

Report on the  
**Dallas County  
Board of Education**  
Dallas County, Alabama  
October 1, 2014 through September 30, 2015

Filed: June 3, 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, I submit this report on the results of the audit of the Dallas County Board of Education, Dallas County, Alabama, for the period October 1, 2014 through September 30, 2015.

Sworn to and subscribed before me this  
the 13<sup>th</sup> day of May, 2016.

Sandra E Shirley  
Notary Public

Respectfully submitted,

*Brent Mims*

Brent Mims  
Examiner of Public Accounts

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Department of  
**Examiners of Public Accounts**

**SUMMARY**

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

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

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.

A qualified opinion was issued on the financial statements for the Governmental Activities and General Fund. The basis for the qualified opinion is explained in the Independent Auditor’s Report. An unmodified opinion was issued on the financial statements for the Special Revenue Fund and the aggregate remaining fund information. An unmodified opinion 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.

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

A problem was found with the Board’s internal controls over financial reporting and material noncompliance (Exhibit 15) and it is summarized below:

- ◆ 2014-002 relates to a liability not being recorded, resulting in a material misstatement to the Board’s financial statements.

The following officials/employees were invited to an exit conference to discuss the finding and recommendation appearing in this report: Don Willingham, Superintendent; Brenda Turner, Chief School Financial Officer; and Board Members: Carolyn Bates, Roy Edwards, William Minor, Mark Story, Leroy Miles and Peggy Williamson.

The following individuals attended the exit conference, held at the Board's offices: Don Willingham, Superintendent; Brenda Turner, Chief School Financial Officer; and Board Member: William Minor; and representatives from the Department of Examiners of Public Accounts: Emily Tyler, Audit Manager; and Brent Mims, Examiner.

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*Independent Auditor's Report*

## **Independent Auditor's Report**

To: Members of the Dallas County Board of Education, Superintendent and Chief School Finance 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 Dallas 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 Dallas 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 Dallas 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 reasonable basis for our audit opinions.

## *Summary of Opinions*

Opinion Unit	Type of Opinion
Governmental Activities	Qualified
General Fund	Qualified
Special Revenue Fund	Unmodified
Other Remaining Funds	Unmodified

### **Basis for Qualified Opinion on Governmental Activities and General Fund**

Management has not recorded in the Governmental Activities and General Fund a liability in the amount of \$1,178,526.63 for sales tax due to the Selma City Board of Education and, accordingly, has overstated net position/fund equity. Accounting principles generally accepted in the United States of America require that liabilities be recognized when they are incurred.

### **Qualified Opinions**

In our opinion, except for the effects of the matter discussed in the “Basis for Qualified Opinion on Governmental Activities and General Fund,” the financial statements referred to above present fairly, in all material respects, the respective financial position of the Governmental Activities and General Fund of the Dallas 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.

### **Unmodified Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Special Revenue Fund and the aggregate remaining fund information of the Dallas County Board of Education, as of September 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 12 to the financial statements, during the fiscal year ended September 30, 2015, the Dallas 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 (Exhibit 7), the Schedule of the Employer's Contributions (Exhibit 8) and the Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Exhibits 9 and 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 Dallas 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 April 21, 2016, on our consideration of the Dallas 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 grants 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 Dallas 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

April 21, 2016

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

## **Management Discussion and Analysis (MD&A)**

### **Introduction**

The Management's Discussion and Analysis (MD&A) of the Dallas County Board of Education's financial performance provides an overall review of the Board's financial activities for the fiscal year ended September 30, 2015. The intent of this discussion and analysis is to look at the Board's financial performance as a whole. Readers should also review the financial statements and the notes to the financial statements to enhance their understanding of the Dallas County Board of Education's financial performance.

### **Financial Highlights**

General Fund revenues and other fund sources exceeded expenditures and other fund uses in FY2015 by \$1,017,646.02 resulting in a deficit ending fund balance of \$702,353.63. Existing Long Term Liability continues to hinder the Board financially. A minimum fund balance equaling one month's operating balance is required by the School Fiscal Accountability Act enacted in 2006. At the end of FY2015, the funding available for operations fell short of the required one month's operating balance, which exceeds \$2.2 million according to the State Department of Education calculations.

### **Overview of the Financial Statements**

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

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

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

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

The fund financial statements provide more detailed information about the Board's most significant (major) 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. The Board reports governmental funds in the 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.

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

## **Financial Analysis of the Board as a Whole**

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

### **Comparison of Net Position Governmental Activities**

	<b><u>2014</u></b>	<b><u>2015</u></b>
Current and other assets	5,021,238.29	5,085,769.91
Capital assets	<u>15,384,528.56</u>	<u>14,367,947.51</u>
Total assets	20,405,766.85	19,453,717.42
Proportionate Share of Collective Deferred Outflows Related to Net Pension Liability		<u>2,180,264.24</u>
Total Deferred Outflows		2,180,264.24
Current and other liabilities	3,626,387.19	2,713,979.95
Long-term liabilities	<u>5,814,589.82</u>	<u>32,265,285.80</u>
Total liabilities	9,440,977.01	34,979,265.75
Unavailable Revenue-Property Tax	1,726,580.54	1,727,409.14
Revenue-Advance	117,375.14	122,210.40
Proportionate Share of Collective Deferred Inflows Related to Net Pension Liability	0.00	<u>2,445,000.00</u>
Total Deferred Inflows on Revenue	1,843,955.68	4,294,619.54
Net position:		
Net Investment in Capital Assets	9,569,938.74	9,490,661.71
Restricted: Capital Projects	856,958.21	123,007.28
Other		690,192.14
Unrestricted	<u>(1,306,062.79)</u>	<u>(27,943,764.76)</u>
Total net position	<u>\$9,120,834.16</u>	<u>(\$17,639,903.63)</u>

The Board's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$17,639,903.63 at the close of the fiscal year. The majority of the Board's net position are invested in capital assets (land, buildings, and equipment) owned by the Board. These capital assets are not available for future expenditures since they will not be sold. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by enabling legislation, debt covenants, or other legal requirements – totaled a deficit of (\$27,943,764.76) at the end of the year. The calculation of unrestricted net position includes Salaries and Benefits Payable totaling \$ 2,289,358.41 that will be paid using FY2016 funds, therefore, the Board was not without funds with which to operate on September 30, 2015. The Board also implemented GASB Statement 68, which established standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources and pension expenses. The implementation of this Statement caused a significant decrease in the Board's net position.

The Board has recorded the Net Pension Liability and related Deferred Outflows and Inflows in accordance with GASB Statement 68. This has caused a decrease in net position from the prior year.

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

<u>Governmental Activities</u>	<u>2014</u>	<u>2015</u>
<u>Revenues</u>		
Program revenues:		
Charges for services	3,275,488.78	3,283,148.90
Operating grants and contributions	29,730,207.63	27,921,856.47
Capital grants and contributions	1,283,501.77	1,421,960.34
General revenues		
Property taxes	2,037,025.16	1,994,498.61
Sales tax	2,275,216.39	1,713,210.67
Miscellaneous tax	36,433.44	35,254.68
Interest	45,017.11	8,738.54
Other miscellaneous revenues	<u>746,313.10</u>	<u>795,294.90</u>
Total revenues	<u>\$39,429,203.38</u>	<u>37,173,963.11</u>
<u>Expenses</u>		
Instructional services	18,891,471.22	17,287,257.55
Instructional support services	8,347,631.74	6,755,106.27
Operation & maintenance services	3,544,769.29	3,398,355.20
Student transportation services	3,646,332.81	3,386,429.97
Food services	2,872,996.07	2,708,559.16
General administrative services	2,290,724.48	1,454,424.60
Interest on Long Term Debt	171,569.73	144,274.42
Other expenses	<u>957,944.74</u>	<u>947,293.73</u>
Total expenses	<u>\$40,723,440.08</u>	<u>36,081,700.90</u>
Change in net position	(1,294,236.70)	1,092,262.21
Net position, beginning as restated	<u>10,415,070.86</u>	<u>(18,732,165.84)</u>
Net position, ending	<u>\$9,120,834.16</u>	<u>(17,639,903.63)</u>

Program revenues totaling \$32,626,965.71, which mostly consists of operating grants and contributions, is the largest component of total revenues.

- Operating grants and contributions contribute \$27,921,856.47 of program revenues. The major sources of revenues in this category are state foundation program funds, state transportation operating funds, and state and federal funds restricted for specific programs.
- Capital grants and contributions totaling \$1,421,960.34 include state capital outlay funds and state fleet renewal funds.
- Charges for services totaling \$3,283,148.90 include federal reimbursement for meals, student meal purchases, and local school revenues.

