

Report on the

Shelby County Board of Education

Shelby County, Alabama

October 1, 2013 through September 30, 2014

Filed: June 26, 2015



Department of Examiners of Public Accounts

50 North Ripley Street, Room 3201

P.O. Box 302251

Montgomery, Alabama 36130-2251

Website: www.examiners.alabama.gov

Ronald L. Jones, Chief Examiner



Ronald L. Jones
Chief Examiner

State of Alabama
Department of
Examiners of Public Accounts

P.O. Box 302251, Montgomery, AL 36130-2251
50 North Ripley Street, Room 3201
Montgomery, Alabama 36104-3833
Telephone (334) 242-9200
FAX (334) 242-1775

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 Shelby County Board of Education, Shelby County, Alabama, for the period October 1, 2013 through September 30, 2014.

Sworn to and subscribed before me this
the 12th day of June, 2015.

Sandra E Shirley
Notary Public

Respectfully submitted,

Amanda Hensley
Amanda Hensley
Examiner of Public Accounts

rb

Table of Contents

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

Table of Contents

	<i>Page</i>
Exhibit #6 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	12
Exhibit #7 Statement of Fiduciary Net Position	14
Exhibit #8 Statement of Changes in Fiduciary Net Position	15
Notes to the Financial Statements	16
<u>Required Supplementary Information</u>	47
Provides information required by the GASB to supplement the basic financial statements. This information has not been audited and no opinion is provided about the information.	
Exhibit #9 Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	48
Exhibit #10 Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Special Revenue Fund	52
<u>Supplementary Information</u>	56
Contains financial information and notes relative to federal financial assistance.	
Exhibit #11 Schedule of Expenditures of Federal Awards	57
Notes to the Schedule of Expenditures of Federal Awards	61
<u>Additional Information</u>	62
Provides basic information related to the Board, including reports and items required by generally accepted government auditing standards and/or U. S. Office of Management and Budget (OMB) Circular A-133 for federal compliance audits.	
Exhibit #12 Board Members and Administrative Personnel – a listing of the Board members and administrative personnel.	63

Table of Contents

		<i>Page</i>
Exhibit #13	Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> – a report on internal controls related to the financial statements and on whether the Board complied with laws and regulations which could have a direct and material effect on the Board’s financial statements.	64
Exhibit #14	Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133 – a report on internal controls over compliance with requirements of laws, regulations, contracts, and grants applicable to major federal programs and an opinion on whether the Board complied with laws, regulations, and the provisions of contracts or grant agreements which could have a direct and material effect on each major program.	67
Exhibit #15	Schedule of Findings and Questioned Costs – a schedule summarizing the results of audit findings relating to the financial statements as required by <i>Government Auditing Standards</i> and findings and questioned costs for federal awards as required by OMB Circular A-133.	70
Exhibit #16	Auditee Response – a response by the Board on the results of the audit.	72



Department of
Examiners of Public Accounts

SUMMARY

**Shelby County Board of Education
October 1, 2013 through September 30, 2014**

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

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

An unmodified opinion was issued on the financial statements, which means that the Board’s financial statements present fairly, in all material respects, its financial position and the results of its operations for the fiscal year ended September 30, 2014.

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

CURRENT FINDING

- ◆ 2014-001 relates to the Board’s failure to comply with the Public Works Law.

The following officials and administrative personnel were invited to an exit conference to discuss the results of the audit: Superintendent: Randy Fuller; Chief School Financial Officer: Gary McCombs; and Board Members: Jimmy Bice, Jane Hampton, Peg Hill, Steve Martin, Aubrey Miller and Kevin Morris. The following individuals attended the exit conference, held at the Board's office: Superintendent: Randy Fuller; Chief School Financial Officer: Gary McCombs; Board Members: Jimmy Bice, Jane Hampton, Aubrey Miller and Kevin Morris; and representatives of the Department of Examiners of Public Accounts: Nikki Morrison, Audit Manager, and Amanda Hensley, Examiner.

*Schedule of State and Local
Compliance and Other Findings*

Schedule of State and Local Compliance and Other Findings
For the Year Ended September 30, 2014

Ref. No.	Finding/Noncompliance
2014-001	<p><u>Finding:</u> The Public Works Law, as found in Chapter 2 of Title 39 of the <i>Code of Alabama 1975</i>, provides that before entering into any contract for a public works involving an amount in excess of \$50,000, the Board shall advertise for sealed bids and that the contract shall be awarded to the lowest responsible and responsive bidder. While change orders are not specifically addressed in the Public Works Law, various Alabama Attorney General Opinions have interpreted the legislative intent to allow change orders in excess of 30% under certain extraordinary circumstances. The Board of Education issued change orders that increased the total cost of a project from the original bid total of \$868,448 to \$1,654,546.21. While portions of these change orders (\$323,708.54) appear to have been due to extraordinary circumstances, \$462,389.67 appears to have been due to a change in the focus and scope of the project rather than an extraordinary circumstance necessary to complete the original project that was awarded.</p> <p><u>Recommendation:</u> The Board should ensure compliance with the Public Works Law.</p>

Independent Auditor's Report

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Shelby County Board of Education, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Shelby County Board of Education's basic financial statements as listed in the table of contents as Exhibits 1 through 8.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Shelby County Board of Education, as of September 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 14 to the financial statements, in fiscal year 2014, the Shelby County Board of Education adopted Governmental Accounting Standards Board (GASB) Statement Number 65, ***Items Previously Reported as Assets and Liabilities***. 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 accompanying Management's Discussion and Analysis (MD&A) 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 Shelby 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 accompanying Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 3, 2015, on our consideration of the Shelby County Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Shelby County Board of Education's internal control over financial reporting and compliance.



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

Montgomery, Alabama

June 3, 2015

Management's Discussion and Analysis
(Required Supplementary Information)

Shelby County Board of Education
Management's Discussion and Analysis (MD&A)
September 30, 2014

Introduction

This section of the Shelby County Board of Education's comprehensive annual financial report presents Management's Discussion and Analysis (MD & A) of the Board of Education's overall financial position and operating results of the fiscal year ended on September 30, 2014. Please read it in conjunction with the Board's financial statements and notes, which follow this analysis.

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

The Board and its Superintendent have the responsibility for operating, maintaining and servicing the needs of 30 school sites including 15 Elementary/Intermediate Schools, 6 Middle Schools, 7 High Schools, a School of Technology and 1 Special Needs School. All K-12 schools are accredited by the Southern Association of Colleges and Schools. In addition, the Board operates a Central Office, a Professional Development Center, an Operations Department and a Student Transportation Facility.

At the beginning of the 2014-2015 school term the Board employed 1554 teachers, counselors, librarians and other professionals; and 1108 support workers serving a student population of 19,895. The Shelby County School System is the 7th largest system in the State and continues to be acknowledged as one of the fastest growing.

Financial highlights - Significant Items to Note

Major Local tax revenues decreased 8.00% when compared to the previous year due to Alabaster City Schools separating in the last quarter of FY13, and Pelham City Schools separating the last quarter of FY14. State funds decreased 18% compared to the last year as a result of decreased student enrollment. Management communicated with department leaders and stakeholders to continue monitoring budgets.

Management reduced outstanding warrants payable by \$22.87 million dollars. This included 3.91 million of warrant series 2008, 2009-B, 2009-C, 2009-D, 2011-A, and 2011-B, that will be paid to the State of Alabama by the Pelham City Schools and \$.09 of series 2009-D that will be paid to the State of Alabama by the Alabaster City Schools.

The Board's General Fund Balance decreased during the year by \$9.34 million, indicating that the Board's financial position declined due to the following: Expenditures exceeded revenues by \$2.9 million, an additional \$4.4 million was invested in construction, the child nutrition program and local schools, and \$1.9 million was consumed by the separation agreement payments that were payable to Pelham City Schools. (See Exhibit 5 and Exhibit 9.)

Using the Financial Statements - An Overview for the User

As a result of the implementation of the GASB 34 reporting model, the financial section consists of five parts- *management's discussion and analysis* (this section), the *independent auditors' report*, the *basic financial statements*, *required supplementary information*, and *other supplementary information*.

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

Instruction includes teacher salaries and benefits, teacher aides, substitute teachers, textbooks, depreciation of instructional buildings, professional development, and classroom instructional materials, supplies and equipment.

Instructional support includes salaries and benefits for school principals, assistant principals librarians, counselors, school secretaries, school bookkeepers, speech therapists, and school nurses, and professional development expenses.

Operation and maintenance includes utilities, security services, janitorial services, maintenance services, and depreciation of maintenance vehicles.

Auxiliary services includes student transportation expenses, such as bus driver salaries and benefits, mechanics, bus aides, vehicle maintenance and repair expenses, vehicle fuel, depreciation of buses and bus shops, and fleet insurance, and food service expenses such as lunchroom managers, cooks cashiers and servers' salaries and benefits as well as donated and purchased food, food preparation and service supplies, kitchen and lunchroom equipment and depreciation of food service equipment and facilities.

General administration and central support includes salaries and benefits for the superintendent, assistants, clerical and financial staff, and other personnel that provide system-wide support for the schools. Also included are legal expenses, liability insurance, training for board members and general administrative staff, printing costs, and depreciation of central office equipment and facilities.

Interest and Fiscal Charges includes interest, but not principal payments, on long-term debt issues and other expenses related to the issuance and continuance of debt issues.

Other includes the salaries and benefits for adult and continuing education teachers, preschool teachers and aides, extended day personnel, and community education instructors. Also included are the materials, supplies, equipment, related depreciation, and other expenses for operating programs outside of those for educating students in the kindergarten through 12th grade instructional programs.

Government-wide statements report the capitalization of capital assets and depreciation of all exhaustible capital assets and the outstanding balances of long-term debt and other obligations, which has not been the case in the past. These statements report all assets and liabilities perpetuated by these activities using the accrual basis of accounting. The accrual basis takes into account all of the Board's current year revenues and expenses regardless of when received or paid. This approach moves the financial reporting method for governmental entities closer to the financial reporting methods used in the private sector. The following *government-wide financial statements* report on all of the governmental activities of the Board as a whole.

The *statement of net position* (on page 2) is most closely related to a balance sheet. It presents information on all of the board's assets and deferred outflows (what it owns) and liabilities and deferred inflows (what it owes), with the difference between them reported as net position. The net position reported in this statement represents the accumulation of changes in net position for the current fiscal year and all fiscal years in the past combined. Over time, the increases or decreases in net position reported in this statement may serve as a useful indicator of whether the financial position of the school board is improving or deteriorating.

The *statement of activities* (on page 3) is most closely related to an income statement. It presents information showing how the Board's net position changed during the current fiscal year only. All of the current year's revenues and expenses are accounted for in the *statement of activities* regardless of when cash is received or paid. This statement shows gross expenses and offsetting program revenues to arrive at net cost information for each major expense function or activity of the Board. By showing the change in net position for the year, the reader may be able to determine whether the Board's financial position has improved or deteriorated over the course of the current fiscal year. The change in net position may be financial or non-financial in nature. Non-financial factors which may have an impact on the Board's financial condition include: age and condition of facilities, mandated educational programs for which little or no funding is provided, and increases or decreases in funding from state and federal governments, to name a few.

