075,000.00 | | (6,527,000.00) | 203,548,000.00 | |
| Estimated Liabilities for Compensated Absences | <u>3,202,250.01</u> | <u>49,850.52</u> | | <u>3,252,100.53</u> | <u>325,210.06</u> |
| Total Other Liabilities | <u>219,051,132.79</u> | <u>85,850.52</u> | <u>(9,849,893.30)</u> | <u>209,287,090.01</u> | <u>1,374,792.34</u> |
| Total Governmental Activities Long-Term Liabilities | <u>\$422,598,981.98</u> | <u>\$99,173,073.37</u> | <u>\$(109,085,578.39)</u> | <u>\$412,686,476.96</u> | <u>\$12,826,222.41</u> |
| (*) Beginning balance was restated due to the implementation of new GASB standards pertaining to Net Pension Liability. | | | | | |

Payments on the Series 2007, 2012, 2013, and 2015 warrants payable are made with property taxes and sales taxes. Payments on the Capital Improvement Pool Bonds Series 2009-B, 2009-D and 2011-B 2011-QZAB Bonds, and 2012-A Pool Refunding Warrants are made with Public School Funds which are part of the Board's allocation from the Alabama Department of Education. Payments on the capital leases are made from the Fleet Renewal Funds and available local sources. The long-term note payable will be paid from the General Fund using available local sources. The compensated absences liability will primarily be liquidated by the General Fund.

Notes to the Financial Statements
For the Year Ended September 30, 2015

Simultaneously, upon the issuance of the certificates of participation in the 2005 Qualified Zone Academy Bonds (QZAB), the Board set aside \$606,532.95 in an investment account to provide for the future debt service requirements of the QZAB. This investment account does not, however, guarantee the full payment of the debt service requirements for the QZAB; therefore, the QZAB is not considered to be defeased and the liability remains on the Board's books.

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

| Fiscal Year Ending | Warrants Payable | | Certificate of Participation | |
|--------------------|------------------|------------------|------------------------------|----------|
| | Principal | Interest | Principal | Interest |
| September 30, 2016 | \$ 10,087,898.75 | \$ 12,668,419.61 | \$ | \$ |
| 2017 | 7,197,832.02 | 12,345,097.17 | | |
| 2018 | 7,264,240.15 | 7,663,534.33 | | |
| 2019 | 7,548,158.64 | 7,318,407.94 | | |
| 2020 | 7,936,295.31 | 6,939,010.78 | | |
| 2021-2025 | 39,626,960.98 | 28,963,431.88 | 1,000,000.00 | |
| 2026-2030 | 46,879,000.00 | 18,314,677.80 | | |
| 2031-2035 | 37,825,000.00 | 9,281,462.50 | | |
| 2036-2038 | 18,430,000.00 | 1,253,700.00 | | |
| Total | \$182,795,385.85 | \$104,747,742.01 | \$1,000,000.00 | \$ |

Deferred Loss on Refunding, Discounts and Premiums

The Board has deferred amounts associated with several of its debt issues. All are being amortized using the straight-line method.

- ◆ Capital Outlay School Warrants, Series 2007 had a discount that was deferred and is now fully amortized in fiscal year 2015.
- ◆ Capital Improvement Pool Refunding Bonds, Series 2009-B had a premium that was deferred and is now being amortized over 10 years. This debt also had a deferred loss on refunding being amortized over 9 years.

Notes to the Financial Statements
For the Year Ended September 30, 2015

| Capital Lease Payable | | Notes Payable | | Total Principal and Interest Requirements to Maturity |
|-----------------------|--------------------|--------------------|-------------------|---|
| Principal | Interest | Principal | Interest | |
| \$1,021,194.20 | \$39,241.84 | \$28,388.07 | \$ 1,845.18 | \$ 23,846,987.65 |
| 409,407.21 | 9,896.42 | 8,000.00 | 1,000.00 | 19,971,232.82 |
| | | 20,000.00 | 800.00 | 14,948,574.48 |
| | | | | 14,866,566.58 |
| | | | | 14,875,306.09 |
| | | | | 69,590,392.86 |
| | | | | 65,193,677.80 |
| | | | | 47,106,462.50 |
| | | | | 19,683,700.00 |
| <u>\$1,430,601.41</u> | <u>\$49,138.26</u> | <u>\$56,388.07</u> | <u>\$3,645.18</u> | <u>\$290,082,900.78</u> |

- ◆ The Capital Improvement Pool Refunding Bonds, Series 2012-A had a premium and deferred loss on refunding and are now being amortized over 12 years.
- ◆ The School Refunding Warrants, Series 2012 had a premium and deferred loss on refunding and are now being amortized over 17 years.
- ◆ The Refunding Warrants, Series 2015 has a premium and deferred loss on refunding and are now being amortized over 18 years.