General revenues, primarily property taxes and sales taxes, are used to provide \$4,546,997.40 for expenses not covered by program revenues.

- Instructional services expense, primarily salaries and benefits for classroom teachers, is the largest expense function of the Board (48%). In addition to teacher salaries and benefits, instructional services include teacher aides, substitute teachers, textbooks, 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, library books, material, supplies, and equipment for instructional support staff, and professional development expenses.
- Operation and maintenance services includes utilities, security services, janitorial services, salaries and benefits for maintenance department employees, maintenance purchased services and supplies, and the purchase and upkeep of maintenance vehicles. The expense for insurance for Board owned vehicles, other than Student Transportation related vehicles, is also included in Operation and Maintenance services.
- Student transportation services includes bus drivers, mechanics, and bus aides salaries and benefits, the purchase and upkeep of the bus fleet and mechanics' vehicles, as well as repair parts, fuel, and insurance for these vehicles.
- Food services includes salaries and benefits for cooks, cafeteria managers, Child Nutrition Program clerical staff, and the Child Nutrition Director, as well as donated and purchased food, food preparation and service supplies, kitchen and cafeteria equipment, and depreciation of equipment and facilities.
- General administrative services include salaries and benefits for the superintendent, assistants, clerical and accounting staff, and other personnel that provide system-wide support. Professional development expense, as well as material and supplies for these employees are included in General Administrative services. 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. Indirect cost paid to the Board by federal programs is considered an administrative service to the paying fund.
- Debt service includes interest and principal payments made toward existing long-term debt and other expense related to the issuance and continuation of debt.
- Other expenses includes the salaries and benefits for extended day personnel, preschool resource personnel, health occupations personnel, testing personnel and summer feeding program personnel, as well as material, supplies, equipment, related depreciation, and other expenses associated with these programs.
- Special items are significant transactions or other events within the control of management that are either unusual in nature *or* infrequent in occurrence. There are no special items reported for FY2015.
- Extraordinary items are significant transactions or other events that are both unusual in nature *and* infrequent in occurrence. There are no extraordinary items reported for FY2015.

Net position increased by \$1,092,262.21 in FY2015. Total revenues decreased by \$2,255,240.27 for FY2015. General revenues decreased by \$593,007.80 and program revenues decreased by \$1,662,232.47. However, net position increased as a result of total revenues exceeding total expenditures in 2015.

### **Financial Analysis of the Board's Funds**

The analysis of governmental funds serves the purpose of looking at what resources came into funds, how they were spent, and what is available for future expenditures. 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 as \$540,286.18.

**General Fund** – The General Fund is the primary operating fund of the Board. The General Fund balance increased by \$1,017,646.02 this year. This resulted from a decrease in total revenue of (\$690,472.00). However, total expenditures decreased \$1,715,434.78. This decrease in expenditures was mainly in the areas of Instructional and Instructional Support. Net other financing uses decreased by \$64,132.84, which was mainly due to a reduction of funds passed through to the Child Nutrition Program and increases in indirect cost.

**Special Revenue Fund** – The Board receives several types of Federal Awards that are accounted for in the Board's Special Revenue Fund. Federal Award Revenues and Expenditures for 2015 are listed on Exhibit #11, *Schedule of Expenditures of Federal Awards*

The source of federal funds from which the greatest dollar amount that was received in FY2015 is Title I funds. Title I funds are supplemental in nature. The state Foundation Program funds, plus Local matching funds, provide for the basic operation of the system. The funding of expenditures over and above basic operation is funded with federal funds. Title I funds are intended to supplement, not supplant state/local funds. Title I funds are used to hire teachers in addition to those funded by the state Foundation Program earned units, hire instructional support personnel in addition to those funded by state funding, purchase equipment and supplies that are not state funded, provide funds for professional development of the instructional staff, provide Supplemental Educational Services to students in need of these services, to provide transportation of students zoned to attend a school that is classified as a school in need of improvement (in School Improvement status) and chooses (Choice Transportation) to attend another school, in the system, that is classified as meeting annual yearly progress (AYP) and, finally, provides funds to employ personnel to administer the Title I program. This list does not encompass all items or services provided with Title I funds. Items and/or services change from year to year or as the system's required Needs Assessment dictates. Each school gets an allocation of Title I funds determined by the percentage of Children in Poverty (CIP) at each school times a per pupil amount. There is input from each school's instructional staff as to how Title I funds can best meet needs determined by the Needs Assessment. Title I funds have been especially critical in providing the children of Dallas County with the quality education they have come to expect since FY2009 when state fund allocations were not only reduced, but also slashed later on during the year due to proration. All schools in the system receive Title I funds.

Child Nutrition Program – The Child Nutrition Program (CNP) is the only self-supporting program of the Board. Although the CNP is a not-for-profit program; revenues (in addition to other financing sources) must exceed expenditures in amounts sufficient to operate and maintain the program. FY2015 CNP expenditures exceeded revenues and other financing sources received by \$38,670.91. By applying the State CNP formula for determining the Number of Months Net Operating Balance, the Child Nutrition Program’s Number of Months Net Operating Balance decreased slightly in FY2015. The CNP had a slight decrease in operating expenditures during FY2015 than the prior year. The State recommends that a minimum of two (2) months operating expense be maintained as an operating fund balance, in which CNP attained this two (2) month operating balance in FY2012. The State Department recommends reviewing the CNP in areas such as food costs of the total revenue and the measurement of the number of meals produced per labor hour (MPLH) by school. All aspects of the Child Nutrition Program will be monitored to ensure that the recommended two (2) months operating fund balance will be maintained.

School Improvement Grant 1003g (SIG) – The Board was awarded a School Improvement Grant 1003(g) for Brantley Elementary School and Southside High School. This grant is restricted in use and its purpose is to develop procedures that support coherence and provide incentives for change, to build the capacity of schools and classrooms, to improve results and impact student achievement.

Other Federal Funds – The Board received several other sources of federal revenue in addition to the ones listed above that are accounted for in the Special Revenue Fund. Most of these federal funds are “earmarked” for specific purposes. Other federal funds received must be used for children with special needs, career technical education, enhancing education technology, homeless children and improving teacher quality, to name a few.

Local School Funds – Local school funds that are derived from taxation, required fees, or school fund raisers are included in the Board’s Special Revenue Fund

### **Budgetary Highlights of Major Funds**

#### **General Fund:**

The original General Fund Budget 2015 fiscal year budget, adopted in 2014, was based on a “bare bones” approach that reflected “best guess” revenues as the threat of proration loomed. Expenditures necessary for basic operation were budgeted. Over the course of the year, the Board amended the operating budget to include carryover funds and additional funding that had not been allocated when the original budget was submitted. In addition, beginning fund balance actuals were budgeted that were estimated when the original budget was prepared. Budgeted expenditures were reviewed to determine if they were in line with year to date expenditures. Expenditure budgets were adjusted where necessary based on a review of year to date actual expenditures versus budgeted amounts.

***Special Revenue:***

All federal funds allocated through the U.S. Department of Education (see Exhibit #11) that the Board was aware of where budgeted in the original FY2015 budget which was adopted in 2014. Federal funds were budgeted to meet minimum requirements, by category, in each federal fund source. An amendment to these federal funds' budgets was necessary to include carryover funds that were approved by the State Department of Education after the submission of the original budget and after the FY2014 General Purpose Financial Statement had been approved by the State Department. Portions of allocations that had been set aside in the original budget for specific line items such as Supplemental Education Services, Choice Transportation and Professional Development were either reduced or increased, depending on the estimated needs for the remainder of the fiscal year. Some of these funds are limited in the amounts of revenue that can be carried over into the upcoming fiscal year. Each source of funds was reviewed to ensure that funds were budgeted to appropriate line items to ensure that funds on hand at the end of the year would be within the maximum carryover requirement.

Federal funds that are passed through from the U. S. Department of Agriculture (see Exhibit #11) to the Child Nutrition Program as reimbursement for meals served, etc. are budgeted as revenue based on the number of meals served the prior year and the fiscal year reimbursement rates. The revenue is reviewed to ensure they were not over estimated or underestimated. As a general rule, the Child Nutrition budget is minimally amended. The only time the CNP budget is amended is when year to date revenue or expenditures are not in line with the original budget or equipment purchases are necessary that the CNP director was unaware of when the original budget was prepared. The budgeted FY2015 beginning balance was amended to reflect the actual FY2014 ending balance.

The budget for other federal funds budgeted on the original budget was based on the prior year's revenue and expenditures and allocations that had been obtained for the current fiscal year. Minimal changes were made to other federal funds in budget amendments.

Overall, the final amended budgets were fairly reflective of operating activity for the year in both funds.