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

Governmental Funds Governmental *fund financial statements* begin on page 5. These statements account for basically the same governmental activities reported in the *government-wide financial statements*. Until now, fund information has been reported in the aggregate by type of fund. As required under the reporting model, the *fund financial statements* presented herein displayed information on each of the Board's most important governmental funds or *major funds*. This is required in order to better assess the School Board's accountability for significant governmental programs or certain dedicated revenue. The Board's *major funds* are the General Fund and Special Revenue Fund.

The *fund financial statements* are still measured on the modified-accrual basis of accounting as reported in previous fiscal years, where revenues, expenditures are recorded when they become measurable and available. As a result, the *fund financial statements* focus more on the near term use and availability of spendable resources. The information provided in these statements is useful in determining the Board's immediate financial needs. This is in contrast to the accrual-based *government-wide financial statements*, which focus more on overall long-term availability of spendable resources. The relationship between governmental activities reported in the *government-wide financial statements* and the governmental funds reported in the *fund financial statements* are reconciled on pages 7 and 12 of these financial statements. These reconciliations are useful to readers in understanding the long-term impact of the Board's short-term financing decisions.

Fiduciary Funds. The Board is the trustee, or fiduciary, for some of its booster and parent organization activity funds, which are under the control, and administration of its schools. Fiduciary funds also include the balances of agency funds, such as accounts payable clearing and payroll clearing funds. All of the Board's fiduciary activities are reported in a separate *Statement of Fiduciary Net Position* on page 14 of this section. These funds are not available to the Board to finance its operations, and therefore are not included in the *government-wide financial statements*. The Board is responsible for ensuring that the assets reported by these funds are used for their intended purposes.

Notes to the Basic Financial Statements. The *notes to the basic financial statements* provide additional information that is essential for the statements to fairly represent the Board's financial position, and its operations. The notes contain important information that is not part of the basic financial statements. However, the notes are an integral part of the statements, not an appendage to them. The *notes to the basic financial statements* begin on page 16 in this section.

After the presentation of the *basic financial statements*, the reporting model requires additional *required supplemental information* to be presented following the notes to the basic financial statements. The required supplementary information beginning on page 48 provides a comparison of the original adopted budget to the final amended budget of the Board's General Fund, which is then further compared to the actual operating results for the fiscal year. The comparison of this data allows users to assess management's ability to project and plan for its operations throughout the year.

Analysis of the School Board's Overall Financial Position

Over time, net position may serve as a useful indicator of a government's financial position. Refer to Table 1 when reading the following analysis of net position. The Board's assets and deferred outflows exceeded liabilities and deferred inflows by \$159.56 million at September 30, 2014, reflecting a decrease in net position of \$27.04 million over the previous year.

- Of this figure, \$117.27 million reflects the Board's investment in capital assets (e.g. land, buildings, improvements other than buildings, furniture and equipment, and transportation equipment), less accumulated depreciation and debt related to the acquisition of the assets. Since these capital assets are used in governmental activities, this portion of net position is not available for future spending or funding of operations.
- Restricted net position accounts for \$7.87 million of total net position. Restricted net position is reported separately to show the external legal constraints from debt covenants and enabling legislation that limit the Board's ability to use the net position for day-to-day operations.
- The balance of unrestricted net position was \$34.42 million primarily due to a reduction in controlling expenditures and the receivable from Pelham City Schools pertaining to the Series 2009 and Series 2011 warrants.

Table 1: Statement of Net Position
September 30, 2014
(in Millions)

	9/30/2014 Governmental Activities	9/30/2013, as restated Governmental Activities	Increase (decrease)
Assets			
Current and other assets	\$ 113.10	\$ 132.67	\$ (19.57)
Capital Assets	319.78	342.44	(22.66)
Total Assets	432.88	475.11	(42.23)
Deferred Outflows of Resources	3.44	3.75	(0.31)
Liabilities			
Current and other liabilities	\$ 15.88	\$ 13.38	\$ 2.50
Non-Current (Long-Term) liabilities	211.32	221.46	(10.14)
Total Liabilities	227.20	234.84	(7.64)
Deferred Inflows of Resources	49.56	57.42	(7.86)
Net Position			
Net Investment in Capital Assets	\$ 117.27	\$ 138.81	\$ (21.54)
Restricted	7.87	6.94	0.93
Unrestricted	34.42	40.85	(6.43)
Total Net Position	159.56	186.60	(27.04)

At the end of the current fiscal year, the Board is able to report positive balances in all categories of net position: net investment in capital assets, restricted net position, and unrestricted net position of the Board.

Considering all GAAP accruals, the Board's financial position has decreased due to a net decrease of \$27.04 million in net position.

The results of this fiscal year's operations as a whole are reported in detail in the *Statement of Activities* on page 3. Table 2 condenses the results of operations for the fiscal year into a format where the reader can easily see the total revenues of the School Board for the year. It also shows the impact the operations had on changes in net position as of September 30, 2014.

Table 2: Summary of Changes in Net Position from Operating Results
September 30, 2014
(in Millions)

	9/30/2014	9/30/2013
	Governmental Activities	Governmental Activities, as restated
Revenues		
Program Revenues:		
Charges for Services	\$ 21.79	\$ 23.33
Operating grants and contributions	120.61	146.95
Capital Grants and Contributions	7.36	8.34
General Revenues:		
Local property taxes	\$ 61.90	\$ 73.24
Local sales taxes	9.32	11.10
Other taxes including Alcoholic Beverage Tax	0.95	0.96
Other	13.67	11.08
Total Revenue	\$ 235.60	\$ 275.00
Expenses		
Instructional services	\$ 124.41	\$ 141.27
Instructional support services	38.35	40.96
Operation and maintenance services	20.93	22.56
Auxiliary services	28.85	33.20
General administration and central support	4.29	4.25
Interest and fiscal charges	9.46	12.16
Other	4.86	5.59
Total Expenses	\$ 231.15	\$ 259.99
Special Item	\$ (31.49)	\$ (48.00)
Excess<Decrease> in Net Position	\$ (27.04)	\$ (32.99)
Net Position Beginning, as restated	186.60	219.59
Net Position Ending	\$ 159.56	\$ 186.60

The Board's net position decreased \$27.04 million during the current fiscal year primarily due to the capital assets transferred to the newly formed school system.

Governmental Activities - As shown in Table 2, the cost of services rendered from the Board's governmental activities for the year ended September 30, 2014 was \$231.15 million. It is important to note that not all of these costs were borne by the taxpayers of Shelby County:

- Some of the cost, \$21.79 million, was paid by users who benefited from services provided during the year, such as school lunches, summer school, and local school fees and charges and drivers education instruction.
- State and federal governments subsidized certain programs with grants and contributions totaling \$127.97 million.
- Other general revenue sources, such as interest earnings, sale of surplus property, etc., provided for \$13.67 million in revenues.
- \$72.17 million of the Board's total costs of \$231.15 million was financed by district taxpayers.

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

Table 3: Net Cost of Governmental Activities
(in millions)

	<u>9/30/2014</u>		<u>9/30/2013</u>	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instructional services	\$ 124.41	\$ 24.15	\$ 141.27	\$ 25.91
Instructional support services	38.35	20.42	40.96	16.72
Operation and maintenance services	20.93	17.58	22.56	17.70
Auxiliary services	28.85	5.52	33.20	6.42
General administration and central support	4.29	4.01	4.25	3.97
Interest and fiscal charges	9.46	9.46	9.73	7.94
Other	4.86	0.25	5.59	0.27
Total	\$ 231.15	\$ 81.39	\$ 257.56	\$ 78.94

Financial Analysis of School Board Funds

As noted earlier, the Board uses fund accounting to control and manage resources in order to ensure compliance with finance-related legal requirements. Using funds to account for resources for particular purposes helps the reader to determine whether the Board is being accountable for the resources provided by taxpayers and other entities, and it may also help to provide more insight into the Board's overall financial health. The following analysis of the Board's funds should be read in reference to the *fund financial statements*, which begins on page 5.

Governmental Funds - The focus of the Board's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Board's financial requirements. (Note that the relationship between the *fund financial statements* and the *government-wide financial statements* are reconciled on pages 7 and 12.) 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 \$35.55 million.

General Fund – The general fund is the primary operating fund of the Board. The general fund unassigned fund balance amount is \$16.02 million that's available as of the end of the fiscal year for spending on future operations. An additional \$0.19 million was designated as non-spendable for inventories. The general fund had \$0.38 million in assigned fund balance. General accepted accounting principles (GAAP) requires fund financial statements to be presented using the modified accrual basis of accounting. Daily financial transactions are recorded using the modified cash or budgetary basis of accounting. In order for the Board's financial transactions to be presented in accordance with GAAP, certain adjustments were necessary. Exhibit # 9 shows the Board's general fund balance in the amount \$33.06 million using the budgetary basis, but using the GAAP basis the general fund balance is only \$16.59 million (See Exhibit #5.) The reasons for the difference are due to the \$12.76 million accrual for salaries and fringe benefit expenditures to be paid out in the subsequent fiscal year and the deferral of \$3.70 million in motor vehicle tax revenue received but unrecognizable until the subsequent fiscal year. Both of these adjustments had a negative impact on the Board's fund balance that would not have been present using the budgetary basis of accounting. Taking all GAAP adjustments into consideration, the general fund balance reflected a net decrease of \$9.34 million. This decrease in the General Fund balance was primarily due to a decrease in state revenues and local revenues by 18% and 14%, accordingly, compared to the previous year.

Special Revenue Fund – The special revenue fund ended the year with a \$10.57 million fund balance presented in the following categories: \$0.17 million non-spendable fund balance for inventories, \$4.90 million restricted for child nutrition program and Career Technical Bond, and \$5.47 million fund balance assigned to local schools and \$0.02 million for other purposes (E-rate).

Fiduciary Funds – The Fiduciary Fund or Agency-Type financial statements appear on pages 14 and 15. The Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position are presented, as the Board serves as the custodian of these funds, which are held in school accounts.

Budgetary Highlights of Major Funds

The Board is mandated by state law to prepare and submit to the State Superintendent of Education the annual budget. The annual budget for FY2014 was due on or before October 1, 2013. The Board passed the FY2014 Budget on August 28, 2013. Over the course of the year, the Board revised the annual operating budget twice: January 23, 2014 and June 26, 2014. For purposes of this budgetary analysis, only the General Fund is discussed in accordance with the reporting model.

General Fund - The comparison of general fund original budget to the final amended budget is on page 48. The differences between the original and the amended budget were due to changes that are briefly summarized as follows:

Amendment #1 was necessary to budget federal program carryovers and increase current unit funds. Budgeted beginning balances were also amended to reflect actual ending fund balances from FY 2013.

Amendment #2 accounted for the inclusion of increased local units for new Helena High School and for additional bus drivers for Helena and Pelham routes, and reclassifications for instructional expenditures to other fund uses to account for Pelham City School's separation.