Notes to the Financial Statements
For the Year Ended September 30, 2015

| | Premium | Discount | Deferred Loss on Refunding |
|---|-----------------|----------------|----------------------------------|
| Total Deferred Loss on Refunding, Discount and Premium | | | |
| Capital Outlay School Warrants, Series 2007 | \$ | \$1,418,325.55 | \$ |
| Capital Improvement Pool Refunding, Series 2009-B | 105,679.76 | | 55,803.56 |
| Pool Refunding Warrants, Series 2012A | 2,890,675.38 | | (146,473.79) |
| School Refunding Warrant, Series 2012 | 4,431,685.05 | | 2,399,114.49 |
| Refunding Warrants, Series 2015 | 15,587,222.85 | | 9,343,533.95 |
| Total Deferred Amounts | 23,015,263.04 | 1,418,325.55 | 11,651,978.21 |
| Amount Amortized Prior Years | | | |
| Capital Outlay School Warrants, Series 2007 | | 342,762.02 | |
| Capital Improvement Pool Refunding, Series 2009-B | 53,818.41 | | 31,970.77 |
| Pool Refunding Warrants, Series 2012A | 582,149.91 | | (146,473.79) |
| School Refunding Warrants, Series 2012 | 695,166.29 | | 376,331.68 |
| Refunding Warrant, Series 2015 | | | |
| Total Amount Amortized Prior Years | 1,331,134.61 | 342,762.02 | 261,828.66 |
| Balance Deferred Loss on Refunding, Discount and Premium | | | |
| Capital Outlay School Warrants, Series 2007 | | 1,075,563.53 | |
| Capital Improvement Pool Refunding, Series 2009-B | 51,861.35 | | 23,832.79 |
| Pool Refunding Warrants, Series 2012A | 2,308,525.47 | | |
| School Refunding Warrants, Series 2012 | 3,736,518.76 | | 2,022,782.81 |
| Refunding Warrants, Series 2015 | 15,587,222.85 | | 9,343,533.95 |
| Total Balance Deferred Amounts | 21,684,128.43 | 1,075,563.53 | 11,390,149.55 |
| Current Amount Amortized | | | |
| Capital Outlay School Warrants, Series 2007 | | 1,075,563.53 | |
| Capital Improvement Pool Refunding, Series 2009-B | 11,742.20 | | 6,975.44 |
| Pool Refunding Warrants, Series 2012A | 240,889.62 | | |
| School Refunding Warrants, Series 2012 | 260,687.36 | | 141,124.38 |
| Refunding Warrants, Series 2015 | 566,808.15 | | 339,764.84 |
| Total Current Amount Amortized | 1,080,127.33 | 1,075,563.53 | 487,864.66 |
| Balance Deferred Loss on Refunding, Discount and Premium | | | |
| Capital Outlay School Warrants, Series 2007 | | | |
| Capital Improvement Pool Refunding, Series 2009-B | 40,119.15 | | 16,857.35 |
| Pool Refunding Warrants, Series 2012A | 2,067,635.85 | | |
| School Refunding Warrants, Series 2012 | 3,475,831.40 | | 1,881,658.43 |
| Refunding Warrants, Series 2015 | 15,020,414.70 | | 9,003,769.11 |
| Total Balance | \$20,604,001.10 | \$ | \$10,902,284.89 |

Notes to the Financial Statements

For the Year Ended September 30, 2015

Pledged Revenues

On January 24, 2014, the Board issued \$9,500,000.00 in Special Tax School Warrants, Series 2014, for the purpose of refunding the Special Tax School Warrants, Series 2013, and financing the purchase of certain technology equipment and improvements for educational use. The Board pledged to repay the warrants from the proceeds of the sales and use tax collected pursuant to Act Number 2012-488, Acts of Alabama. Future revenues of \$3,206,690.16 are pledged to repay the principal and interest on the Series 2014 warrants at September 30, 2015. Pledged revenues in the amount of \$35,195,512.85 were received during the fiscal year ended September 30, 2014, which were used to pay \$3,207,113.76 principal and interest payments on the warrants. The Series 2014 warrants will mature in fiscal year 2016.