## **Capital Assets and Debt Administration**

**Capital Assets** – At September 30, 2015, the Board had approximately \$40.882 million invested in capital assets including land, buildings, building improvements, buildings under capital lease costing \$50,000 or more; and vehicles and equipment costing \$5,000 or more. Accumulated depreciation of approximately \$26.514 million results in approximately \$14.367 million in assets, net of accumulated depreciation.

	Governmental Activities September 30	
	2014	2015
Land and Land Improvements	\$ 112,226.71	\$ 112,226.71
Construction in Progress	0.00	0.00
Land Improvement – Exhaustible	613,430.00	613,430.00
Buildings	27,053,270.91	27,053,270.91
Buildings & Improvements	6,620,025.40	6,620,025.40
Equipment and Furniture	1,498,954.68	1,591,013.82
Vehicles	2,218,770.46	3,574,420.63
Assets Under Capital Lease	2,659,027.25	1,318,126.00
Total Assets	<u>40,775,705.41</u>	<u>40,882,513.47</u>
Accumulated Depreciation	-25,391,176.85	-26,514,565.96
Total Assets, Net of Depreciation	<u>\$15,384,528.56</u>	<u>\$14,367,947.51</u>

Overall, capital assets, net of depreciation, decreased \$1,016,581.05 in FY2015. Capital asset FY2015 additions totaled \$106,808.06. Additions included CNP equipment, instructional vocational equipment and classroom lab, playground equipment, and two new bus motors. There were no capital asset deletions in FY 2015.

## ***Outstanding Long-Term Debt***

Governmental Activities  
For the Year Ended September 30, 2015

	Beginning Balance	Issue/ Increase	Ending Repaid/Decrease	Ending Balance
<b><u>Warrants and Payable:</u></b>				
Capital Outlay Tax Anticipation Warrant, Series 2012	\$4,915,000.00	\$0.00	(\$655,000.00)	\$4,260,000.00
<b>Total Warrants Payable</b>	<b>\$4,915,000.00</b>	<b>\$0.00</b>	<b>(\$655,000.00)</b>	<b>\$4,260,000.00</b>
<b><u>Other Liabilities:</u></b>				
Capital Lease Contracts Payable	\$ 899,589.82	\$0.00	(\$282,304.02)	\$ 617,285.80
Net Pension Liability	30,019,000.00		(2,631,000.00)	27,388,000.00
<b>Total Other Liabilities</b>	<b>\$30,918,589.82</b>	<b>0.00</b>	<b>(\$2,913,304.02)</b>	<b>\$28,005,285.80</b>
<b>Total Long-Term Debt</b>	<b>\$35,833,589.82</b>	<b>\$0.00</b>	<b>(\$3,568,304.02)</b>	<b>\$32,265,285.80</b>

**Long-Term Debt** – At year-end, the Board had \$617,285.80 in capital lease payable outstanding which represented debt owed on capital leases for buses. The buses will generate additional state funds annually until they become over ten years old. Overall debt decreased in FY2015. The net decrease in Long-Term Debt totaled \$3,568,304.02. The remaining debt of \$4,260,000.00 is owed on Bonds and Warrants. The Board also has a net pension liability at year end in the amount of \$27,388,000.00. (Additional information on the Board's long-term debt is presented in the notes to the basic financial statements).

### **Economic Factors and Next Year's Budget**

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

- ✓ State income and sales tax, which make up the majority of revenues that fund the Education Trust Fund, are estimated based on expected growth. Tax receipts are unpredictable in the existing economic climate. Should tax receipts not reach the estimated growth, proration is a possibility in FY2016. At the time these notes were prepared, the growth in the Education Trust Fund indicated proration would, more than likely, not be called in FY2016.
- ✓ Due to the current economic climate it is relatively impossible to estimate local sales tax receipts for 2016. Based on the fact that we will no longer receive the entire  $\frac{3}{4}$  cent sales tax for the entire FY2016, we estimate that revenue from sales tax will decrease.
- ✓ Although the Board was fortunate to have a 1.4 months operating balance at the end of FY2008, each year since then we have had to use a portion of the FY2008 fund balance of \$3,651,851.27 in order to operate a minimum program. The Board had to non-renew non-tenured personnel in May 2015. A careful review of FY2016 funds will determine if and how many of the non-renewed persons will be called back to work in FY2016.
- ✓ The Board will continue to seek additional revenue from any and all possible sources.

**Estimated Capital Needs** – The Board's Capital Plan as of September 30, 2015, includes \$2,990,500.00 estimated capital needs throughout the system. While many improvements have been made system wide utilizing the 2007 Bond Funds, there are still many improvements needed. The Board continues to find it necessary to use state Capital Outlay funds, as well as most of the required matching local funds, to meet recurring annual debt obligations. The need to use Capital Outlay for its intended purpose, building improvements, is another indicator that the Board needs to seek additional revenue sources.

**Fund Balance** – The Board ended FY2015 with a fund balance that will fund operations for .68 of a month, or approximately twenty and a half days of operation. Because the fund balance is less than the minimum fund balance required by the School Fiscal Accountability Law, the Board must strive to reduce expenditures and take advantage of every opportunity to generate additional revenues in FY2016. State revenues that fund the Education Trust Fund are unpredictable from year to year. Education Trust Fund budgets are based on revenue projections made approximately eighteen month prior to the end of the upcoming fiscal year. As long as fluctuating revenue sources are used to fund the Education Trust Fund, especially with the depletion of the Rainy Day Fund, there is a possibility of prorated state funds in any fiscal year. The Rainy Day Fund borrowed funds must be repaid within six years thus making the first payment due in FY2011. Because of the depressed economy and revenues being initially overestimated in the Education Trust Fund budget each year since FY2008, proration continued to be a possibility in FY2015 although a more remote possibility in the past four years. The Board nearly exhausted their fund balance in 2012 to operate a minimum program, remained extremely low at the end of FY2013 and gained a little at the end of FY 2014 and FY 2015. Unless additional funding can be found, the Board will be forced to reduce expenditures by reducing personnel for FY2016 as well as reduce expenditures in any other area of operation possible.

**Student Average Daily Membership (ADM)** – The system Average Daily Membership (ADM) translates into the average daily attendance in Dallas County Schools. The number of state earned instructional and instructional support employees funded by state funds results from the prior year's ADM. The fall of 2014 ADM, used to calculate 2015 funding, showed a decrease of 86.75, which translates into a decrease of 5.42 of state funded certified units for FY2015. The budget adopted by the Board for FY2015 took into account the original decrease in state funded units. Changes in Average Daily Membership figures below do not include juvenile facilities' membership or attendance reported through our system.

<b>Change in ADM</b>	<b>Fiscal Year</b>	<b>Change in funded units</b>
-67.30	2006	-3.22
+5.12	2007	+3.28
-32.15	2008	-1.30
-143.9	2009	-9.41
-100.75	2010	-6.76
-146.00	2011	-9.86
-124.20	2012	-13.42
-165.95	2013	-11.27
-81.75	2014	-6.18
-86.75	2015	-5.42

## **CONTACTING THE SCHOOL BOARD'S FINANCIAL MANAGEMENT**

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Board's finances and to show the Board's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Brenda W. Turner, Chief Finance Officer, at 429 Lauderdale Street, P. O. Box 1056, Selma, Alabama 36702 or by email address [bturner@dallask12.org](mailto:bturner@dallask12.org) or by calling 334-876-4471 during regular office hours, Monday through Friday, from 8:30 a.m. to 4:30 p.m., central standard time.