Capital Assets and Debt Administration

Capital Assets – The Board’s investment in capital assets for its governmental activities for the year ended September 30, 2014, amounted to a decrease of \$22.65 million, net of accumulated depreciation. The Board’s investment in capital assets includes, land at estimated historical cost, buildings and improvements at estimated historical cost, equipment and furniture at estimated historical cost, buildings under capital lease, equipment under capital lease, and construction in progress, and is shown in Table 4.

Table 4: Capital Assets (net of accumulated depreciation)
(in millions)

	Governmental Activities		Increase (Decrease)
	2014	2013	
Land and land improvements	20.26	22.23	(1.97)
Construction in progress	68.40	66.30	2.10
Buildings and improvements	218.42	238.94	(20.52)
Vehicles	7.72	7.83	(0.11)
Equipment	4.21	4.54	(0.33)
Assets Under Capital Lease	0.77	2.59	(1.82)
Total	319.78	342.43	(22.65)

Long-Term Debt – At year-end, the Board had \$211.31 million in Warrants Payable, PSCA Capital Improvement Bonds, Capital Leases, and Compensated Absences which included Buses, HVAC Improvements and Local Schools. Table 5 provides a synopsis of the board’s activities related to long-term debt.

Table 5: Long Term Debt
(in Millions)

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental Activities				
Bonds and Warrants Payable	218.96	13.32	22.87	209.41
Other Liabilities				
Capital Leases	0.91	0.26	0.87	.30
Compensated Absences	1.59	0.01		1.60
Total Governmental Activities	\$ 221.46	13.59	23.74	211.31

The Shelby County Board of Education was able to reduce general long term debt from PSCA Capital Improvement Pooled Warrants and Capital Lease Contracts Payable in the amount of \$3,913,854.86 and \$89,600.88 that will be paid by Pelham City Schools and Alabaster City Schools, respectively.

Compensated Absences – Employee vacations and compensatory time increased by \$13,569.17 for the fiscal year ended September 30, 2014.

Economic Factors and Future Years’ Budgets

The following are currently known economic factors for Shelby County going into the 2014-2015 fiscal year.

Economic Conditions - As of November 2014, Shelby County continues to lead the State with the lowest unemployment rate of 3.8%. The State average is 6.0% compared to a national figure of 5.8%. Large retailer and grocery chains continue to locate within the county. Both Pelham and Alabaster have major shopping centers along the I-65 corridor.

Sales Taxes - Sales Tax remained constant compared to the previous year.

Population Growth/Housing/Income - Based on U.S. Bureau of the Census, 2013, Shelby County is the 6th fastest growing area in Alabama. Population estimate was 204,180 in the 2013 Census. The homeownership rate is calculated at approximately 79.0% and the median value of a home in the county is \$193,000. Median household income is estimated at \$68,770.

At the time these financial statements were prepared and audited, the School Board was aware of the following circumstances that could significantly affect the School Board’s financial health in the future.

Student Enrollment - Adjusted Average Daily Membership (ADM) as of the forty-day report for the 2014-2015 school years. The budget adopted by the Board in September 2014 took into account this expected decrease. A decrease is expected for the 2015 fiscal year due to four schools becoming part of the Pelham City School System. The ten-year figures of growth based on 40 Day ADM are indicated below.

Fiscal Year	40 Day ADM	ADM
		Increase/Decrease
2014	19,792.18	(2,826.37)
2013	22,904.10	(5,841.25)
2012	28,432.20	260
2011	28,171.95	394
2010	27,778.20	656
2009	27,122.00	646
2008	26,476.00	610
2007	25,866.00	974
2006	24,891.70	1,246

Estimated Capital Needs: As of September 30, 2014 the Board’s capital plans for the next three years included \$3,840,000.00 in estimated needs.

Establishment of Independent City School Districts: In addition to the Shelby County School System, there are six municipal school systems partially within Shelby County. They are Alabaster City Schools, Pelham City Schools, Birmingham City Schools, Hoover City Schools, Vestavia Hills City Schools, and Leeds City Schools. Alabama law allows a city with a population of 5,000 or more to form a separate school system within its jurisdiction. County wide property and sales taxes are apportioned based on students served. This percentage is calculated by the State Department of Education. The Pelham Board of Education has established a Board for the Pelham City Schools. The formal separation agreement has been approved by the State Department of Education on July 1, 2014.

Proration of State Funds: Provisions of the Alabama State Constitution prohibit the State from engaging in deficit financing (spending more than actual revenues). Upon a declaration by the Governor of a shortfall in anticipated revenue, he/she may declare a state of “proration” for the State budgets affected. Although the State revenues provided for the payment of employee salaries and benefits are prorated, State law prohibits the Board from reducing salaries and benefits paid to employees. Subsequently, any reductions of State funds to the Board may result in reductions of expenditures for budget items other than salaries and benefits. The following are the most recent years and percentages of declared proration.

Fiscal Year	Proration Percentage
2010-11	3.00%
2009-10	9.50%
2008-09	11.0%
2002-03	4.40%
2000-01	6.20%

State Funding:

Medical and Retirement Costs: Employee health insurance is provided through the Public Education Employees' Health Insurance Program (PEEHIP). The past five years of retirement and PEEHIP costs are listed below.

Fiscal Year	Employer Retirement Contribution Percentage	Employer Monthly PEEHIP Premium Cost
2015 Tier I	11.71%	780.00
2015 Tier II	11.05%	780.00
2014 Tier I	11.71%	714.00
2014 Tier II	11.08%	714.00
2013	10.08%	714.00
2012	10.00%	714.00
2011	12.51%	752.00

Foundation Program Allocations:

Final FY2015 State funds are \$104,771,804.

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 School Board's finances and to show the School Board's accountability for the money it receives. If you have any questions about this report or need additional financial information contact one of the financial managers listed below during regular work hours Monday – Friday; 8:00 a.m. to 4:00 p.m. central time.

Chief School Financial Officer
Gary E. McCombs
gmccombs@shelbyed.k12.al.us

Coordinator of Finance
Cheryl D. Naugher
cnaugher@shelbyed.k12.al.us

The Shelby County Board of Education Central Office
410 East College Street (PO Box 1910)
Columbiana, AL 35051
Phone: (205) 682-7000
Fax: (205) 682-7030

This Page Intentionally Blank

Basic Financial Statements

This Page Intentionally Blank

Statement of Net Position

September 30, 2014

	Governmental Activities
<u>Assets</u>	
Cash and Cash Equivalents	\$ 47,867,818.62
Investments	317,818.57
Ad Valorem Property Taxes Receivable	45,804,199.69
Receivables, Net	4,964,963.69
Accrued Interest Receivable	6,582.98
Inventories	366,701.30
Separation Agreements Receivable	13,774,044.40
Capital Assets:	
Nondepreciable	80,762,382.46
Depreciable, Net	239,017,809.70
Total Assets	<u>432,882,321.41</u>
<u>Deferred Outflows of Resources</u>	
Loss on Refunding of Debt	3,443,993.68
Total Deferred Outflows of Resources	<u>3,443,993.68</u>
<u>Liabilities</u>	
Accounts Payable	545,519.92
Unearned Revenue	364,993.14
Salaries and Benefits Payable	13,355,787.90
Accrued Interest Payable	1,620,233.91
Long-Term Liabilities:	
Portion Due or Payable Within One Year	9,318,389.26
Portion Due or Payable After One Year	201,999,780.29
Total Liabilities	<u>227,204,704.42</u>
<u>Deferred Inflows of Resources</u>	
Gain on Refunding of Debt	49,198.61
Unavailable Revenue - Property Taxes	45,804,199.69
Revenue Received in Advance - Motor Vehicle Taxes	3,704,902.39
Total Deferred Inflows of Resources	<u>49,558,300.69</u>
<u>Net Position</u>	
Net Investment in Capital Assets	117,270,351.00
Restricted for:	
Debt Service	231,101.40
Capital Projects	2,726,045.02
Other Purposes	4,913,436.58
Unrestricted	<u>34,422,375.98</u>
Total Net Position	<u>\$ 159,563,309.98</u>

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

Statement of Activities
For the Year Ended September 30, 2014

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Governmental Activities:			
Instruction	\$ 124,416,617.17	\$ 5,810,090.72	\$ 89,913,612.75
Instructional Support	38,352,018.28	1,339,237.39	15,934,689.72
Operation and Maintenance	20,928,083.33	930,788.04	2,391,002.69
Auxiliary Services:			
Student Transportation	15,045,503.22	542,255.84	9,813,465.71
Food Service	13,808,823.73	9,920,576.50	920,469.15
General Administrative	4,288,718.99	106,467.42	172,103.09
Interest and Fiscal Charges	9,457,013.36		
Other Expenses	4,857,376.38	3,143,478.01	1,466,319.97
Total Governmental Activities	<u>\$ 231,154,154.46</u>	<u>\$ 21,792,893.92</u>	<u>\$ 120,611,663.08</u>

General Revenues:

Taxes:
 Property Taxes for General Purposes
 Property Taxes for Specific Purposes
 Sales Tax
 Alcohol Beverage Tax
 Other Taxes
Grants and Contributions Not Restricted
 for Specific Programs
Investment Earnings
Miscellaneous
Special Item-Separation Agreement with Pelham City Schools
Total General Revenues and Special Item

Changes in Net Position

Net Position - Beginning of Year, as Restated (Note 14)

Net Position - End of Year

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

		Net (Expenses) Revenues and Changes in Net Position	
Capital Grants and Contributions		Total Governmental Activities	
\$	4,539,826.51	\$	(24,153,087.19)
	659,603.40		(20,418,487.77)
	27,000.00		(17,579,292.60)
	1,518,000.00		(3,171,781.67)
	612,488.87		(2,355,289.21)
			(4,010,148.48)
			(9,457,013.36)
			(247,578.40)
\$	7,356,918.78		(81,392,678.68)

54,551,586.45
7,353,379.38
9,323,693.46
243,204.29
706,674.62

6,063,534.33
134,004.86
7,468,382.66
(31,488,318.01)
54,356,142.04

(27,036,536.64)