The Board issued \$39,860,000.00 in Refunding School Warrants, Series 2012, for the advance refunding of outstanding Capital Outlay School Warrants, Series 2005. The Board pledged to repay the warrants from the proceeds of the sales and use tax collected pursuant to *Code of Alabama 1975*, Section 40-12-4, Act Number 83-832, Act of Alabama, as amended by Act Number 84-523, and five mill county-wide ad valorem tax pursuant to Amendment Number 162. Future revenues of \$47,195,106 are pledged to repay the principal and interest on the Series 2012 warrants at September 30, 2015. Pledged revenues in the amount of \$70,250,532 were received during the fiscal year ended September 30, 2015, which were used to pay \$3,373,218.76 principal and interest payments on the warrants. The Series 2012 warrants will mature in fiscal year 2029.

The Board issued \$83,500,000 in Refunding School Warrants, Series 2015, for the advance partial refunding of the outstanding balance of \$135,235,000.00 of the Capital Outlay School Warrants, Series 2007. The Board pledged to the repay the refunded warrants from the proceeds of the sales and use tax collected pursuant to the *Code of Alabama 1975*, Section 40-12-4, Act Number 83-832, Act of Alabama, as amended by Act Number 84-523, and the five mill county-wide ad valorem tax pursuant to Amendment Number 162. Future revenue of \$129,122,375 are pledged to repay the principal and interest on the Series 2015 warrants at September 30, 2015. Pledged revenue in the amount of \$70,250,532 were received during the fiscal year ended September 30, 2015, which were used to pay \$1,323,177.43 in interest payments on the warrants. The Series 2015 warrants will mature in fiscal year 2033.

The remaining Capital Outlay Warrant, Series 2007, have an outstanding balance of \$42,435,000 has of September 30, 2015. The Board pledged to repay the warrants from the proceeds of the sales and use tax collected pursuant to *Code of Alabama 1975*, Section 40-12-4. Future revenues of \$75,571,225 are pledged to repay the principal and interest on the Series 2007 warrants at September 30, 2015. Pledged revenues in the amount of \$35,195,513 were received during the fiscal year ended September 30, 2015, which were used to pay \$4,398,175 in principal and interest payments on the Series 2007. The Series 2007 warrants will mature in fiscal year 2037.

Notes to the Financial Statements

For the Year Ended September 30, 2015

The Board issued Series 2009-B Capital Improvement Pool Refunding Bonds, Series 2009-D Capital Improvement Pool Qualified School Construction Bonds, Series 2011-B Capital Improvement Pool Refunding Bonds, 2011-QZAB warrants and 2012-A Pooled Refunding Bonds which are pledged to be repaid from their allocation of public school funds received from the State of Alabama. Future revenues in the amount of \$477,382 are pledged to repay the principal and interest on the Series 2009-B bonds at September 30, 2015. Future revenues in the amount of \$1,992,814.92 are pledged to repay the principal and interest on the Series 2009-D bonds at September 30, 2015. Future revenues in the amount of \$602,914 are pledged to repay the principal and interest on the Series 2011-B bonds at September 30, 2015. Future revenues in the amount of \$6,176,106 are pledged to repay the principal and interest on the Series 2011 QZAB warrant at September 30, 2015. Future revenues in the amount of \$14,519,975 are pledged to repay the principal and interest on the Series 2012-A bonds at September 30, 2015. Pledged funds in the amount of \$2,341,604 were used to pay principal and interest on the bonds during the fiscal year ended September 30, 2015. This amount represents 43 percent of the pledged funds received by or allocated to the Board. The Series 2009B and 2009-D, 2011-B, 2011-QZAB and 2012-A debt will mature in fiscal years 2018, 2026, 2021, 2026, and 2024 respectively.

Defeased Debt

On February 3, 2015, the Board issued \$83,500,000.00 in Refunding School Warrants for the purpose of advance refunding \$89,450,000.00 of outstanding 2007 Capital Outlay Warrants. The net proceeds of \$98,793,533.95 (the net proceeds from the debt issuance plus \$361,588.13 contributed by the Board) were used to purchase U. S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on a portion of the 2007 Capital Outlay Warrants. As a result, this portion of the debt is considered to be defeased and the liability for the debt has been removed.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$9,343,533.95. As a result of the advance refunding, the Board decreased its total debt service requirements by \$10,427,086.00, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$8,070,793.