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## *Basic Financial Statements*

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**Statement of Net Position**  
**September 30, 2015**

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and Cash Equivalents	\$ 2,192,250.82
Ad Valorem Property Taxes Receivable	1,727,409.14
Receivables (Note 4)	1,029,904.38
Inventories	94,346.40
Prepaid Items	41,859.17
Capital Assets (Note 5):	
Nondepreciable	112,226.71
Depreciable, Net	14,255,720.80
Total Assets	<u>19,453,717.42</u>
<b>Deferred Outflows of Resources</b>	
Employer Pension Contribution	2,180,264.24
Total Deferred Outflows of Resources	<u>2,180,264.24</u>
<b>Liabilities</b>	
Unearned Revenue	406,505.78
Salaries and Benefits Payable	2,289,358.41
Accrued Interest Payable	18,115.76
Long-Term Liabilities:	
Portion Due or Payable Within One Year	814,910.79
Portion Due or Payable After One Year	31,450,375.01
Total Liabilities	<u>34,979,265.75</u>
<b>Deferred Inflows of Resources</b>	
Unavailable Revenue - Property Taxes	1,727,409.14
Revenue Received in Advance - Motor Vehicle Taxes	122,210.40
Proportionate Share of Collective Deferred Inflows Related to Net Pension Liability	2,445,000.00
Total Deferred Inflows of Resources	<u>4,294,619.54</u>
<b>Net Position</b>	
Net Investment in Capital Assets	9,490,661.71
Restricted for:	
Capital Projects	123,007.28
Other Purposes	690,192.14
Unrestricted	<u>(27,943,764.76)</u>
Total Net Position	<u>\$ (17,639,903.63)</u>

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

***Statement of Activities***  
***For the Year Ended September 30, 2015***

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>	
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>
<b><u>Governmental Activities</u></b>			
Instruction	\$ 17,287,257.55	\$ 306,702.70	\$ 15,772,180.62
Instructional Support	6,755,106.27	133,054.98	6,301,422.50
Operation and Maintenance	3,398,355.20	184,443.37	1,638,261.77
Auxiliary Services:			
Student Transportation	3,386,429.97	104,307.07	2,998,372.13
Food Service	2,708,559.16	2,192,030.31	127,352.67
General Administrative	1,454,424.60	35.63	699,241.52
Interest and Fiscal Charges	144,274.42		
Other Expenses	947,293.73	362,574.84	385,025.26
Total Governmental Activities	\$ 36,081,700.90	\$ 3,283,148.90	\$ 27,921,856.47

**General Revenues:**

Taxes:

    Property Taxes for General Purposes

    Sales Tax

    Other Taxes

Investment Earnings

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.

		<b>Net (Expenses) Revenues and Changes in Net Position</b>
<b>Capital Grants and Contributions</b>	<b>Total Governmental Activities</b>	
\$ 848,800.85	\$ (359,573.38)	
268,587.49	(52,041.30)	
10,572.00	(1,565,078.06)	
294,000.00	10,249.23	
	(389,176.18)	
	(755,147.45)	
	(144,274.42)	
	(199,693.63)	
<b><u>\$ 1,421,960.34</u></b>	<b><u>(3,454,735.19)</u></b>	
	1,994,498.61	
	1,713,210.67	
	35,254.68	
	8,738.54	
	<b><u>795,294.90</u></b>	
	<b><u>4,546,997.40</u></b>	
	1,092,262.21	
	<b><u>(18,732,165.84)</u></b>	
<b><u>\$</u></b>	<b><u>(17,639,903.63)</u></b>	

**Balance Sheet**  
**Governmental Funds**  
**September 30, 2015**

	General Fund	Special Revenue Fund
<b>Assets</b>		
Cash and Cash Equivalents	\$ 1,046,230.81	\$ 1,004,896.97
Ad Valorem Property Taxes Receivable	1,727,409.14	
Receivables (Note 4)	306,571.47	497,137.57
Interfund Receivables	228,471.10	
Inventories		94,346.40
Prepaid Items	41,859.17	
Total Assets	<u>3,350,541.69</u>	<u>1,596,380.94</u>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>		
<b>Liabilities</b>		
Interfund Payables		2,275.76
Unearned Revenues		406,505.78
Salaries and Benefits Payable	2,203,275.78	86,082.63
Total Liabilities	<u>2,203,275.78</u>	<u>494,864.17</u>
<b>Deferred Inflows of Resources</b>		
Unavailable Revenue - Property Taxes	1,727,409.14	
Revenue Received in Advance - Motor Vehicle Taxes	122,210.40	
Total Deferred Inflows of Resources	<u>1,849,619.54</u>	
<b>Fund Balances</b>		
Nonspendable:		
Inventories		94,346.40
Prepaid Items	41,859.17	
Restricted:		
Capital Projects		
Child Nutrition Program		595,845.74
Fleet Renewal		
Assigned:		
Local Schools		411,324.63
Unassigned	<u>(744,212.80)</u>	
Total Fund Balances	<u>(702,353.63)</u>	<u>1,101,516.77</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 3,350,541.69</u>	<u>\$ 1,596,380.94</u>

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

<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 141,123.04	\$ 2,192,250.82
	1,727,409.14
226,195.34	1,029,904.38
	228,471.10
	94,346.40
	41,859.17
<b>367,318.38</b>	<b>5,314,241.01</b>

226,195.34	228,471.10
	406,505.78
	2,289,358.41
<b>226,195.34</b>	<b>2,924,335.29</b>

	1,727,409.14
	122,210.40
	<b>1,849,619.54</b>

	94,346.40
	41,859.17
0.97	0.97
	595,845.74
141,122.07	141,122.07
	411,324.63
	(744,212.80)
<b>141,123.04</b>	<b>540,286.18</b>
<b>\$ 367,318.38</b>	<b>\$ 5,314,241.01</b>

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

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Total Fund Balances - Governmental Funds	\$ 540,286.18
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	
The Cost of Capital Assets is	\$ 40,882,513.47
Accumulated Depreciation is	<u>(26,514,565.96)</u>
	14,367,947.51
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.	(264,735.76)
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	814,910.79
Noncurrent Portion of Long-Term Debt	<u>31,450,375.01</u>
	(32,265,285.80)
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.	
Accrued Interest Payable	<u>\$ 18,115.76</u>
	<u>(18,115.76)</u>
Total Net Position - Governmental Activities	<u>\$ (17,639,903.63)</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
<b><u>Revenues</u></b>		
State	\$ 22,145,096.79	\$
Federal	401,353.99	7,327,368.15
Local	3,844,282.30	1,577,868.07
Other	70,426.25	50,784.01
Total Revenues	<u>26,461,159.33</u>	<u>8,956,020.23</u>
<b><u>Expenditures</u></b>		
Current:		
Instruction	13,718,873.84	3,279,530.76
Instructional Support	4,918,279.12	1,827,451.11
Operation and Maintenance	2,346,360.86	292,556.51
Auxiliary Services:		
Student Transportation	3,064,857.64	51,813.15
Food Service	117.23	2,857,061.81
General Administrative	1,002,684.43	577,166.18
Other	343,333.32	559,727.17
Capital Outlay	41,687.08	19,929.00
Debt Service:		
Principal Retirement		
Interest and Fiscal Charges		
Debt Issuance Costs/Other Debt Service		
Total Expenditures	<u>25,436,193.52</u>	<u>9,465,235.69</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,024,965.81</u>	<u>(509,215.46)</u>
<b><u>Other Financing Sources (Uses)</u></b>		
Indirect Cost	340,878.24	
Transfers In	72,543.36	554,769.57
Other Financing Sources	134,028.18	899.06
Transfers Out	(554,769.57)	(72,543.36)
Total Other Financing Sources (Uses)	<u>(7,319.79)</u>	<u>483,125.27</u>
Net Changes in Fund Balances	1,017,646.02	(26,090.19)
Fund Balances - Beginning of Year	<u>(1,719,999.65)</u>	<u>1,127,606.96</u>
Fund Balances - End of Year	<u>\$ (702,353.63)</u>	<u>\$ 1,101,516.77</u>

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

<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 1,419,509.34	\$ 23,564,606.13
	7,728,722.14
202,346.97	5,624,497.34
	121,210.26
<u>1,621,856.31</u>	<u>37,039,035.87</u>
178,258.36	17,176,662.96
2,745.00	6,748,475.23
334,363.36	2,973,280.73
3,116,670.79	
2,857,179.04	
1,579,850.61	
903,060.49	
45,191.98	106,808.06
937,304.02	937,304.02
145,815.13	145,815.13
1,612.50	1,612.50
<u>1,645,290.35</u>	<u>36,546,719.56</u>
(23,434.04)	492,316.31
340,878.24	
627,312.93	
134,927.24	
(627,312.93)	
<u>475,805.48</u>	<u> </u>
(23,434.04)	968,121.79
164,557.08	(427,835.61)
<u>\$ 141,123.04</u>	<u>\$ 540,286.18</u>

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

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Net Changes in Fund Balances - Total Governmental Funds \$ 968,121.79

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

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

Capital Outlays	\$ 106,808.06
Depreciation Expense	<u>(1,123,389.11)</u>
	(1,016,581.05)

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. 937,304.02

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.

Accrued Interest Payable, Current Year Increase/(Decrease)	\$ (3,153.21)
Pension Expense, Current Year Increase/Decrease	<u>(200,264.24)</u>
	203,417.45

Change in Net Position of Governmental Activities \$ 1,092,262.21

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

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## ***Notes to the Financial Statements***

### ***For the Year Ended September 30, 2015***

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#### **Note 1 – Summary of Significant Accounting Policies**

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

#### **A. Reporting Entity**

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

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

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

#### **B. Government-Wide and Fund Financial Statements**

##### **Government-Wide Financial Statements**

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

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## ***Notes to the Financial Statements***

### ***For the Year Ended September 30, 2015***

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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 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, School Improvement Grant and various smaller grants, which are required to be spent for the purposes of the applicable federal grants. The Special Revenue Fund also includes the Child Nutrition Program funds that account for the federal funds that are received for the School Breakfast and School Lunch Program, U. S. Government Commodities and local revenues that are restricted solely for the use of the Child Nutrition Program. 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.