186,599,846.62

\$ 159,563,309.98

Balance Sheet
Governmental Funds
September 30, 2014

	General Fund	Special Revenue Fund
<u>Assets</u>		
Cash and Cash Equivalents	\$ 30,634,010.34	\$ 9,004,890.21
Investments		317,818.57
Ad Valorem Property Taxes Receivable	45,804,199.69	
Receivables, Net	2,573,046.57	2,241,012.96
Due from Other Funds	116,000.00	180.45
Inventories	194,102.71	172,598.59
Total Assets	<u>79,321,359.31</u>	<u>11,736,500.78</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>		
<u>Liabilities</u>		
Accounts Payable	452,366.09	93,153.83
Due to Other Funds	180.45	116,000.00
Unearned Revenues		364,993.14
Salaries and Benefits Payable	12,767,373.21	588,414.69
Total Liabilities	<u>13,219,919.75</u>	<u>1,162,561.66</u>
<u>Deferred Inflows of Resources</u>		
Unavailable Revenue - Property Taxes	45,804,199.69	
Revenue Received in Advance - Motor Vehicle Taxes	3,704,902.39	
Total Deferred Inflows of Resources	<u>49,509,102.08</u>	
<u>Fund Balances</u>		
Nonspendable:		
Inventories	194,102.71	172,598.59
Restricted for:		
Debt Service		
Capital Projects		
Child Nutrition Program		4,740,837.99
Career Technical Bond		159,955.32
Assigned:		
Local Schools		5,472,546.26
Other Purposes	376,043.24	28,000.96
Capital Projects	575.69	
CNP Fundraisers	2,462.43	
Unassigned	16,019,153.41	
Total Fund Balances	<u>16,592,337.48</u>	<u>10,573,939.12</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 79,321,359.31</u>	<u>\$ 11,736,500.78</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 8,228,918.07	\$ 47,867,818.62
	317,818.57
	45,804,199.69
157,487.14	4,971,546.67
	116,180.45
	366,701.30
<u>8,386,405.21</u>	<u>99,444,265.30</u>
	545,519.92
	116,180.45
	364,993.14
	<u>13,355,787.90</u>
	<u>14,382,481.41</u>
	45,804,199.69
	<u>3,704,902.39</u>
	<u>49,509,102.08</u>
	366,701.30
1,851,335.31	1,851,335.31
6,535,069.90	6,535,069.90
	4,740,837.99
	159,955.32
	5,472,546.26
	404,044.20
	575.69
	2,462.43
	<u>16,019,153.41</u>
<u>8,386,405.21</u>	<u>35,552,681.81</u>
<u>\$ 8,386,405.21</u>	<u>\$ 99,444,265.30</u>

This Page Intentionally Blank

***Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Position
September 30, 2014***

Total Fund Balances - Governmental Funds (Exhibit 3)		\$ 35,552,681.81
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	\$ 426,737,851.55	
Accumulated Depreciation is	<u>(106,957,659.39)</u>	319,780,192.16
Long-term receivables do not provide current financial resources and therefore are not reported as receivables in the funds.		13,774,044.40
Losses on refunding of debt are reported as deferred outflows of resources and are not available to pay for current-period expenditures and, therefore, are deferred on the Statement of Net Position.		3,443,993.68
Gains on refunding of debt are reported as deferred inflows of resources and are not due and payable in the current and, therefore, are not shown as liabilities in the funds.		(49,198.61)
Long-term liabilities, including bonds 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	9,318,389.26	
Noncurrent Portion of Long-Term Debt	<u>\$ 201,999,780.29</u>	(211,318,169.55)
Interest on long-term debt is not accrued in the funds but rather is recognized as an expenditure when due.		
Accrued Interest Payable		<u>(1,620,233.91)</u>
Total Net Position - Governmental Activities (Exhibit 1)		<u>\$ 159,563,309.98</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, 2014

	General Fund	Special Revenue Fund
<u>Revenues</u>		
State	\$ 110,767,904.84	\$ 909,252.66
Federal	132,429.30	14,125,156.71
Local	65,955,523.67	17,380,301.80
Other	464,321.38	453,452.52
Total Revenues	177,320,179.19	32,868,163.69
<u>Expenditures</u>		
Current:		
Instruction	105,945,274.98	13,951,205.53
Instructional Support	33,855,644.17	3,460,386.22
Operation and Maintenance	19,766,321.53	1,049,688.95
Auxiliary Services:		
Student Transportation	13,083,059.27	589,256.17
Food Service		13,816,180.17
General Administrative	3,872,339.79	304,993.09
Other	3,193,000.19	1,647,022.38
Capital Outlay	554,646.88	798,004.25
Debt Service:		
Principal Retirement	1,360.05	78,374.02
Interest and Fiscal Charges	391.95	17,494.56
Debt Issuance Costs/Other Debt Service		3,874.33
Total Expenditures	180,272,038.81	35,716,479.67
Excess (Deficiency) of Revenues Over Expenditures	(2,951,859.62)	(2,848,315.98)
<u>Other Financing Sources (Uses)</u>		
Indirect Cost	1,133,135.40	
Long-Term Debt Issued		260,479.47
Premiums on Long-Term Debt Issued		
Transfers In	2,219,421.65	5,598,915.59
Other Financing Sources	6,187.93	24,980.54
Sale of Capital Assets	4,420.00	
Transfers Out	(7,835,538.75)	(2,219,421.65)
Payments to Refunding Escrow Agent		
Total Other Financing Sources (Uses)	\$ (4,472,373.77)	\$ 3,664,953.95

Other Governmental Funds	Total Governmental Funds
\$ 6,431,194.12	\$ 118,108,351.62
	14,257,586.01
18,929,717.65	102,265,543.12
25,512.71	943,286.61
<u>25,386,424.48</u>	<u>235,574,767.36</u>
	119,896,480.51
	37,316,030.39
12,102.00	20,828,112.48
	13,672,315.44
	13,816,180.17
	4,177,332.88
	4,840,022.57
19,402,600.44	20,755,251.57
8,998,555.19	9,078,289.26
9,385,363.75	9,403,250.26
142,056.56	145,930.89
<u>37,940,677.94</u>	<u>253,929,196.42</u>
(12,554,253.46)	(18,354,429.06)
	1,133,135.40
11,933,832.18	12,194,311.65
1,391,880.49	1,391,880.49
2,236,623.16	10,054,960.40
	31,168.47
	4,420.00
	(10,054,960.40)
(10,538,518.61)	(10,538,518.61)
<u>\$ 5,023,817.22</u>	<u>\$ 4,216,397.40</u>

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2014

	General Fund	Special Revenue Fund
<u>Special Item</u>		
Special Item	\$ (1,916,006.62)	\$ (1,904,059.15)
Net Changes in Fund Balances	(9,340,240.01)	(1,087,421.18)
Fund Balances - Beginning of Year	25,932,577.49	11,661,360.30
Fund Balances - End of Year	<u>\$ 16,592,337.48</u>	<u>\$ 10,573,939.12</u>

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



Other Governmental Funds	Total Governmental Funds
<u>\$</u>	<u>\$ (3,820,065.77)</u>
(7,530,436.24)	(17,958,097.43)
<u>15,916,841.45</u>	<u>53,510,779.24</u>
<u>\$ 8,386,405.21</u>	<u>\$ 35,552,681.81</u>

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended September 30, 2014

Net Changes in Fund Balances - Total Governmental Funds (Exhibit 5) \$ (17,958,097.43)

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

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

Capital Outlays	\$ 20,755,251.57	
Depreciation Expense	<u>(8,019,903.67)</u>	12,735,347.90

Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the Statement of Activities, but rather constitute long-term liabilities in the Statement of Net Position. (260,479.47)

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. 9,078,289.26

Payments to refunding escrow agent are recorded as expenditures or other financing uses in the governmental funds, but reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities. 10,538,518.61

Proceeds from the issuance of debt are reported as financing sources in governmental funds and thus contribute to the change in fund balance. Issuing long-term debt increases liabilities in the Statement of Net Position but does not affect the Statement of Activities. (11,933,832.18)

Premiums on debt issuance are reported as other financing sources in the governmental funds, but are amortized in the Statement of Activities. (1,391,880.49)

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

The Board transferred capital assets and long-term debt to Pelham City Schools per a separation agreement. A long-term receivable, also part of the separation agreement, does not provide current financial resources and is not reported in the funds.

Transfer of Capital Assets	\$ (35,277,239.05)	
Transfer of Long-Term Debt	3,913,854.86	
Separation Agreement Receivable	<u>5,373,831.29</u>	(25,989,552.90)

The Board also has a long-term receivable that resulted from a prior separation agreement with Alabaster City Schools. Activity related to this separation agreement does not provide current financial resources and is not reported in the funds.

Reduction in Separation Agreement Receivable	\$ (1,768,300.22)	
Transfer of Long-Term Debt Correction	<u>89,600.88</u>	(1,678,699.34)

In the Statement of Activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. The change in net position differs from the change in fund balances by this amount.

Proceeds from Sale of Capital Assets	\$ (4,420.00)	
Loss on Disposition of Capital Assets	<u>(114,935.16)</u>	(119,355.16)

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 Decrease	\$ (136,700.70)	
Compensated Absences, Current Year Increase in Noncurrent Portion	13,569.17	
Amortization of Premiums/ Gain or Loss on Refunding	<u>179,926.97</u>	(56,795.44)

Change in Net Position of Governmental Activities (Exhibit 2) \$ (27,036,536.64)

This Page Intentionally Blank

Statement of Fiduciary Net Position
September 30, 2014

	Private-Purpose Trust Funds	Agency Funds
<u>Assets</u>		
Cash and Cash Equivalents	\$ 11,648.03	\$ 964,001.89
Total Assets	<u>11,648.03</u>	<u>964,001.89</u>
<u>Liabilities</u>		
Accounts Payable		500.00
Due to External Organizations		963,501.89
Total Liabilities		<u>\$ 964,001.89</u>
<u>Net Position</u>	<u>\$ 11,648.03</u>	

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

***Statement of Changes in Fiduciary Net Position
For the Year Ended September 30, 2014***

	Private-Purpose Trust Funds
<hr/>	
<u>Additions</u>	
Earnings on Investments	\$ 134.37
Other Sources	134.37
Total Additions	<u>268.74</u>
<u>Deductions</u>	
Other	500.00
Other Uses	134.37
Total Deductions	<u>634.37</u>
Changes in Net Position	(365.63)
Net Position - Beginning of Year	<u>12,013.66</u>
Net Position - End of Year	<u>\$ 11,648.03</u>

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

Notes to the Financial Statements

For the Year Ended September 30, 2014

Note 1 – Summary of Significant Accounting Policies

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

A. Reporting Entity

The Board is governed by a separately elected board composed of five members elected by the qualified electors of the County. The Board is responsible for the general administration and supervision of the public schools for the educational interests of the County (with the exception of cities having a city board of education).

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

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

Notes to the Financial Statements

For the Year Ended September 30, 2014

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

Fund Financial Statements

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

The Board reports the following major governmental funds:

- ◆ **General Fund** – The General Fund is the primary operating fund of the Board. It is used to account for all financial resources except those required to be accounted for in another fund. The Board primarily receives revenues from the Education Trust Fund (ETF) and local taxes. Amounts appropriated from the ETF were allocated to the school board on a formula basis.

- ◆ **Special Revenue Fund** – This fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Various federal and local funding sources are included in this fund. Some of the significant federal funding sources include the federal funds that are received for Special Education, Title I, and the Child Nutrition Program in addition to various smaller grants, which are required to be spent for the purposes of the applicable federal grants. Also included in this fund are the public and non-public funds received by the local schools which are generally not considered restricted or committed.

Notes to the Financial Statements

For the Year Ended September 30, 2014

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

Governmental Fund Types

- ◆ **Debt Service Fund** – This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest and the accumulation of resources for principal and interest payments maturing in future years.
- ◆ **Capital Projects Fund** – This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlay, including the acquisition or construction of capital facilities and other capital assets.