Prior Year Defeasance of Debt

In prior years, the Board defeased the certificates of participation relating to the Qualified Zone Academy Bonds (QZAB), Series 2002-A. The Board deposited funds into an irrevocable trust with an escrow agent to provide for the future debt service payments on the QZAB certificates when they mature on October 8, 2016. Accordingly, the trust account assets and the liability for the defeased debt are not included on the Board's financial statements. At September 30, 2015, the outstanding amount for the QZAB, Series 2002-A certificate, which is \$1 million, is considered to be defeased.

Notes to the Financial Statements
For the Year Ended September 30, 2015

Note 10 – Risk Management

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

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, 2015

Note 11 – Interfund Transfers

The amounts of interfund transfers during the fiscal year ended September 30, 2015, were as follows:

| | Transfers Out | | Total |
|--------------------------|------------------------|-----------------------|------------------------|
| | General Fund | Special Revenue Fund | |
| Transfers In: | | | |
| General Fund | \$ | \$2,545,344.08 | \$ 2,545,344.08 |
| Special Revenue Fund | 7,572,547.24 | | 7,572,547.24 |
| Other Governmental Funds | 12,545,599.54 | | 12,545,599.54 |
| Totals | <u>\$20,118,146.78</u> | <u>\$2,545,344.08</u> | <u>\$22,663,490.86</u> |

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

Note 12 – Restatements

In fiscal year 2015, the Board adopted Governmental Accounting Standards Board (GASB) Statement Number 68, **Accounting and Financial Reporting for Pensions**. The provisions of this Statement establish accounting and financial reporting standards for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts. Implementation of this statement requires a restatement to beginning net position. The adoption of this statement has a significant impact on the Board's financial statements. For fiscal year 2015, the Board made prior period adjustments due to the adoption of GASB Statement Number 68 which required the restatement of the September 30, 2014, net position in Governmental Activities. The result is a decrease in net position at October 1, 2014 of \$193,980,000.00.

| | Net Position |
|---|-------------------------|
| Net Position Balance, September 30, 2014, as Previously Reported | \$ 274,730,863.60 |
| Restatement for Pension Amounts | (193,980,000.00) |
| Governmental Activities Net Position, September 30, 2014, as Restated | <u>\$ 80,750,863.60</u> |

Required Supplementary Information

***Schedule of the Employer's Proportionate Share of the
Net Pension Liability
For the Year Ended September 30, 2015
(Dollar amounts in thousands)***

| | 2015 |
|--|-------------|
| Employer's proportion of the net pension liability | 2.240591% |
| Employer's proportionate share of the net pension liability | \$ 203,548 |
| Employer's covered-employee payroll during the measurement period (*) | \$ 147,181 |
| Employer's proportionate share of the collective net pension liability as a percentage of its covered-employee payroll | 138.30% |
| Plan fiduciary net position as a percentage of the total collective pension liability | 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 2015, the measurement period is October 1, 2013 - September 30, 2014.

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, 2015
(Dollar amounts in thousands)***

| | 2015 |
|--|------------------|
| Contractually required contribution | \$ 17,214 |
| Contributions in relation to the contractually required contribution | <u>\$ 17,214</u> |
| Contribution deficiency (excess) | \$ |
| Employer's covered-employee payroll | \$ 153,010 |
| Contributions as a percentage of covered-employee payroll | 11.25% |