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## ***Notes to the Financial Statements***

### ***For the Year Ended September 30, 2015***

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

#### **Governmental Fund Type**

- ◆ ***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.

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

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

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

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

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

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## ***Notes to the Financial Statements***

### ***For the Year Ended September 30, 2015***

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

##### **1. Deposits**

Cash and cash equivalents include cash on hand and demand deposits.

##### **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, amounts due for reimbursements of services provided, and revenues from the county government.

##### **3. Inventories**

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

##### **4. 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 on the government-wide Statement of Net Position and balance sheet of governmental funds are assets which are restricted in use. The Public School Capital Projects and Fleet Renewal funding sources are used to report proceeds that are restricted for use in various construction projects and the purchase of school buses.

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## ***Notes to the Financial Statements***

### ***For the Year Ended September 30, 2015***

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#### **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
Land	\$50,000	20 – 30 years
Buildings (Estimated Salvage Value 10% of Cost)	\$50,000	25 – 50 years
Building Improvements	\$50,000	20 – 30 years
Equipment and Furniture	\$ 5,000	5 – 20 years
Vehicles	\$ 5,000	8 – 10 years
Equipment Under Capital Lease	\$ 5,000	5 – 20 years

#### **7. Deferred Outflows of Resources**

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

#### **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. Warrants Payable are reported at gross.

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## ***Notes to the Financial Statements***

### ***For the Year Ended September 30, 2015***

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#### **9. Deferred Inflows of Resources**

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

#### **10. Pensions**

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

#### **11. Net Position/Fund Balances**

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

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

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## ***Notes to the Financial Statements***

### ***For the Year Ended September 30, 2015***

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

- ◆ **Nonspendable** – Nonspendable fund balances include amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Examples of nonspendable fund balance reserves for which fund balance shall not be available for financing general operating expenditures include: inventories, prepaid items, and long-term receivables.
- ◆ **Restricted** – 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.
- ◆ **Committed** – Committed fund balances consist of amounts that are subject to a purpose constraint imposed by formal action by 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 the constraint.
- ◆ **Assigned** – Assigned fund balances consist of amounts that are intended to be used by the Board for specific purposes. The Board authorizes the Superintendent or Chief School Financial Officer to make a determination of the assigned amount 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.
- ◆ **Unassigned** – 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.

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## ***Notes to the Financial Statements***

### ***For the Year Ended September 30, 2015***

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#### **Note 2 – Stewardship, Compliance and Accountability**

##### **A. Budgets**

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

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

##### **B. Deficit Fund Balances/Net Position of Individual Funds**

The General Fund had a deficit fund balance of \$702,353.63 as of September 30, 2015. The deficit is a result of the salary accrual adjustment. Salaries and benefits payable at September 30, 2015, are funded with an appropriation from the State of Alabama that is not legally available to the Board until October 1 and therefore, is not reflected as revenue in the Board's financial statements as of September 30, 2015.

#### **Note 3 – 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.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2015*

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#### **Note 4 – Receivables**

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

	General Fund	Special Revenue Fund	Other Governmental Funds	Total
<b>Receivables:</b>				
Accounts	\$ 51,468.05	\$ 42,557.31	\$	\$ 94,025.36
Sales Tax	137,735.20			137,735.20
Intergovernmental	76,368.22	453,678.01	226,195.34	756,241.57
Other	41,000.00	902.25		41,902.25
<b>Total Receivables</b>	<b>\$306,571.47</b>	<b>\$497,137.57</b>	<b>\$226,195.34</b>	<b>\$1,029,904.38</b>

On November 19, 2013, the Board entered into an agreement with an unincorporated organization to sell the Shiloh School property on an installment basis to the organization. The agreement provides that the organization will make annual payments of \$5,100.00 per year for 10 years, with the final payment becoming due December 1, 2023. The remaining balance of the long-term receivable recorded in the Board's General Fund is \$41,000.00 as of September 30, 2015, and is included in Other Receivables in the schedule above.

## ***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:

	Beginning Balance 10/01/2014	Additions/ Reclassifications (*)	Retirements/ Reclassifications (*)	Ending Balance 09/30/2015
<b>Governmental Activities:</b>				
Capital Assets, Not Being Depreciated:				
Land and Land Improvements	\$ 112,226.71	\$	\$	\$ 112,226.71
Total Capital Assets, Not Being Depreciated	<u>112,226.71</u>			<u>112,226.71</u>
Capital Assets Being Depreciated:				
Land Improvements – Exhaustible	613,430.00			613,430.00
Buildings	27,053,270.91			27,053,270.91
Building Improvements	6,620,025.40			6,620,025.40
Equipment and Furniture	1,498,954.68	92,059.14		1,591,013.82
Vehicles	2,218,770.46	1,355,650.17		3,574,420.63
Assets Under Capital Leases	2,659,027.25		(1,340,901.25)	1,318,126.00
Total Capital Assets Being Depreciated	<u>40,663,478.70</u>	<u>1,447,709.31</u>	<u>(1,340,901.25)</u>	<u>40,770,286.76</u>
Less Accumulated Depreciation for:				
Land Improvements – Exhaustible	(187,138.25)	(30,671.50)		(217,809.75)
Buildings	(16,364,060.82)	(335,750.84)		(16,699,811.66)
Building Improvements	(4,032,264.85)	(371,488.28)		(4,403,753.13)
Equipment and Furniture	(845,228.62)	(87,302.02)		(932,530.64)
Vehicles	(2,138,694.80)	(1,306,131.12)		(3,444,825.92)
Assets Under Capital Leases	(1,823,789.51)	(131,812.60)	1,139,767.25	(815,834.86)
Total Accumulated Depreciation	<u>(25,391,176.85)</u>	<u>(2,263,156.36)</u>	<u>1,139,767.25</u>	<u>(26,514,565.96)</u>
Total Capital Assets Being Depreciated, Net	<u>15,272,301.85</u>	<u>(815,447.05)</u>	<u>(201,134.00)</u>	<u>(14,255,720.80)</u>
Total Governmental Activities Capital Assets, Net	<u>\$ 15,384,528.56</u>	<u>\$ (815,447.05)</u>	<u>\$ (201,134.00)</u>	<u>\$ (14,367,947.51)</u>

(\*) Additions/Reclassifications and Retirements/Reclassifications include reclassification of assets from Assets Under Capital Lease to Vehicles for \$1,340,901.25. The accumulated depreciation for the Assets Under Capital Lease in the amount of \$1,139,767.25 was also reclassified to Vehicles.

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

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

	Current Year Depreciation Expense
<b>Governmental Activities:</b>	
Instruction	\$ 224,807.60
Instructional Support	52,292.70
Operation and Maintenance	432,498.88
<b>Auxiliary Services:</b>	
Student Transportation	284,633.39
Food Service	77,098.78
General Administrative	2,445.55
Other Expenditures	49,612.21
Total Depreciation Expense – Governmental Activities	<u>\$1,123,389.11</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, was established as of September 15, 1939, under the provisions of Act Number 419, Acts of Alabama 1939, for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by State-supported educational institutions. The responsibility for the general administration and operation of the TRS is vested in its Board of Control. The TRS Board of Control consists of 15 trustees. The plan is administered by the Retirement Systems of Alabama (RSA). The *Code of Alabama 1975*, Section 16-25-2, grants the authority to establish and amend the benefit terms to the TRS Board of Control. The Plan issues a publicly available financial report that can be obtained at [www.rsa-al.gov](http://www.rsa-al.gov).

#### **B. Benefits Provided**

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

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## ***Notes to the Financial Statements***

### ***For the Year Ended September 30, 2015***

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

#### **C. Contributions**

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

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

Participating employers' contractually required contribution rate for the year ended September 30, 2015, was 11.71% of annual pay for Tier 1 members and 11.05% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the Board were \$2,180,264.24 for the year ended September 30, 2015.

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## ***Notes to the Financial Statements***

### ***For the Year Ended September 30, 2015***

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#### **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 \$27,388,000 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 0.301482%, which was a decrease of (0.004983%) from its proportion measured as of September 30, 2013.