The Board reports the following fiduciary fund types:

Fiduciary Fund Types

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

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

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

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

Notes to the Financial Statements
For the Year Ended September 30, 2014

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

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

D. Assets, Deferred Outflow of Resources, Liabilities, Deferred Inflow of Resources and Net Position/Fund Balances

1. Deposits and Investments

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

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

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

Notes to the Financial Statements

For the Year Ended September 30, 2014

2. Receivables

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

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

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

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

3. Inventories

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

4. Restricted Assets

Certain funds received from the State Department of Education for capital projects and improvements, which are included in Cash and Cash Equivalents on the balance sheet, as well as certain resources set aside for repayment of debt, are considered restricted assets because they are maintained separately and their use is limited. The Debt Service Fund is used to report resources set aside to pay the principal and interest on debt as it becomes due.

5. Capital Assets

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

Notes to the Financial Statements

For the Year Ended September 30, 2014

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	\$1.00 or more	N/A
Construction in Progress	\$1.00 or more	N/A
Land Improvements – Exhaustible	\$ 50,000.00	20 years
Buildings	\$ 50,000.00	50 years
Building Improvements	\$ 50,000.00	7 – 30 years
Equipment and Furniture	\$ 5,000.00	5 – 20 years
Vehicles	\$ 5,000.00	8 – 10 years
Assets Under Capital Lease	\$ 5,000.00	15 – 30 years

6. Deferred Outflows of Resources

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

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond/Warrant premiums and discounts are deferred and amortized over the life of the debt. Bond/Warrants payable are reported net of the applicable bond/warrant premium or discount. Bond/Warrant issuance costs are reported as an expense in the period incurred.

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

Notes to the Financial Statements

For the Year Ended September 30, 2014

8. Compensated Absences

The Board's vacation leave policy consists of the following: All administrative and supervisory personnel who are employed for twelve months are entitled to earn one day vacation leave per month. Unused leave days may be carried over to the next year. The Board will pay for a maximum of 10 days-unused vacation leave upon resignation or retirement.

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 equity by the government that is applicable to a future reporting period. Deferred inflows of resources decrease net position/fund equity, similar to liabilities.

10. Net Position/Fund Equity

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

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

Notes to the Financial Statements

For the Year Ended September 30, 2014

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 in-tact. Examples of nonspendable fund balance reserves for which fund balance shall not be available for financing general operating expenditures include: inventories, prepaid items, and long-term receivables.
- ◆ **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 of the Board 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 school system for specific purposes. The Board authorizes the Superintendent or Chief School Financial Officer to make a determination of the assigned amounts of fund balance. Such assignments may not exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. Assigned fund balances require the same level of authority to remove the constraint.
- ◆ **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 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. The Board of Education along with the Superintendent and the Chief School Financial Officer will periodically review all restricted, committed, and assigned fund balances. The Chief School Financial Officer will prepare and submit an annual report of all restricted, committed, and assigned funds for the Board of Education.

Notes to the Financial Statements

For the Year Ended September 30, 2014

Note 2 – Stewardship, Compliance, and Accountability

Budgets

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

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

Note 3 – Deposits and Investments

A. Deposits

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

Notes to the Financial Statements
For the Year Ended September 30, 2014

B. Investments in Cash with Fiscal Agents

Cash with Fiscal Agent is included with Cash and Cash Equivalents.

Statutes authorize the Board to invest in obligations of the U. S. Treasury, obligations of any state of the United States, general obligations of any Alabama county or city board of education secured by pledge of the three-mill school tax and other obligations as outlined in the *Code of Alabama 1975*, Section 19-3-120 and Section 19-3-120.1.

The Board does not have a formal policy on investments.

As of September 30, 2014, the Board had the following investments and maturities in overnight repurchase agreements classified as Cash with Fiscal Agent which are included with Cash and Cash Equivalents on the financial statements:

Investments	Maturities	Fair Value
Federated U. S. Treasury Cash Reserves	Unknown	\$1,387,238.82
Total		<u>\$1,387,238.82</u>

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

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. State law requires that pre-funded public obligations, such as any bonds or other obligations of any state of the United States of America or of any agency instrumentality or local governmental unity of any such state that the Board invests in be rated in the highest rating category of Standard & Poor’s Corporation and Moody’s Investor Services, Inc. The Board does not have a formal investment policy requiring investments to be rated in the highest rating category. As of September 30, 2014, the Board’s investments in the treasury reserves were rated AAAM by Standard & Poor’s Corporation.

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

Notes to the Financial Statements

For the Year Ended September 30, 2014

Concentrations of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The Board does not have a formal investment policy.

Note 4 – Receivables

On September 30, 2014, receivables for the Board’s individual major funds and other governmental funds in the aggregate are as follows:

	General Fund	Special Revenue Fund	Other Governmental Funds	Total
<u>Governmental Funds:</u>				
Accounts	\$ 5,664.32	\$ 18,448.55	\$	\$ 24,112.87
Intergovernmental	2,561,213.23	2,222,410.24	157,227.35	4,940,850.82
Other	6,169.02	154.17	259.79	6,582.98
Total Receivables	<u>\$2,573,046.57</u>	<u>\$2,241,012.96</u>	<u>\$157,487.14</u>	<u>\$4,971,546.67</u>

Government-wide financial statements report a Separation Agreement receivable of \$13,774,044.40. This amount includes \$8,400,213.11 due from the Alabaster City School Board per the Separation Agreement dated June 27, 2013 and \$5,373,831.29 due from the Pelham City School Board per the Separation Agreement dated June 5, 2014. Alabaster City School’s portion of the receivable includes \$690,213.77 of Series 2006 Special School Tax Warrants maturing February 1, 2031 and \$7,709,999.34 of Series 2009 Capital Outlay School Warrants maturing February 1, 2018. Pelham City School’s portion of the receivable includes \$1,707,181.27 of Series 2009 Capital Outlay School Warrants maturing February 1, 2018 and \$3,666,650.02 of Series 2011 Capital Outlay School Warrants maturing February 1, 2024.

Notes to the Financial Statements
For the Year Ended September 30, 2014

Note 5 – Capital Assets

Capital asset activity for the year ended September 30, 2014, was as follows:

	Balance 10/01/2013	Additions/ Reclassifications (*)
<u>Governmental Activities:</u>		
Capital Assets, Not Being Depreciated:		
Land	\$ 13,685,331.92	\$ 94,983.94
Construction in Progress	66,303,357.89	19,306,608.60
Total Capital Assets, Not Being Depreciated	<u>79,988,689.81</u>	<u>19,401,592.54</u>
Capital Assets Being Depreciated:		
Land Improvements – Exhaustible	14,255,145.48	188,025.75
Buildings	285,511,846.13	13,852,523.88
Building Improvements	46,913,431.92	3,226,007.85
Equipment and Furniture	12,380,379.12	902,613.75
Vehicles	18,372,192.42	3,353,937.76
Assets Under Capital Lease	5,056,897.10	138,224.47
Total Capital Assets Being Depreciated	<u>382,489,892.17</u>	<u>21,661,333.46</u>
Less Accumulated Depreciation for:		
Land Improvements – Exhaustible	(5,712,569.26)	(482,005.10)
Buildings	(81,797,007.28)	(4,156,066.34)
Building Improvements	(11,684,085.24)	(1,236,817.57)
Equipment and Furniture	(7,838,159.33)	(737,076.85)
Vehicles	(10,541,160.82)	(2,772,511.32)
Assets Under Capital Lease	(2,464,161.58)	(169,583.29)
Total Accumulated Depreciation	<u>(120,037,143.51)</u>	<u>(9,554,060.47)</u>
Total Capital Assets Being Depreciated, Net	<u>262,452,748.66</u>	<u>12,107,272.99</u>
Total Governmental Activities Capital Assets, Net	<u>\$ 342,441,438.47</u>	<u>\$31,508,865.53</u>

(*) Included in the "Additions" and "Retirements" columns above are reclassifications totaling \$17,208,366.75 from Construction in Progress to Land Improvements (\$188,025.75), Buildings (\$13,794,333.15), and Building Improvements (\$3,226,007.85) as well as reclassifications totaling \$3,099,307.68 from Assets Under Capital Lease to Vehicles. Also included are in the "Additions" and "Retirements" columns above are reclassifications totaling \$1,534,156.80 from Accumulated Depreciation for Assets Under Capital Lease to Vehicles.

Notes to the Financial Statements
For the Year Ended September 30, 2014

Retirements/ Pelham Separation Agreement	Retirements/ Reclassifications (*)	Balance 09/30/2014
\$ (1,419,533.14)	\$	\$ 12,360,782.72
	(17,208,366.75)	68,401,599.74
(1,419,533.14)	(17,208,366.75)	80,762,382.46
(984,436.02)		13,458,735.21
(41,895,141.23)	(58,190.73)	257,411,038.05
(8,089,408.13)		42,050,031.64
(1,451,828.68)	(235,599.56)	11,595,564.63
(1,837,608.70)	(39,648.50)	19,848,872.98
(484,587.31)	(3,099,307.68)	1,611,226.58
(54,743,010.07)	(3,432,746.47)	345,975,469.09
635,562.73		(5,559,011.63)
15,668,989.69	100.55	(70,283,983.38)
2,165,613.96		(10,755,288.85)
977,737.50	211,772.22	(7,385,726.46)
1,178,105.06	2,210.86	(12,133,356.22)
259,295.22	1,534,156.80	(840,292.85)
20,885,304.16	1,748,240.43	(106,957,659.39)
(33,857,705.91)	(1,684,506.04)	239,017,809.70
\$(35,277,239.05)	\$(18,892,872.79)	\$ 319,780,192.16

Notes to the Financial Statements
For the Year Ended September 30, 2014

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

	Current Year Depreciation Expense
<u>Governmental Activities:</u>	
Instruction	\$4,520,136.66
Instructional Support	1,035,987.89
Operation and Maintenance	99,970.85
<u>Auxiliary Services:</u>	
Student Transportation	1,373,187.78
Food Services	977,715.96
General Administration	9,119.89
Other Expenditures	3,784.64
Total Depreciation Expense – Governmental Activities	\$8,019,903.67

Note 6 – Defined Benefit Pension Plan

A. Plan Description

The Board contributes to the Teachers’ Retirement System of Alabama, a cost-sharing multiple-employer public employee retirement system for the various state-supported educational agencies and institutions. This plan is administered by the Retirement Systems of Alabama.

Substantially all employees of the Board are members of the Teachers’ Retirement System. Membership is mandatory for covered or eligible employees of the Board. Benefits vest after 10 years of creditable service.

The provisions of Act Number 2012-377, Acts of Alabama, established a new defined benefit plan tier for employees (Tier 2). Tier 2 employees are those hired on or after January 1, 2013. Employees who were hired before January 1, 2013 are considered to be Tier 1 employees.

Notes to the Financial Statements

For the Year Ended September 30, 2014

Vested Tier 1 employees may retire with full benefits at age 60 or after 25 years of service. Vested Tier 2 employees may retire after completing at least 10 years of service at the age of 62. Retirement benefits are calculated by two methods with the retiree receiving payment under the method which yields the highest monthly benefit. The methods are (1) Minimum Guaranteed, or (2) Formula, of which the Formula method usually produces the highest monthly benefit. Under this method Tier 1 retirees are allowed 2.0125% of their average final salary (best three of the last ten years) for each year of service, whereas Tier 2 retirees are allowed 1.6500% of their average final salary (best five of the last ten years) for each year of service with a benefit cap of 80% of the average final salary. Retirees may also elect to receive a reduced retirement allowance (*Special Privileges at Retirement*) in order to provide an allowance to a designated beneficiary after the member's death. Disability retirement benefits are calculated in the same manner. Pre-retirement death benefits in the amount of the annual salary for the fiscal year preceding death are provided to plan members.