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, 2015***

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> |
|--|-------------------------|-------------------------|-------------------------|
| | <u>Original</u> | <u>Final</u> | <u>Budgetary Basis</u> |
| <u>Revenues</u> | | | |
| State | \$ 133,917,572.00 | \$ 134,866,602.56 | \$ 135,237,158.07 |
| Local | 107,597,676.64 | 107,597,676.64 | 122,639,526.43 |
| Other | 367,000.00 | 3,667,744.47 | 4,210,446.94 |
| Total Revenues | <u>241,882,248.64</u> | <u>246,132,023.67</u> | <u>262,087,131.44</u> |
| <u>Expenditures</u> | | | |
| Current: | | | |
| Instruction | 137,351,190.13 | 139,230,001.87 | 135,954,038.29 |
| Instructional Support | 38,838,794.06 | 39,156,602.94 | 41,384,006.51 |
| Operation and Maintenance | 19,349,763.08 | 25,168,611.16 | 13,884,186.54 |
| Auxiliary Services: | | | |
| Student Transportation | 10,755,691.68 | 11,234,131.09 | 11,367,674.47 |
| General Administration and Central Support | 8,314,032.75 | 9,107,352.75 | 6,910,635.87 |
| Other | 3,478,204.50 | 3,846,032.73 | 3,780,654.12 |
| Capital Outlay | 12,254,668.32 | 14,729,013.26 | 8,318,789.59 |
| Debt Service: | | | |
| Principal Retirement | 8,344,514.56 | 8,344,514.56 | 5,873,025.54 |
| Interest and Fiscal Charges | 203,001.48 | 203,001.48 | 3,826,540.73 |
| Total Expenditures | <u>238,889,860.56</u> | <u>251,019,261.84</u> | <u>231,299,551.66</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>2,992,388.08</u> | <u>(4,887,238.17)</u> | <u>30,787,579.78</u> |
| <u>Other Financing Sources (Uses)</u> | | | |
| Indirect Cost | 1,867,048.32 | 2,003,991.18 | 1,589,412.38 |
| Long-Term Debt Issued | | 5,000.00 | |
| Transfers In | | 71,280.00 | 2,545,344.08 |
| Other Financing Sources | | | 103,838.89 |
| Sale of Capital Assets | | | 140,818.51 |
| Transfers Out | <u>(13,952,264.76)</u> | <u>(13,952,264.76)</u> | <u>(20,118,146.78)</u> |
| Total Other Financing Sources (Uses) | <u>(12,085,216.44)</u> | <u>(11,871,993.58)</u> | <u>(15,738,732.92)</u> |
| Net Change in Fund Balances | <u>(9,092,828.36)</u> | <u>(16,759,231.75)</u> | <u>15,048,846.86</u> |
| Fund Balances - Beginning of Year | <u>47,672,183.68</u> | <u>69,722,353.26</u> | <u>69,936,380.66</u> |
| Fund Balances - End of Year | <u>\$ 38,579,355.32</u> | <u>\$ 52,963,121.51</u> | <u>\$ 84,985,227.52</u> |

| | Budget to GAAP Differences | Actual Amounts GAAP Basis |
|-----|---------------------------------------|--------------------------------------|
| | \$ | \$ 135,237,158.07 |
| | | 122,639,526.43 |
| | | 4,210,446.94 |
| | | <u>262,087,131.44</u> |
| (1) | (610,156.71) | 136,564,195.00 |
| (1) | 182,990.57 | 41,201,015.94 |
| (1) | 85,503.11 | 13,798,683.43 |
| (1) | 34,619.90 | 11,333,054.57 |
| (1) | 84,961.62 | 6,825,674.25 |
| (1) | (46,897.69) | 3,827,551.81 |
| | | 8,318,789.59 |
| | | 5,873,025.54 |
| | | 3,826,540.73 |
| | <u>(268,979.20)</u> | <u>231,568,530.86</u> |
| | <u>(268,979.20)</u> | <u>30,518,600.58</u> |
| | | 1,589,412.38 |
| | | 2,545,344.08 |
| | | 103,838.89 |
| | | 140,818.51 |
| | | <u>(20,118,146.78)</u> |
| | | <u>(15,738,732.92)</u> |
| | (268,979.20) | 14,779,867.66 |
| (2) | <u>(14,663,802.16)</u> | <u>55,272,578.50</u> |
| | <u>\$ (14,932,781.36)</u> | <u>\$ 70,052,446.16</u> |

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended September 30, 2015***

**Explanation of differences between Actual Amounts on
Budgetary Basis and Actual Amounts GAAP Basis:**

- (1) The Board budgets for salaries and benefits only to the extent expected to be paid, rather than on the modified accrual basis.

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.

\$ (268,979.20)

\$ (268,979.20)

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Special Revenue Fund
For the Year Ended September 30, 2015***