For the year ended September 30, 2015, the Board recognized pension expense of \$1,980,000. 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
Differences between expected and actual experience	\$	\$
Changes of assumptions		
Net difference between projected and actual earnings on pension plan investments		2,053,000.00
Changes in proportion and differences between employer contributions and proportionate share of contributions		392,000.00
Employer contributions subsequent to the measurement date	2,180,264.24	
<b>Total</b>	<b>\$2,180,264.24</b>	<b>\$2,445,000.00</b>

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## ***Notes to the Financial Statements***

### ***For the Year Ended September 30, 2015***

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The \$2,180,264.24 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 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	\$ (604,000)
2017	\$ (604,000)
2018	\$ (604,000)
2019	\$ (604,000)
2020	\$ (29,000)
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	3.5%-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.

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## ***Notes to the Financial Statements***

### ***For the Year Ended September 30, 2015***

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

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

(\*) Includes assumed rate of inflation of 2.50%.

#### **F. Discount Rate**

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

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

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

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

	1% Decrease (7.00%)	Current Rate (8.00%)	1% Increase (9.00%)
Board's proportionate share of collective net pension liability	\$37,311	\$27,388	\$18,978
(Dollar amounts in thousands)			

### **H. Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 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](http://www.rsa-al.gov).

### **Note 7 – Other Postemployment Benefits (OPEB)**

#### **A. Plan Description**

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

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

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### **B. Funding Policy**

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

	Fiscal Year 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

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. The tobacco premium is \$28.00 per month for retired members that smoke.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2015*

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

Fiscal Year Ended September 30,	Active Health Insurance Premiums Paid By Board	Amount of Premium Attributable to Retirees	Percentage of Active Employee Premiums Attributable to Retirees	Total Amount Paid Attributable to Retirees	Percentage of Required Amount Contributed
2015	\$780.00	\$180.76	23.17%	\$1,064,026.69	100%
2014	\$714.00	\$220.09	30.83%	\$1,333,024.51	100%
2013	\$714.00	\$216.90	30.38%	\$1,332,914.12	100%

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

#### **Note 8 – Lease Obligations**

##### **Capital Leases**

The Board is obligated under certain leases accounted for as capital leases. Assets under capital leases totaled \$1,318,126.00 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. 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	\$170,898.52
2017	170,898.52
2018	170,898.52
2019	170,898.51
Total Minimum Lease Payments	683,594.07
Less: Amount Representing Interest	(66,308.27)
Present Value of Net Minimum Lease Payments	\$617,285.80

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

### **Note 9 – Long-Term Debt**

During fiscal year 2009, the Board entered into a capital lease in the amount of \$1,371,762.05 that provided funding for 19 buses.

During fiscal year 2012, the Board issued the Capital Outlay Tax Anticipation Warrants, Series 2012, in the amount of \$6,240,000. The warrants were issued for the purpose of currently refunding the Board's 2005 sale-leaseback agreement with the Dallas County Commission and paying all issuance expenses of the warrants.

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
<b>Governmental Activities:</b>					
<b>Warrants Payable:</b>					
Capital Outlay Tax Anticipation Warrants, Series 2012	\$ 4,915,000.00	\$	\$ (655,000.00)	\$ 4,260,000.00	\$670,000.00
Total Warrants Payable	<u>4,915,000.00</u>		<u>(655,000.00)</u>	<u>4,260,000.00</u>	<u>670,000.00</u>
<b>Other Liabilities:</b>					
Capital Lease Contracts Payable	899,589.82		(282,304.02)	617,285.80	144,910.79
Net Pension Liability	30,019,000.00		(2,631,000.00)	27,388,000.00	
Total Other Liabilities	<u>30,918,589.82</u>		<u>(2,913,304.02)</u>	<u>28,005,285.80</u>	<u>144,910.79</u>
Total Governmental Activities Long-Term Liabilities	<u>\$35,833,589.82</u>	<u>\$</u>	<u>\$(3,568,304.02)</u>	<u>\$32,265,285.80</u>	<u>\$814,910.79</u>

Payments on the capital lease related to the purchase of school buses are paid from Fleet Renewal funds. Payments on the warrants are paid from the Public School funds.

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

Fiscal Year Ending	Warrants Payable		Capital Lease Contracts Payable		Total Principal and Interest Requirements to Maturity
	Principal	Interest	Principal	Interest	
September 30, 2016	\$ 670,000.00	\$ 97,587.50	\$144,910.79	\$25,987.73	\$ 938,486.02
2017	685,000.00	84,187.50	151,011.53	19,886.99	940,086.02
2018	700,000.00	67,062.50	157,369.12	13,529.40	937,961.02
2019	715,000.00	49,562.50	163,994.36	6,904.15	935,461.01
2020	735,000.00	31,687.50			766,687.50
2021	755,000.00	16,987.50			771,987.50
Totals	<u>\$4,260,000.00</u>	<u>\$347,075.00</u>	<u>\$617,285.80</u>	<u>\$66,308.27</u>	<u>\$5,290,669.07</u>

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2015*

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#### **Pledged Revenues**

The Board issued Capital Outlay Tax Anticipation Warrants, Series 2012, which are pledged to be repaid from proceeds of the Board's 5 mill county-wide ad valorem tax and 3 mill district ad valorem tax and proceeds of the Board's share of the one cent sales and use tax authorized by Act Number 96-623, Acts of Alabama. Future revenues in the amount of \$4,607,075.00 are pledged to repay the principal and interest on the warrants at September 30, 2015. The Board received \$817,240.28 for the county-wide ad valorem tax, \$875,016.79 for the district ad valorem tax and \$595,855.49 for sales and use tax during the fiscal year ended September 30, 2015. However, pledged funds were not used to pay principal and interest on the warrants. The principal and interest payments were made from an allocation received from the Alabama State Department of Education Public School Fund. The Capital Outlay Tax Anticipation Warrants, Series 2012, will mature in fiscal year 2021.

#### **Note 10 – Risk Management**

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

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

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## ***Notes to the Financial Statements***

### ***For the Year Ended September 30, 2015***

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

#### **Note 11 – Interfund Transactions**

##### **Interfund Receivables and Payables**

The interfund receivables and payables at September 30, 2015, were as follows:

Interfund Receivables		
	General Fund	Totals
<b>Interfund Payables:</b>		
Special Revenue Fund	\$ 2,275.76	\$ 2,275.76
Other Governmental Funds	226,195.34	226,195.34
<b>Totals</b>	<b>\$228,471.10</b>	<b>\$228,471.10</b>

##### **Interfund Transfers**

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

Transfers Out		
	General Fund	Special Revenue Fund
		Totals
<b>Transfers In:</b>		
General Fund	\$	\$ 72,543.36
Special Revenue Fund	554,769.57	554,769.57
<b>Totals</b>	<b>\$554,769.57</b>	<b>\$72,543.36</b>
		<b>\$627,312.93</b>

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

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## ***Notes to the Financial Statements***

### ***For the Year Ended September 30, 2015***

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#### **Note 12 – Restatement**

In fiscal year 2015, the Dallas County Board of Education 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 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 Dallas County Board of Education'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 \$27,853,000.

The impact of the restatement on the net position as previously reported is as follows:

Governmental Activities	
Governmental Activities Net Position, September 30, 2014, as Previously Reported	\$ 9,120,834.16
<u>Restatements:</u>	
Accounting for Pensions Due to Adoption of GASB Statement Number 68	(27,853,000.00)
Governmental Activities Net Position, September 30, 2014, as Restated	<u><u>\$18,732,165.84</u></u>

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## *Required Supplementary Information*

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

	<b>2015</b>
Employer's proportion of the net pension liability	0.301482%
Employer's proportionate share of the net pension liability	\$ 27,388
Employer's covered-employee payroll during the measurement period (*)	\$ 19,109
Employer's proportionate share of the collective net pension liability as a percentage of its covered-employee payroll	143.33%
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 through September 30, 2014.