The Teachers' Retirement System was established as of October 1, 1941, 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 general administration and operation of the Teachers' Retirement System is vested in the Board of Control (currently 14 members). Benefit provisions are established by the *Code of Alabama 1975*, Sections 16-25-1 through 16-25-113, as amended, and Sections 36-27B-1 through 36-27B-6, as amended.

The Retirement Systems of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Teachers' Retirement System of Alabama. That report may be obtained by writing to The Retirement Systems of Alabama, 201 South Union Street, Montgomery, Alabama 36130-2150.

Notes to the Financial Statements
For the Year Ended September 30, 2014

B. Funding Policy

Tier 1 employees are required to contribute 7.5 percent of their salary to the Teachers' Retirement System, whereas Tier 2 employees are required to contribute 6 percent of their salary. The Board is required to contribute the remaining amounts necessary to fund the actuarially determined contributions to ensure sufficient assets will be available to pay benefits when due. Each year the Teachers' Retirement System recommends to the Legislature the contribution rate for the following fiscal year, with the Legislature setting this rate in the annual appropriation bill. The percentages of the contributions and the amount of contributions made by the Board and the Board's employees equal the required contributions for each year as follows:

Fiscal Year Ended September 30,	2014	2013	2012
Total Percentage of Covered Payroll (Tier 1)	19.21%	17.58%	17.25%
Total Percentage of Covered Payroll (Tier 2)	17.08%	15.44%	
Contributions:			
Percentage Contributed by the Board (Tier 1)	11.71%	10.08%	10.00%
Percentage Contributed by the Employees (Tier 1)	7.50%	7.50%	7.25%
Percentage Contributed by the Board (Tier 2)	11.08%	9.44%	
Percentage Contributed by the Employees (Tier 2)	6.00%	6.00%	
Contributed by the Board	\$13,825,370	\$13,944,606	\$13,776,450
Contributed by Employees	8,785,881	10,363,659	9,987,907
Total Contributions	<u>\$22,611,251</u>	<u>\$24,308,265</u>	<u>\$23,764,357</u>

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/PEEHIP/peehip.html> under the Trust Fund Financials tab.

Notes to the Financial Statements
For the Year Ended September 30, 2014

B. Funding Policy

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

	Fiscal Year 2014
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	\$679.00
Surviving Spouse – Non-Medicare Eligible and Dependent Non-Medicare Eligible	\$870.00
Surviving Spouse – Non-Medicare Eligible and Dependent Medicare Eligible	\$839.00
Surviving Spouse – Medicare Eligible	\$318.00
Surviving Spouse – Medicare Eligible and Dependent Non-Medicare Eligible	\$516.00
Surviving Spouse – Medicare Eligible and Dependent Medicare Eligible	\$485.00

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 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.

Notes to the Financial Statements
For the Year Ended September 30, 2014

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
2014	\$714.00	\$220.09	30.83%	\$7,610,695.13	100%
2013	\$714.00	\$216.90	30.38%	\$8,860,253.48	100%
2012	\$714.00	\$228.85	32.05%	\$9,376,596.08	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 – Construction and Other Significant Commitments

As of September 30, 2014, the Board was obligated under the following significant construction contracts:

	Total Amount Paid	Total Contract Amount
Chelsea Middle School	\$ 178,441.01	\$ 342,094.14
Forest Oaks Elementary School	13,313,138.08	13,972,112.00
Helena High School	42,481,153.58	43,805,328.27
Montevallo Elementary School	3,362,303.45	3,486,992.39
Montevallo High School	1,503,729.91	1,639,797.36
Montevallo Middle School		2,752,000.00
Various Schools – Access Modifications	558,756.96	751,990.00
Various Schools – Partial Re-Roofing	1,103,744.80	1,133,308.04
Vincent Middle/High School	86,914.00	94,000.00
Total	<u>\$62,588,181.79</u>	<u>\$67,977,622.20</u>

Notes to the Financial Statements
For the Year Ended September 30, 2014

Note 9 – Lease Obligations

Capital Leases

The Board is obligated under certain leases accounted for as capital leases. Assets under capital leases totaled \$1,611,226.58, at September 30, 2014. If the Board completes the lease payments according to the schedule below, which is the stated intent of the Board, ownership of the leased equipment will pass to the Board. Until that time, the leased equipment will be identified separately on the balance sheet. The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of September 30, 2014.

Fiscal Year Ending	Governmental Activities
September 30, 2015	\$152,359.07
2016	118,128.34
2017	67,176.14
Total Minimum Lease Payments	337,663.55
Less: Amount Representing Interest	(35,901.91)
Present Value of Net Minimum Lease Payments	<u>\$301,761.64</u>

Note 10 – Long-Term Debt

The Board, as part of a pooled warrant issuance with other school systems within the State of Alabama, issued Capital Improvement Pool Warrants, Series 2005, Series 2006, Series 2008, Series 2009-B, Series 2009-C, Series 2011-B, Series 2012-A, Series 2013-D and Series 2014-A in anticipation of their Public School Fund allocations, which are received from the Alabama Department of Education. Series 2005 and 2006 debt was defeased by the issuance of the Capital Improvement Pool Refunding Bonds, Series 2014-A. The Alabama Department of Education withholds the required debt service payments from the Board's Public School Fund allocation. The proceeds from these warrants provided funds for the acquisition, construction, and renovation of school facilities.

During fiscal year 2006, the Board issued Special Tax School Warrants. The proceeds from these warrants provided funds for the acquisition, construction, and renovation of school facilities.

On April 9, 2009, the Board issued Capital Outlay School Warrants, Series 2009 in the amount of \$68,050,000.00 to currently refund the Series 1998-A, 1998-B, 1999-A and 1999-B capital outlay warrants, to currently refund the 2004 Sale/Lease Back Transaction, to pay other miscellaneous fees, and to pay issuance costs for the Series 2009 Warrants. The Board's share of the ten mill county ad valorem tax is pledged for principal and interest payments.

Notes to the Financial Statements
For the Year Ended September 30, 2014

On December 16, 2009, the Alabama Public School and College Authority issued Capital Improvement Pool Qualified School Construction Bonds Series 2009-D (Tax Credit Bonds) with a tax credit rate of 5.76% and interest rate of 1.865% on behalf of various Boards of Education in the State. The Board had a 0.76% participation in the bonds resulting in the Board's share of principal, issuance costs and net proceeds of \$1,107,000, \$9,744.46 and \$1,097,255.54, respectively. The Board is required to make sinking fund deposits of \$57,609.60 on December 15 in each year for fifteen years so that such deposits and any interest earned thereon shall be used to pay the principal of the bonds upon maturity and are pledged to pay the debt service requirements of the bonds. The sinking fund deposits and interest payments are payable from and secured by a pledge of the Board's allocable share of Public School Capital Outlay Funds.

On June 2, 2011, the Alabama Public School and College Authority issued Capital Improvement Pool Qualified Zone Academy Bonds, Series 2011-A, on behalf of various Boards of Education in the State. The Authority will lend the Board a portion of the proceeds of the bonds. The Board's share of the bonds, issuance costs, and net proceeds were \$900,000.00, \$3,367.30 and \$896,632.70 respectively. The Board is required to make sinking fund deposits of \$45,086.05 on May 1 of each year for fifteen years so that such deposits and any interest earned thereon shall be used to pay the principal of the bonds upon maturity and are pledged to pay the debt service requirements of the bonds. The sinking fund deposits and interest payments are payable from and secured by a pledge of the Board's allocable share of Public School Capital Outlay Funds.

On December 14, 2011, the Board issued \$350,000 Capital Outlay School Warrants (One Mill) for the purpose of constructing athletic complex and facilities at Chelsea High School at 4.69% interest rate will expire February 1, 2026.

During fiscal year 2011-2012, the Board issued Capital Outlay School Warrants (Ten Mill County Tax) Series 2011 in the amount of \$117,070,000.00. The proceeds in the amount of \$120,354,163.30, including a premium of \$3,264,163.30, were used to partially advance refund the Series 2009 Warrants in the escrow amount of \$31,061,277.18, pay for underwriting discount of \$1,053,630.00, costs of issuance of \$219,000.00 and the remainder of \$88,000,256.12 to construct new Helena High School, Forest Oaks Elementary School, classroom additions and modernization of schools in all Shelby County School Zones.

On March 14, 2012, the Alabama Public School and College Authority, on behalf of various Boards of Education in the pool, issued \$79,340,000 in Capital Improvement Pool Refunding Bonds Series 2012-A ("Series 2012-A") with interest rates ranging from 4.00% to 5.00% to refund and retire on a current basis \$79,340,000 of outstanding Capital Improvement Pool Bonds Series 2002-A ("Series 2002-A") with interest rates of 5.00%. The Board had 7.789% participation in the bonds, resulting in the Board's share of the principal, issuance costs, and premium of \$4,478,495.70, \$15,867.18 and \$809,909.01, respectively. The Alabama Department of Education withholds the required debt service payments from the Board's Public School Fund allocation.

Notes to the Financial Statements
For the Year Ended September 30, 2014

On October 15, 2013, the Alabama Public School and College Authority, on behalf of various Boards of Education in the pool, issued \$23,985,000 in Capital Improvement Pool Bonds, Series 2013-D (“Series 2013-D”) with interest rates ranging from 2.00% to 4.125% to finance loans to local boards of education. Loans of the proceeds of the Pool Bonds to be made to local boards are payable solely out of and secured by the capital outlay funds allocated to participating school boards from the Public School Fund. The Board had 11.299% participation in the bonds, resulting in the Board’s share of the principal, issuance costs, and premium of \$2,710,169.49, \$76,257.65 and \$17,876.07, respectively. The Alabama Department of Education withholds the required debt service payments from the Board’s Public School Fund allocation.

On May 28, 2014, the Alabama Public School and College Authority, on behalf of various Boards of Education in the pool, issued \$80,065,000 in Capital Improvement Pool Refunding Bonds, Series 2014-A (“Series 2014-A”) with interest rates ranging from 2.00% to 5.00% to refund and retire on an advance basis \$55,075,000 of outstanding Capital Improvement Bonds Series 2005 (“Series 2005”) with interest rates ranging from 3.00% to 4.50% and \$37,810,000 of outstanding Capital Improvement Bonds Series 2006 (“Series 2006”) with interest rates ranging from 4.00% to 5.00%. The Board had 11.52% participation in the bonds, resulting in the Board’s share of the principal, issuance costs, and premium of \$9,223,662.69, \$59,148.50 and \$1,374,004.42, respectively. The Alabama Department of Education withholds the required debt service payments from the Board’s Public School Fund allocation.

The Board is obligated under certain leases accounted for as capital leases. These capital leases were obtained to purchase various equipment and to finance certain capital improvements.