| | Budgeted Amounts | | Actual Amounts Budgetary Basis |
|--|-------------------------|-------------------------|-----------------------------------|
| | Original | Final | |
| Revenues | | | |
| State | \$ 1,291,183.00 | \$ 1,382,482.95 | \$ 1,370,173.91 |
| Federal | 22,058,232.00 | 26,379,130.16 | 24,126,249.96 |
| Local | 25,700,503.00 | 26,072,769.00 | 35,357,012.53 |
| Other | 503,864.00 | 505,914.00 | 460,337.23 |
| Total Revenues | <u>49,553,782.00</u> | <u>54,340,296.11</u> | <u>61,313,773.63</u> |
| Expenditures | | | |
| Current: | | | |
| Instruction | 11,777,216.29 | 13,897,650.41 | 17,298,511.23 |
| Instructional Support | 3,705,343.27 | 4,357,797.11 | 5,081,843.48 |
| Operation and Maintenance | 14,046,747.00 | 14,697,423.46 | 16,644,808.47 |
| Auxiliary Services: | | | |
| Student Transportation | 319,178.62 | 342,215.56 | 847,629.07 |
| Food Service | 18,188,549.00 | 18,529,713.00 | 15,958,661.35 |
| General Administration and Central Support | 912,218.15 | 982,464.06 | 741,536.71 |
| Other | 3,907,299.68 | 4,908,491.37 | 5,568,349.00 |
| Capital Outlay | 1,858,548.00 | 1,928,263.27 | 1,917,645.54 |
| Debt Service: | | | |
| Principal Retirement | 27,032.00 | 27,032.00 | 71,478.31 |
| Interest and Fiscal Charges | 7,400.00 | 7,400.00 | 3,725.96 |
| Total Expenditures | <u>54,749,532.01</u> | <u>59,678,450.24</u> | <u>64,134,189.12</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>(5,195,750.01)</u> | <u>(5,338,154.13)</u> | <u>(2,820,415.49)</u> |
| Other Financing Sources (Uses) | | | |
| Long-Term Debt Issued | | | 36,000.00 |
| Transfers In | 4,492,296.00 | 4,492,296.00 | 7,572,547.24 |
| Other Financing Sources | | | 35,260.41 |
| Sale of Capital Assets | | | 462,779.94 |
| Transfers Out | | (71,280.00) | (2,545,344.08) |
| Total Other Financing Sources (Uses) | <u>4,492,296.00</u> | <u>4,421,016.00</u> | <u>5,561,243.51</u> |
| Net Change in Fund Balances | (703,454.01) | (917,138.13) | 2,740,828.02 |
| Fund Balances - Beginning of Year | <u>14,536,202.65</u> | <u>30,122,072.92</u> | <u>30,114,970.84</u> |
| Fund Balances - End of Year | <u>\$ 13,832,748.64</u> | <u>\$ 29,204,934.79</u> | <u>\$ 32,855,798.86</u> |

| | Budget to GAAP Differences | Actual Amounts GAAP Basis |
|-----|---------------------------------------|--------------------------------------|
| | \$ | \$ 1,370,173.91 |
| | | 24,126,249.96 |
| | | 35,357,012.53 |
| | | 460,337.23 |
| | | <u>61,313,773.63</u> |
| | | 17,298,511.23 |
| | | 5,081,843.48 |
| | | 16,644,808.47 |
| | | 847,629.07 |
| (1) | (20,215.98) | 15,978,877.33 |
| | | 741,536.71 |
| | | 5,568,349.00 |
| | | 1,917,645.54 |
| | | 71,478.31 |
| | | 3,725.96 |
| | (20,215.98) | <u>64,154,405.10</u> |
| | (20,215.98) | <u>(2,840,631.47)</u> |
| | | 36,000.00 |
| | | 7,572,547.24 |
| | | 35,260.41 |
| | | 462,779.94 |
| | | <u>(2,545,344.08)</u> |
| | | <u>5,561,243.51</u> |
| | (20,215.98) | 2,720,612.04 |
| (2) | (526,883.75) | <u>29,588,087.09</u> |
| | \$ (547,099.73) | <u>\$ 32,308,699.13</u> |

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Special Revenue Fund
For the Year Ended September 30, 2015***

**Explanation of differences between Actual Amounts on
Budgetary Basis and Actual Amounts GAAP Basis:**

- (1) The Board budgets for salaries and benefits only to the extent expected to be paid, rather than on the modified accrual basis.

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.

\$ (20,215.98)

\$ (20,215.98)

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Supplementary Information

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2015***

| Federal Grantor/ Pass-Through Grantor/ Program Title | Federal CFDA Number | Pass-Through Grantor's Number |
|--|------------------------------------|--|
| <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. |
| Career and Technical Education- Basic Grants to States | 84.048 | N.A. |
| Twenty-First Century Community Learning Centers (M) | 84.287 | N.A. |
| Advanced Placement Program | 84.330 | N.A. |
| English Language Acquisition State Grants | 84.365 | N.A. |
| Improving Teacher Quality State Grants | 84.367 | N.A. |
| Special Education - State Personnel Development | 84.323 | N.A. |
| Education Research, Development and Dissemination | 84.305 | N.A. |
| Education for Homeless Children and Youth | 84.196 | N.A. |
| Special Education Cluster: | | |
| Special Education - Grants to States | 84.027 | N.A. |
| Special Education - Preschool Grants | 84.173 | N.A. |
| Sub-Total Special Education Cluster (M) | | |
| <u>Passed Through Alabama Department of Rehabilitation Services</u> | | |
| Rehabilitation Services - Vocational Rehabilitation Grants to States | 84.126 | N.A. |
| Total U. S. Department of Education | | |
| Sub-Total Forward | | |