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

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***Schedule of the Employer's Contributions  
For the Year Ended September 30, 2015  
(dollar amounts in thousands)***

	<b>2015</b>
Contractually required contribution	\$ 2,180
Contributions in relation to the contractually required contribution	<u>\$ 2,180</u>
Contribution deficiency (excess)	\$
Board's covered-employee payroll	\$ 18,688
Contributions as a percentage of covered-employee payroll	11.67%

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

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

	Budgeted Amounts		Actual Amounts	
	Original	Final	Budgetary Basis	
<b>Revenues</b>				
State	\$ 21,840,143.00	\$ 22,061,666.70	\$ 22,145,096.79	
Federal	70,675.00	70,675.00	401,353.99	
Local	3,740,331.12	3,883,185.12	3,849,117.56	
Other	40,000.00	40,000.00	70,426.25	
Total Revenues	<u>25,691,149.12</u>	<u>26,055,526.82</u>	<u>26,465,994.59</u>	
<b>Expenditures</b>				
Current:				
Instruction	13,900,582.30	13,857,843.21	14,068,151.23	
Instructional Support	4,833,633.60	4,974,074.72	5,050,894.13	
Operation and Maintenance	2,396,214.72	2,647,809.44	2,353,343.40	
Auxiliary Services:				
Student Transportation	3,273,481.00	3,159,720.61	3,096,732.88	
Food Service			117.23	
General Administrative	973,762.00	1,038,810.00	1,002,296.02	
Other	308,766.00	328,766.00	350,037.48	
Capital Outlay			41,687.08	
Total Expenditures	<u>25,686,439.62</u>	<u>26,007,023.98</u>	<u>25,963,259.45</u>	
Excess (Deficiency) of Revenues Over Expenditures	<u>4,709.50</u>	<u>48,502.84</u>	<u>502,735.14</u>	
<b>Other Financing Sources (Uses)</b>				
Indirect Cost	365,768.00	377,679.02	340,878.24	
Transfers In	50,000.00	50,000.00	72,543.36	
Other Financing Sources			134,028.18	
Transfers Out	(545,453.38)	(541,125.72)	(554,769.57)	
Total Other Financing Sources (Uses)	<u>(129,685.38)</u>	<u>(113,446.70)</u>	<u>(7,319.79)</u>	
Net Change in Fund Balances	(124,975.88)	(64,943.86)	495,415.35	
Fund Balances - Beginning of Year	<u>771,454.67</u>	<u>990,669.26</u>	<u>1,127,717.20</u>	
Fund Balances - End of Year	<u>\$ 646,478.79</u>	<u>\$ 925,725.40</u>	<u>\$ 1,623,132.55</u>	

**Explanation of differences:**

The Board budgets revenues and expenditures to the extent they are expected to be received or paid in the current fiscal period, rather than on the modified accrual basis.

<b>Budget to GAAP Differences</b>	<b>Actual Amounts GAAP Basis</b>
\$	\$ 22,145,096.79
	401,353.99
(4,835.26)	3,844,282.30
	70,426.25
<u>(4,835.26)</u>	<u>26,461,159.33</u>
(349,277.39)	13,718,873.84
(132,615.01)	4,918,279.12
(6,982.54)	2,346,360.86
(31,875.24)	3,064,857.64
	117.23
388.41	1,002,684.43
(6,704.16)	343,333.32
	41,687.08
<u>(527,065.93)</u>	<u>25,436,193.52</u>
<u>522,230.67</u>	<u>1,024,965.81</u>
340,878.24	
72,543.36	
134,028.18	
<u>(554,769.57)</u>	
<u>(7,319.79)</u>	
522,230.67	1,017,646.02
<u>(2,847,716.85)</u>	<u>(1,719,999.65)</u>
<u>\$ (2,325,486.18)</u>	<u>\$ (702,353.63)</u>
<u>\$ 522,230.67</u>	

**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	
	Original	Final	Budgetary Basis	
<b>Revenues</b>				
Federal	\$ 8,542,019.17	\$ 9,021,254.91	\$ 7,327,368.15	
Local	1,269,235.85	1,300,321.85	1,577,868.07	
Other	95,300.00	74,035.00	50,784.01	
Total Revenues	<u>9,906,555.02</u>	<u>10,395,611.76</u>	<u>8,956,020.23</u>	
<b>Expenditures</b>				
Current:				
Instruction	3,673,489.07	3,979,366.42	3,279,530.76	
Instructional Support	2,174,216.64	2,269,672.22	1,827,451.11	
Operation and Maintenance	228,661.09	239,594.56	292,856.12	
Auxiliary Services:				
Student Transportation	37,255.40	38,000.84	51,813.15	
Food Service	2,707,845.33	2,821,172.88	2,871,955.15	
General Administrative	578,502.26	613,984.20	577,166.18	
Other	388,700.12	391,231.59	559,727.17	
Capital Outlay			19,929.00	
Total Expenditures	<u>9,788,669.91</u>	<u>10,353,022.71</u>	<u>9,480,428.64</u>	
Excess (Deficiency) of Revenues Over Expenditures	<u>117,885.11</u>	<u>42,589.05</u>	<u>(524,408.41)</u>	
<b>Other Financing Sources (Uses)</b>				
Transfers In	641,890.88	637,563.22	554,769.57	
Other Financing Sources		50.00	899.06	
Transfers Out	<u>(146,437.50)</u>	<u>(146,437.50)</u>	<u>(72,543.36)</u>	
Total Other Financing Sources (Uses)	<u>495,453.38</u>	<u>491,175.72</u>	<u>483,125.27</u>	
Net Change in Fund Balances	613,338.49	533,764.77	(41,283.14)	
Fund Balances - Beginning of Year	<u>1,117,342.54</u>	<u>1,228,882.54</u>	<u>1,228,882.54</u>	
Fund Balances - End of Year	<u>\$ 1,730,681.03</u>	<u>\$ 1,762,647.31</u>	<u>\$ 1,187,599.40</u>	

**Explanation of differences:**

The Board budgets revenues and expenditures to the extent they are expected to be received or paid in the current fiscal period, rather than on the modified accrual basis.

<b>Budget to GAAP Differences</b>	<b>Actual Amounts GAAP Basis</b>
\$	\$ 7,327,368.15
	1,577,868.07
	50,784.01
	<u>8,956,020.23</u>
	3,279,530.76
	1,827,451.11
(299.61)	292,556.51
	51,813.15
(14,893.34)	2,857,061.81
	577,166.18
	559,727.17
	19,929.00
	<u>(15,192.95) 9,465,235.69</u>
<u>15,192.95</u>	<u>(509,215.46)</u>
	554,769.57
	899.06
	<u>(72,543.36)</u>
	483,125.27
15,192.95	(26,090.19)
<u>(101,275.58)</u>	<u>1,127,606.96</u>
<u>\$ (86,082.63)</u>	<u>\$ 1,101,516.77</u>
	<u>\$ 15,192.95</u>

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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
<b><u>U. S. Department of Education</u></b>		
<b><u>Passed Through Alabama Department of Education</u></b>		
Title I Grants to Local Educational Agencies (M)	84.010	N.A.
Special Education Cluster:		
Special Education - Grants to States	84.027	N.A.
Special Education - Preschool Grants	84.173	N.A.
Sub-Total Special Education Cluster (M)		
Career and Technical Education - Basic Grants to States	84.048	N.A.
Safe and Drug-Free Schools and Communities - National Programs	84.184	N.A.
Education of Homeless Children and Youth	84.196	N.A.
Rural Education	84.358	N.A.
Improving Teacher Quality State Grants (M)	84.367	N.A.
School Improvement Grants	84.377	N.A.
Total U. S. Department of Education		
<b><u>U. S. Department of Agriculture</u></b>		
<b><u>Passed Through Alabama Department of Education</u></b>		
Child Nutrition Cluster:		
School Breakfast Program	10.553	N.A.
National School Lunch Program		
Cash Assistance	10.555	N.A.
Non-Cash Assistance (Commodities)	10.555	N.A.
Sub-Total National School Lunch Program		
Sub-Total Child Nutrition Cluster		
Fresh Fruit and Vegetable Program	10.582	N.A.
<b><u>Passed Through Dallas County Commission</u></b>		
Schools and Roads - Grants to States	10.665	N.A.
Total U. S. Department of Agriculture		
<b><u>Social Security Administration</u></b>		
<b><u>Passed Through Alabama Department of Education</u></b>		
Social Security - Disability Insurance	96.001	N.A.
Total Social Security Administration		
Sub-Total Forward		

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
10/01/2014-09/30/2015	\$ 3,113,895.22	\$ 3,113,895.22	\$ 2,882,232.46	\$ 2,882,232.46
10/01/2014-09/30/2015	974,991.74	974,991.74	974,364.45	974,364.45
10/01/2014-09/30/2015	15,146.00	15,146.00	15,146.00	15,146.00
	990,137.74	990,137.74	989,510.45	989,510.45
10/01/2014-09/30/2015	83,927.00	83,927.00	83,927.00	83,927.00
10/01/2014-09/30/2015	500.00	500.00	500.00	500.00
10/01/2014-09/30/2015	24,000.00	24,000.00	24,000.00	24,000.00
10/01/2014-09/30/2015	70,424.00	70,424.00	70,424.00	70,424.00
10/01/2014-09/30/2015	325,508.00	325,508.00	325,508.00	325,508.00
10/01/2014-09/30/2015	1,898,120.95	1,898,120.95	1,156,682.64	1,156,682.64
	6,506,512.91	6,506,512.91	5,532,784.55	5,532,784.55
10/01/2014-09/30/2015	579,835.74	579,835.74	579,835.74	579,835.74
10/01/2014-09/30/2015	1,429,303.50	1,429,303.50	1,429,303.50	1,429,303.50
10/01/2014-09/30/2015	108,509.30	108,509.30	108,509.30	108,509.30
	1,537,812.80	1,537,812.80	1,537,812.80	1,537,812.80
10/01/2014-09/30/2015	2,117,648.54	2,117,648.54	2,117,648.54	2,117,648.54
	24,033.59	24,033.59	24,033.59	24,033.59
10/01/2014-09/30/2015	918.72	918.72	918.72	918.72
	2,142,600.85	2,142,600.85	2,142,600.85	2,142,600.85
10/01/2014-09/30/2015	1,378.00	1,378.00	1,378.00	1,378.00
	1,378.00	1,378.00	1,378.00	1,378.00
	\$ 8,650,491.76	\$ 8,650,491.76	\$ 7,676,763.40	\$ 7,676,763.40