Notes to the Financial Statements
For the Year Ended September 30, 2014

The following is a summary of long-term debt transactions for the Board for the year ended September 30, 2014:

	Debt Outstanding 10/01/2013	Issued/ Increased
Governmental Activities:		
Bonds/Warrants Payable:		
Capital Outlay School Warrant:		
Series 2011	\$ 303,171.83	\$
Capital Outlay School Refunding Warrants:		
Series 2009	17,905,000.00	
Series 2011	115,895,000.00	
PSCA Capital Improvement Pool Warrants:		
Series 2005	9,770,472.98	
Series 2006	966,372.96	
Series 2008	6,416,712.80	
Series 2009-B	6,406,602.41	
Series 2009-C	3,717,187.23	
Series 2011-B	3,517,838.29	
Series 2012-A	3,454,495.31	
Series 2013-D		2,710,169.49
Series 2014-A		9,223,662.69
Qualified School Construction Bonds:		
Series 2009-D	1,107,000.00	
Qualified Zone Academy Bonds:		
2011-A	900,000.00	
Special Tax School Warrants:		
Series 2006	42,070,000.00	
Sub-Total Bonds/Warrants Payable	212,429,853.81	11,933,832.18
Unamortized Premium	6,528,383.13	1,391,880.49
Total Bonds/Warrants Payable, Net	218,958,236.94	13,325,712.67
Other Liabilities:		
Capital Leases Contracts Payable	910,187.78	260,479.47
Compensated Absences	1,590,939.27	13,569.17
Total Other Liabilities	2,501,127.05	274,048.64
Total Governmental Activities Long-Term Liabilities	\$221,459,363.99	\$13,599,761.31

Notes to the Financial Statements
For the Year Ended September 30, 2014

Decreased/ Pelham/Alabaster Schools Separation	Repaid/ Decreased	Debt Outstanding 9/30/2014	Amounts Due Within One Year
\$	\$ (17,745.76)	\$ 285,426.07	\$ 18,589.60
	(3,300,000.00)	14,605,000.00	3,435,000.00
	(725,000.00)	115,170,000.00	750,000.00
	(9,770,472.98)		
	(966,372.96)		
(672,666.03)	(322,467.86)	5,421,578.91	296,791.40
(878,223.60)	(1,125,560.80)	4,402,818.01	982,062.35
(1,299,832.56)	(165,026.26)	2,252,328.41	108,720.30
(766,260.02)		2,751,578.27	
	(298,719.97)	3,155,775.34	310,508.51
		2,710,169.49	109,039.55
		9,223,662.69	680,687.60
(332,222.41)		774,777.59	
(47,401.23)		852,598.77	
	(1,540,000.00)	40,530,000.00	1,615,000.00
(3,996,605.85)	(18,231,366.59)	202,135,713.55	8,306,399.31
	(644,077.70)	7,276,185.92	720,895.01
(3,996,605.85)	(18,875,444.29)	209,411,899.47	9,027,294.32
(6,849.89)	(862,055.72)	301,761.64	130,644.10
		1,604,508.44	160,450.84
(6,849.89)	(862,055.72)	1,906,270.08	291,094.94
\$(4,003,455.74)	\$(19,737,500.01)	\$211,318,169.55	\$9,318,389.26

Notes to the Financial Statements
For the Year Ended September 30, 2014

Payments on the Series 2006 warrants payable are made by the Debt Service Fund with property taxes and sales taxes. Payments on the Series 2011 (Ten Mill) and 2011 (One Mill) and Series 2009 warrants payable are made by the Debt Service Fund with property taxes. Payments on the Capital Improvement Pool Bonds 2008, 2009-B, 2009-C, 2009-D, 2011-A, 2011-B, 2012-A, 2013-D, and 2014-A are made with Public School Funds which are part of the Board's allocation from the Alabama Department of Education. Payments on the obligations under capital leases will be made by the General Fund and by the local schools.

The compensated absences liability will be liquidated by the General Fund or the fund for which the employee worked.

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

Fiscal Year Ending	Bonds/Warrants Payable		Capital Lease Contracts Payable		Total Principal and Interest Requirements to Maturity
	Principal	Interest	Principal	Interest	
September 30, 2015	\$ 8,306,399.31	\$ 9,010,130.00	\$130,644.10	\$21,714.97	\$ 17,468,888.38
2016	8,648,818.74	8,666,838.78	107,060.87	11,067.47	17,433,785.86
2017	8,997,932.62	8,311,323.42	64,056.67	3,119.47	17,376,432.18
2018	9,357,354.72	7,945,413.10			17,302,767.82
2019	9,806,431.30	7,549,388.04			17,355,819.34
2020-2024	50,073,054.83	30,876,002.50			80,949,057.33
2025-2029	52,732,558.20	18,957,511.67			71,690,069.87
2030-2034	30,513,163.83	8,084,785.28			38,597,949.11
2035-2039	16,105,000.00	3,793,775.00			19,898,775.00
2040-2041	7,595,000.00	365,687.50			7,960,687.50
Totals	\$202,135,713.55	\$103,560,855.29	\$301,761.64	\$35,901.91	\$306,034,232.39

Deferred Gain/Loss on Refunding and Premiums

The Board has a deferred loss on refunding and a premium in connection with the issuance of its Capital Outlay School Warrants, Series 2011, which partially refunded the Capital Outlay School Refunding Warrants, Series 2009. The deferred loss is being amortized over the remaining life of the Capital Outlay Refunding Warrants, Series 2009, and the premium is being amortized using the straight-line method over a period of thirty years.

The Board has a deferred gain on refunding and a premium in connection with the issuance of the PSCA Capital Improvement Pool Warrants, Series 2012-A which refunded the Capital Improvement Pool Warrants, Series 2002-A. The deferred gain on refunding and premium are being amortized using the straight-line method over a period of ten years.

Notes to the Financial Statements

For the Year Ended September 30, 2014

The Board has a deferred loss on refunding and a premium in connection with the issuance of its Capital Outlay School Refunding Warrants, Series 2009. The deferred loss on refunding and premium are being amortized using the straight-line method over a period of nine years.

The Board has a premium in connection with the issuance of its PSCA Capital Improvement Pool Warrants, Series 2008 which is being amortized using straight-line method over a period of twenty years.

The Board has a deferred loss on refunding and a premium in connection with the issuance of its PSCA Capital Improvement Refunding Pool Warrants, Series 2009-B. The deferred loss on refunding and premium are being amortized over the remaining life of the Series 2001-A, and 1999-D, which was 9.5 years.

The Board has a premium for the PSCA Capital Improvement Pool Warrants, Series 2009-C which is being amortized using the straight-line method over a period of twenty years.

The Board has a deferred loss on refunding and a premium in connection with the issuance of its PSCA Capital Improvement Pool Warrants, Series 2011-B. The deferred loss on refunding and premium are being amortized using the straight-line method over a period of ten years.

The Board has a premium in connection with the issuance of its PSCA Capital Improvement Pool Warrants, Series 2013-D which are being amortized over a period of twenty years.

The Board has a deferred loss on refunding and a premium in connection with the issuance of its PSCA Capital Improvement Pool Warrants, Series 2014-A which refunded the Capital Improvement Pool Warrants, Series 2005 and Series 2006. The deferred loss on refunding and premium are being amortized using the straight-line method over a period of twelve years.

	Deferred Loss on Refunding	Deferred Gain on Refunding	Premium
Total Deferred Gain/Loss on Refunding and Premium	\$6,430,060.88	\$65,598.22	\$9,995,644.32
Amount Amortized Prior Years	2,174,102.40	9,839.81	2,093,980.37
Balance Gain/Loss on Refunding and Premium	4,255,958.48	55,758.41	7,901,663.95
Current Amount Amortized	811,964.80	6,559.80	625,478.03
Balance Deferred Gain/Loss on Refunding and Premium	<u>\$3,443,993.68</u>	<u>\$49,198.61</u>	<u>\$7,276,185.92</u>

Notes to the Financial Statements

For the Year Ended September 30, 2014

Pledged Revenues

The Board issued Series 2005, Series 2006, Series 2008, Series 2009-B, Series 2009-C, Series 2011-B, 2012-A, 2013-D, 2014-A Capital Improvement Pool Warrants, Series 2009-D Capital Improvement Pool Qualified School Construction Bonds and Series 2011-A Capital Improvement Pool Qualified Zone Academy Bonds which are pledged to be repaid from their allocation of public school funds received from the State of Alabama. The proceeds are to be used for the acquisition, construction and renovation of school facilities. Future revenues in the amount of \$40,775,955.98 are pledged to repay the principal and interest on the warrants at September 30, 2014. Proceeds of the public school funds in the amount of \$4,828,104.00 were received by the Board during the fiscal year ended September 30, 2014, of which \$4,114,279.15 was used to pay principal, interest and fees on the warrants. The Series 2008, Series 2009-B, Series 2009-C, 2009-D, Series 2011-A, Series 2011-B, Series 2012-A, Series 2013-D and Series 2014-A warrants will mature in fiscal years 2028, 2019, 2029, 2026, 2026, 2021, 2024, 2033, and 2026, respectively.

The Board issued Series 2006 Special Tax School Warrants for the purpose of constructing a new high school in Calera, a new middle school in Helena, and classroom additions to various schools. The Board pledged to repay the special tax school warrants from the Board's portion of the proceeds of a sales tax levied the by Shelby County Commission pursuant to the provisions of Act Number 81-461, Acts of Alabama, as amended by Act Number 96-505, Acts of Alabama. Future revenues in the amount of \$58,478,065.95 are pledged to repay the principal and interest on the warrants at September 30, 2014. Proceeds of the sales tax in the amount of \$9,183,449.34 were received by the Board during the fiscal year ended September 30, 2014, of which \$3,441,668.77 were used to pay principal and interest on the warrants. The Special Tax School Warrants will mature in fiscal year 2031.

The Board issued Series 2009 Capital Outlay School Warrants for the purpose of current refunding the Board's Series 1998-A, 1998-B, 1999-A and 1999-B Capital Outlay School Warrants and to current refund 2004 Sale/Lease Back Transaction. The Board pledged to repay the capital outlay warrants from their share of the 10 mill county ad valorem tax. Future revenues in the amount of \$15,802,300.00 are pledged to repay the remaining principal and interest on the warrants at September 30, 2014. Proceeds of the 10 mill tax in the amount of \$20,759,956.74 were received by the Board during the fiscal year ended September 30, 2014, of which \$3,950,000.00 was used to pay principal and interest on the warrants. The Series 2009 warrants will mature in fiscal year 2018.

Notes to the Financial Statements
For the Year Ended September 30, 2014

The Board issued \$350,000.00 Capital Outlay School Warrants, Series 2011 for the purpose of constructing athletic facilities and improvements. The Board pledged to repay the one mill county ad valorem tax (Section 269C as amended by Amendment Number 111) of the Constitution of 1901, as amended). Future revenues in the amount of \$379,719.66 are pledged to repay the principal and interest on the warrants at September 30, 2014. Proceeds from the one mill tax in the amount of \$2,096,647.76 were received by the Board during the fiscal year ended September 30, 2014 of which \$32,162.00 were used to pay principal and interest on warrants. The Capital Outlay School Warrants Series 2011 will expire February 1, 2026.