| Assistance Period | Budget | | Revenue Recognized | Expenditures |
|-------------------------|----------------------|----------------------|-----------------------|----------------------|
| | Total | Federal Share | | |
| 10/01/2014 - 09/30/2015 | \$ 6,027,058.96 | \$ 6,027,058.96 | \$ 5,728,857.29 | \$ 5,728,857.29 |
| 10/01/2014 - 09/30/2015 | 354,701.46 | 354,701.46 | 354,701.46 | 354,701.46 |
| 10/01/2014 - 09/30/2015 | 1,126,219.58 | 1,126,219.58 | 881,515.73 | 881,515.73 |
| 10/01/2014 - 09/30/2015 | 11,214.00 | 11,214.00 | 11,214.00 | 11,214.00 |
| 10/01/2014 - 09/30/2015 | 225,145.47 | 225,145.47 | 190,336.64 | 190,336.64 |
| 10/01/2014 - 09/30/2015 | 1,188,291.05 | 1,188,291.05 | 811,462.78 | 811,462.78 |
| 10/01/2014 - 09/30/2015 | 265,228.29 | 265,228.29 | 198,664.55 | 198,664.55 |
| 10/01/2014 - 09/30/2015 | 144,000.00 | 144,000.00 | 72,724.67 | 72,724.67 |
| 10/01/2014 - 09/30/2015 | 28,000.00 | 28,000.00 | 28,000.00 | 28,000.00 |
| 10/01/2014 - 09/30/2015 | 7,453,651.83 | 7,453,651.83 | 6,876,960.23 | 6,876,960.23 |
| 10/01/2014 - 09/30/2015 | 130,961.00 | 130,961.00 | 130,961.00 | 130,961.00 |
| | <u>7,584,612.83</u> | <u>7,584,612.83</u> | <u>7,007,921.23</u> | <u>7,007,921.23</u> |
| 10/01/2014 - 09/30/2015 | 60,192.21 | 60,192.21 | 60,192.21 | 60,192.21 |
| | <u>17,014,663.85</u> | <u>17,014,663.85</u> | <u>15,345,590.56</u> | <u>15,345,590.56</u> |
| | \$ 17,014,663.85 | \$ 17,014,663.85 | \$ 15,345,590.56 | \$ 15,345,590.56 |

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2015***

| Federal Grantor/ Pass-Through Grantor/ Program Title | Federal CFDA Number | Pass-Through Grantor's Number |
|---|------------------------------------|--|
| Sub-Total Brought Forward | | |
| <u>U. S. Department of Agriculture</u> | | |
| <u>Passed Through Alabama Department of Education</u> | | |
| Child Nutrition Cluster: | | |
| National School Lunch Program | | |
| Cash Assistance | 10.555 | N.A. |
| Non-Cash Assistance (Commodities) | 10.555 | N.A. |
| Total National School Lunch Program | | |
| School Breakfast Program | 10.553 | N.A. |
| Total Child Nutrition Cluster | | |
| Fresh Fruit and Vegetable Program | 10.582 | N.A. |
| Total U. S. Department Agriculture | | |
| <u>U. S. Department of Health and Human Services</u> | | |
| <u>Passed Through Alabama Department of Education</u> | | |
| Child Care and Development Block Grant | 93.575 | N.A. |
| Total U. S. Department of Health and Human Services | | |
| <u>U. S. Department of Social Security Administration</u> | | |
| <u>Passed Through Alabama Department of Education</u> | | |
| Social Security - Disability Insurance | 96.001 | N.A. |
| Total U. S. Department of Social Security Administration | | |
| <u>Other Financial Assistance</u> | | |
| <u>U. S. Department of Defense</u> | | |
| <u>Direct Program</u> | | |
| Air Force ROTC | N.A. | N.A. |
| Navy ROTC | N.A. | N.A. |
| Total U. S. Department of Defense | | |
| Total Expenditures of Federal Awards | | |

(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.