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

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>
Sub-Total Brought Forward		
<b><u>Other Federal Assistance</u></b>		
<b><u>U. S. Department of Defense</u></b>		
<b><u>Direct Program</u></b>		
Air Force Junior R.O.T.C.	N.A.	N.A.
Total Other Federal Assistance		
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		
	\$ 8,650,491.76	\$ 8,650,491.76	\$ 7,676,763.40	\$ 7,676,763.40
10/01/2014-09/30/2015	51,958.74	51,958.74	51,958.74	51,958.74
	51,958.74	51,958.74	51,958.74	51,958.74
	\$ 8,702,450.50	\$ 8,702,450.50	\$ 7,728,722.14	\$ 7,728,722.14

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

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**Note 1 – Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Dallas 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.

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## *Additional Information*

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

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<b><u>Board Members</u></b>	<b><u>Position</u></b>	<b><u>Term Expires</u></b>
Hon. Roy Edwards	President	2018
Hon. Carolyn Bates	Vice-President	2018
Hon. Mark Story	Member	2016
Hon. William Minor	Member	2016
Hon. Leroy Miles	Member	2020
Hon. Peggy Williamson	Member	2014

  

<b><u>Administrative Personnel</u></b>		
Don Willingham	Superintendent	June 30, 2016
Brenda Turner	Chief School Financial Officer	Indefinite

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***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***

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**Independent Auditor's Report**

To: Members of the Dallas County Board of Education, Superintendent and 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 Dallas 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 Dallas County Board of Education's basic financial statements, and have issued our qualified report thereon dated April 21, 2016.

**Internal Control Over Financial Reporting**

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

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***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***

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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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2014-002, that we consider to be a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Dallas 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 an instance of noncompliance or other matter that is required to be reported under ***Government Auditing Standards*** and which is described in the accompanying Schedule of Findings and Questioned Costs as 2014-002.

**Dallas County Board of Education's Response to Findings**

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

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***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***

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**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 purpose.



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

Montgomery, Alabama

April 21, 2016

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

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**Independent Auditor's Report**

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

**Report on Compliance for Each Major Federal Program**

We have audited the Dallas 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 Dallas County Board of Education's major federal programs for the year ended September 30, 2015. The Dallas 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 Dallas 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 Dallas 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 Dallas County Board of Education's compliance.

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

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**Opinion on Each Major Federal Program**

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

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

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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

April 21, 2016

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

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**Section I – Summary of Examiner's Results**

**Financial Statements**

Type of opinion issued:	<u>Qualified</u>	
Internal control over financial reporting:	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
Material weakness(es) identified?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
Significant deficiency(ies) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None reported
Noncompliance material to financial statements noted?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	

**Federal Awards**

Internal control over major programs:	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
Material weakness(es) identified?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> None reported	
Significant deficiency(ies) identified?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> None reported	
Type of auditor's report issued on compliance for major programs:	<u>Unmodified</u>	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.010	Title I Grants to Local Educational Agencies
84.027 and 84.173	Special Education Cluster
84.367	Improving Teacher Quality State Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000.00

Auditee qualified as low-risk auditee?  Yes       No

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## ***Schedule of Findings and Questioned Costs***

### ***For the Year Ended September 30, 2015***

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#### **Section II – Financial Statement Findings (GAGAS)**

<b>Ref. No.</b>	<b>Type of Finding</b>	<b>Finding/Noncompliance</b>	<b>Questioned Costs</b>
2014-002	Internal Control/ Compliance	<p><b><u>Finding:</u></b></p> <p>The <i>Code of Alabama 1975</i>, Section 40-12-4, allows a county governing body to levy a county license tax for school purposes. On December 1, 2012, the Dallas County Commission passed a resolution authorizing a one-half cent sales tax to be collected for the Dallas County Board of Education for educational purposes. The <i>Code of Alabama 1975</i>, Section 40-12-4(b), states “In all counties having more than one local board of education, revenues collected under the provisions of this section shall be distributed within such county on the same basis of the total calculated costs for the Foundation Program for those local boards of education within the county.” An Attorney General’s Opinion dated December 10, 1984, concluded that the <i>Code of Alabama 1975</i>, Section 40-12-4, cannot be used to propose a county-wide sales tax earmarked solely for county schools and exclude the city school system. The Board began receiving the additional one-half cent sales tax in the 2013 fiscal year. No distribution of the one-half cent sales tax was remitted to the Selma City Board of Education for taxes received from the inception of the tax through June 8, 2014. The amount due to the Selma City Board of Education for this period has been calculated to be \$1,178,526.63. The Board did not have controls in place to ensure that a liability for this amount was recorded and reflected on the financial statements. This unrecorded liability resulted in a material misstatement of the financial statements for the Governmental Activities and General Fund.</p> <p><b><u>Recommendation:</u></b></p> <p>The Board should ensure that all liabilities are properly recorded and reflected on the financial statements.</p>	

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

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**Section III – Federal Awards Findings and Questioned Costs**

<b>Ref. No.</b>	<b>CFDA No.</b>	<b>Program</b>	<b>Finding/Noncompliance</b>	<b>Questioned Costs</b>
			No matters were reportable.	

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## *Auditee Response/Corrective Action Plan*

**DALLAS COUNTY BOARD OF EDUCATION**

**OFFICE OF THE SUPERINTENDENT**

POST OFFICE BOX 1056

SELMA, ALABAMA 36702-1056

TELEFAX 334-876-4493 • TELEPHONE 334-875-3440

**SUPERINTENDENT**  
DONALD WILLINGHAM

**ASSISTANT SUPERINTENDENT**  
HATTIE R. SHELTON.

**BOARD OF EDUCATION**

MARK A. STORY, PRESIDENT  
ROY C. EDWARDS, VICE-PRESIDENT  
PEGGY D. WILLIAMSON  
CAROLYN C. BATES  
WILLIAM D. MINOR

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**Corrective Action Plan**  
**For the Year Ended September 30, 2015**

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As required by the Office of Management and Budget (OMB) Circular No. 1-133. Audits of States, Local Governments, and Non-Profit Organizations, Section .315(c), the **Dallas County Board of Education** has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2015.

Finding	Ref.	No.	Corrective Action Plan Details
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**2014-002 Finding:** The **Code of Alabama 1975**, Section 40-12-4, allows a county governing body to levy a county license tax for school purposes. On December 1, 2012, the Dallas County Commission passed a resolution authorizing a one-half cent sales tax to be collected for the Dallas County Board of Education for educational purposes. The **Code of Alabama 1975**, section 40-12-4(b), states "In all counties having more than one local board of education, revenues collected under the provisions of this section shall be distributed within such county on the same basis of the total calculated cost for the Foundation Program for those local boards of education within the county." An Attorney General's Opinion dated December 10, 1984, concluded that the **Code of Alabama 1975**, Section 40-12-4, cannot be used to propose a county-wide sales tax earmarked solely for county schools and excluding the city school system. The Board began receiving the additional one-half cent sales tax in the 2013 fiscal year. No distribution of the one-half cent sales tax was remitted to the Selma City Board of Education for taxes received from the inception of the tax through June 8, 2014. The amount due to the Selma City Board of Education for this period has been calculated to be \$1,178,526.63. The Board did not have controls in place to ensure that a liability for this amount was recorded and reflected on the financial statements. This unrecorded liability resulted in a material misstatement of the financial statements for the Governmental Activities and General Fund.

**Response:** No liabilities were recorded and reflected on our financial statement because negotiations to resolve the matter are still active. The legislative bill authored by Senator Hank Sanders to resolve the matter was not introduced as planned and a referendum that was planned and sponsored by the Dallas County Commission was not introduced. Representatives of Dallas County Board of Education and representatives of Selma City Board of Education have met to discuss this situation. We trying to work out an arrangement with Selma City Board for possible forgiveness of all or part of the amount claimed. In the event that fails, we will have to work out an installment plan with the Selma City Board of Education.