| Assistance Period | Budget | | Revenue Recognized | Expenditures |
|-------------------------|------------------|------------------|-----------------------|------------------|
| | Total | Federal Share | | |
| | \$ 17,014,663.85 | \$ 17,014,663.85 | \$ 15,345,590.56 | \$ 15,345,590.56 |
| 10/01/2014 - 09/30/2015 | 6,347,928.46 | 6,347,928.46 | 6,347,928.46 | 6,347,928.46 |
| 10/01/2014 - 09/30/2015 | 563,621.69 | 563,621.69 | 563,621.69 | 563,621.69 |
| | 6,911,550.15 | 6,911,550.15 | 6,911,550.15 | 6,911,550.15 |
| 10/01/2014 - 09/30/2015 | 1,478,091.79 | 1,478,091.79 | 1,478,091.79 | 1,478,091.79 |
| | 8,389,641.94 | 8,389,641.94 | 8,389,641.94 | 8,389,641.94 |
| 10/01/2014 - 09/30/2015 | 87,044.25 | 87,044.25 | 87,044.25 | 87,044.25 |
| | 8,476,686.19 | 8,476,686.19 | 8,476,686.19 | 8,476,686.19 |
| 10/01/2014 - 09/30/2015 | 10,600.00 | 10,600.00 | 10,600.00 | 10,600.00 |
| | 10,600.00 | 10,600.00 | 10,600.00 | 10,600.00 |
| 10/01/2014 - 09/30/2015 | 7,700.00 | 7,700.00 | 7,700.00 | 7,700.00 |
| | 7,700.00 | 7,700.00 | 7,700.00 | 7,700.00 |
| 10/01/2014 - 09/30/2015 | 161,467.59 | 161,467.59 | 161,467.59 | 161,467.59 |
| 10/01/2014 - 09/30/2015 | 131,905.62 | 131,905.62 | 131,905.62 | 131,905.62 |
| | 293,373.21 | 293,373.21 | 293,373.21 | 293,373.21 |
| | \$ 25,803,023.25 | \$ 25,803,023.25 | \$ 24,133,949.96 | \$ 24,133,949.96 |

***Notes to the Schedule of Expenditures
of Federal Awards
For the Year Ended September 30, 2015***

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Baldwin 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 OMB Circular A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

Additional Information

Board Members and Administrative Personnel
October 1, 2014 through September 30, 2015

| Board Members | | Term Expires |
|--|--------------------------------|---------------------|
| Hon. Shannon Cauley | President | 2016 |
| Hon. Angie Swiger | Vice-President | 2020 |
| Hon. Elmer McDaniel | Member | 2014 |
| Hon. Robert Callahan, Jr. | Member | 2014 |
| Hon. David B. Cox | Member | 2018 |
| Hon. David Tarwater | Member | 2018 |
| Hon. Tony Myrick | Member | 2020 |
| Hon. Norman Moore | Member | 2016 |
| Hon. Cecil Christenberry | Member | 2020 |
| <u>Administrative Personnel</u> | | |
| Dr. Alan T. Lee | Superintendent | 2014 |
| Robert Owen | Superintendent | 2015 |
| Hope Zeanah | Interim Superintendent | 2015 |
| John C. Wilson | Chief School Financial Officer | Indefinite |

***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 Baldwin County Board of Education, Superintendent and the Chief School Financial Officer

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards*** issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Baldwin County Board of Education, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Baldwin County Board of Education's basic financial statements, and have issued our report thereon dated March 2, 2016.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

Montgomery, Alabama

March 2, 2016

***Report on Compliance for Each Major Federal Program and
Report on Internal Control Over Compliance Required by
OMB Circular A-133***

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited the Baldwin County Board of Education's compliance with the types of compliance requirements described in the ***OMB Circular A-133 Compliance Supplement*** that could have a direct and material effect on each of the Baldwin County Board of Education's major federal programs for the year ended September 30, 2015. The Baldwin County Board of Education's major federal programs are identified in the Summary of Examiner's Results Section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Baldwin 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 OMB Circular A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Baldwin 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 Baldwin County Board of Education's compliance.

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133

Opinion on Each Major Federal Program

In our opinion, the Baldwin County Board of Education complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2015.

Report on Internal Control Over Compliance

Management of the Baldwin 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 Baldwin County Board of Education's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Baldwin 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
OMB Circular A-133***

The purpose of this report on internal control over compliance is solely to describe the scope of our testing on internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

Montgomery, Alabama

March 2, 2016

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2015

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 Section 510(a) of OMB Circular A-133? _____ Yes X No

Identification of major programs:

| CFDA Numbers | Name of Federal Program or Cluster |
|-----------------------------|--|
| 84.027 and 84.173 84.287 | Special Education Cluster Twenty-First Century Community Learning Centers |

Dollar threshold used to distinguish between Type A and Type B programs: \$724,018.50
 Auditee qualified as low-risk auditee? X Yes _____ No

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2015

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. | |