The Board issued \$117,070,000.00 Capital Outlay School Warrants, Series 2011 for the purpose of partially refunding the Series 2009 Capital Outlay Warrants on an advanced basis, constructing two new schools, classroom additions, and school modernization throughout Shelby County School Zones. The Board pledged to repay the ten mill county ad valorem tax. Future revenues in the amount of \$190,260,527.25 are pledged to repay the remaining principal and interest on the warrants at September 30, 2014. Proceeds of the ten mill tax in the amount of \$20,759,956.74 were received by the Board during fiscal year ended September 30, 2014 of which \$6,045,137.50 was used to pay principal and interest on the warrants. The Capital Outlay School Warrants Series 2011 will expire in fiscal year 2041.

Prior Year Defeasance of Debt

In a prior year, the Board partially defeased the Capital Outlay School Refunding Warrants, Series 2009, by placing the proceeds of the new warrants in an irrevocable trust to provide for all future debt service payments of the old warrants. Accordingly, the trust account assets and the liability for the defeased debt are not included on the Board's financial statements. At September 30, 2014, \$14,697,100.00 in outstanding warrants are considered defeased.

Notes to the Financial Statements

For the Year Ended September 30, 2014

Defeased Debt

On May 28, 2014, the Alabama Public School and College Authority, on behalf of the various Boards of Education in the pool, issued \$80,065,000.00 in Capital Improvement Pool Refunding Bonds Series 2014-A (“Series 2014-A”) with interest rates ranging from 2.00% to 5.00% to refund and retire on an advance basis \$55,075,000.00 of outstanding Capital Improvement Pool Warrants Series 2005 (“Series 2005”) with interest rates ranging from 3.00% to 4.50% and \$53,565,000.00 of outstanding Capital Improvement Pool Warrants Series 2006 (“Series 2006”) with interest rates ranging from 4.00% to 5.00%. The net proceeds of \$91,480,196.22 (after a premium of \$11,928,638.05 and payment of \$513,441.83 in underwriting fees and other issuance costs) were used to purchase U. S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the old warrants. As a result, the Series 2005 and Series 2006 are considered to be defeased and the liabilities for those warrants have been removed. The Board had an 11.52% participation in the Series 2014-A which resulted in the Board being obligated for \$9,223,662.69 of the total principal of \$80,065,000.00. The Board’s portion of the net proceeds deposited into an irrevocable trust with an escrow agent was \$10,538,518.61. The liability removed was \$10,033,732.72.

The Board’s portion of the advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$504,785.89. This difference is being amortized over the remaining life of the new debt which is substantially the same as the life of the old debt issued. As a result of the advance refunding, the Board reduced its total debt service requirements by \$922,760.59, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$828,871.53.

Notes to the Financial Statements

For the Year Ended September 30, 2014

Note 11 – 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 excess commercial insurance for claims up to \$1 billion, per occurrence, with a \$3.5 million deductible for all perils, with the exception of a named storm, which has a \$10 million deductible. Errors and omissions insurance is purchased from the Alabama Trust for Boards of Education (ATBE), a public entity risk pool. The ATBE collects the premiums and purchases excess insurance for any amount of coverage requested by pool participants in excess of the coverage provided by the pool. Automobile insurance is purchased from Rux Carter Insurance Agency Auto Owners Insurance Company with medical payments limited to \$5,000.00 per person and a combined liability of \$500,000.00 per occurrence. Employee health insurance is provided through the Public Education Employees' Health Insurance Fund (PEEHIF), administered by the Public Education Employees' Health Insurance Board (PEEHIB). The Fund was established to provide a uniform plan of health insurance for current and retired employees of state educational institutions and is self-sustaining. Monthly premiums for employee and dependent coverage are determined annually by the plan's actuary and are based on anticipated claims in the upcoming year, considering any remaining fund balance on hand available for claims. The Board contributes a specified amount monthly to the PEEHIF for each employee of state educational institutions. The Board's contribution is applied against the employees' premiums for the coverage selected and the employee pays any remaining premium.

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

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

Notes to the Financial Statements
For the Year Ended September 30, 2014

Note 12 – Interfund Transactions

Interfund Transfers

The amounts of interfund transfers during the fiscal year ending September 30, 2014, were as follows:

	Transfers Out		Total
	General Fund	Special Revenue Fund	
Transfers In:			
General Fund	\$	\$2,219,421.65	\$ 2,219,421.65
Special Revenue Fund	5,598,915.59		5,598,915.59
Other Governmental Funds	2,236,623.16		2,236,623.16
Totals	<u>\$7,835,538.75</u>	<u>\$2,219,421.65</u>	<u>\$10,054,960.40</u>

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

Note 13 – Subsequent Events

The Board has approved the following significant construction contracts since October 1, 2014:

	Contract Amount
Chelsea Middle School – Renovation	\$2,281,000.00
Helena High School – Change Orders	285,585.46
Vincent Middle/High School – Change Order	22,206.90
Totals	<u>\$2,588,792.36</u>

Notes to the Financial Statements
For the Year Ended September 30, 2014

Note 14 – Restatements

During the fiscal year ended September 30, 2014, the Shelby Board of Education adopted the GASB Statement Number 65, ***Items Previously Reported as Assets and Liabilities*** (GASB 65). GASB 65 established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources (expenses/expenditures) or inflows of resources (revenues), certain items that were previously reported as assets and liabilities. The implementation of GASB 65 resulted in the reclassification of certain items previously reported as assets and liabilities, and required the write-off of deferred bond issuance costs that were previously classified as assets; therefore, the Board’s beginning net position has been restated.

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

	Governmental Activities
Net Position Balance, September 30, 2013, as Previously Reported	\$189,031,242.12
<u>Restatements:</u>	
Expense of Debt Issuance Costs Due to Adoption of GASB 65	(2,431,395.50)
Governmental Activities Net Position, September 30, 2013, as Restated	<u>\$186,599,846.62</u>

This Page Intentionally Blank

Required Supplementary Information

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended September 30, 2014***

	Budgeted Amounts		Actual Amounts Budgetary Basis
	Original	Final	
Revenues			
State	\$ 109,753,870.25	\$ 110,490,740.45	\$ 110,767,904.84
Federal	128,014.86	128,014.86	132,429.30
Local	61,608,595.45	61,744,647.98	65,351,981.54
Other	263,800.00	277,196.94	464,321.38
Total Revenues	<u>171,754,280.56</u>	<u>172,640,600.23</u>	<u>176,716,637.06</u>
Expenditures			
Current:			
Instruction	105,258,409.88	106,774,968.24	104,294,730.48
Instructional Support	32,876,668.98	34,405,784.75	33,595,916.42
Operation and Maintenance	19,342,721.00	18,764,872.35	19,738,878.64
Auxiliary Services:			
Student Transportation	12,818,355.00	13,307,851.81	12,929,844.39
General Administrative	3,879,845.05	3,884,967.89	3,870,677.34
Other	2,976,556.44	2,978,265.94	3,160,695.43
Capital Outlay	734,437.00	433,436.94	554,646.88
Debt Service:			
Principal Retirement	1,360.05	1,360.05	1,360.05
Interest and Fiscal Charges	391.95	391.95	391.95
Total Expenditures	<u>177,888,745.35</u>	<u>180,551,899.92</u>	<u>178,147,141.58</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(6,134,464.79)</u>	<u>(7,911,299.69)</u>	<u>(1,430,504.52)</u>
Other Financing Sources (Uses)			
Indirect Cost	1,159,537.59	1,193,351.78	1,133,135.40
Transfers In	2,098,235.14	2,472,347.46	2,219,421.65
Other Financing Sources			6,187.93
Sale of Capital Assets			4,420.00
Transfers Out	(5,169,544.98)	(7,499,267.26)	(7,835,538.75)
Other Fund Uses		(1,916,834.73)	
Total Other Financing Sources (Uses)	<u>\$ (1,911,772.25)</u>	<u>\$ (5,750,402.75)</u>	<u>\$ (4,472,373.77)</u>

Budget to GAAP Differences	Actual Amounts GAAP Basis
\$	\$ 110,767,904.84
	132,429.30
603,542.13	65,955,523.67
	464,321.38
<u>603,542.13</u>	<u>177,320,179.19</u>
1,650,544.50	105,945,274.98
259,727.75	33,855,644.17
27,442.89	19,766,321.53
153,214.88	13,083,059.27
1,662.45	3,872,339.79
32,304.76	3,193,000.19
	554,646.88
	1,360.05
	391.95
<u>2,124,897.23</u>	<u>180,272,038.81</u>
<u>(1,521,355.10)</u>	<u>(2,951,859.62)</u>
	1,133,135.40
	2,219,421.65
	6,187.93
	4,420.00
	(7,835,538.75)
<u>\$</u>	<u>\$ (4,472,373.77)</u>

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended September 30, 2014***

	Budgeted Amounts		Actual Amounts Budgetary Basis
	Original	Final	
<u>Special Item</u>			
Special Item	\$	\$	\$ (1,916,006.62)
Net Change in Fund Balances	(8,046,237.04)	(13,661,702.44)	(7,818,884.91)
Fund Balances - Beginning of Year	40,266,311.76	40,883,497.98	40,883,497.99
Fund Balances - End of Year	<u>\$ 32,220,074.72</u>	<u>\$ 27,221,795.54</u>	<u>\$ 33,064,613.08</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.

Budget to GAAP Differences	Actual Amounts GAAP Basis
\$	\$ (1,916,006.62)
(1,521,355.10)	(9,340,240.01)
(14,950,920.50)	25,932,577.49
<u>\$ (16,472,275.60)</u>	<u>\$ 16,592,337.48</u>

\$ (1,521,355.10)

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Special Revenue Fund
For the Year Ended September 30, 2014***

	Budgeted Amounts		Actual Amounts Budgetary Basis
	Original	Final	
Revenues			
State	\$ 837,128.00	\$ 1,233,110.36	\$ 909,252.66
Federal	13,599,397.38	14,526,499.17	14,125,156.71
Local	16,295,619.71	16,489,884.71	17,380,301.80
Other	400,860.00	372,899.46	453,452.52
Total Revenues	31,133,005.09	32,622,393.70	32,868,163.69
Expenditures			
Current:			
Instruction	12,453,476.26	13,238,330.91	13,951,205.53
Instructional Support	2,561,526.77	3,100,730.04	3,460,386.22
Operation and Maintenance	850,184.00	850,184.00	1,049,688.95
Auxiliary Services:			
Student Transportation	480,873.60	463,226.01	589,256.17
Food Service	13,856,251.30	14,047,388.49	13,764,781.31
General Administrative	284,724.06	299,014.79	304,993.09
Other	2,460,477.16	2,461,190.73	1,647,022.38
Capital Outlay	454,599.00	1,010,720.71	798,004.25
Debt Service:			
Principal Retirement	55,312.00	55,312.00	78,374.02
Interest and Fiscal Charges	12,098.00	12,098.00	17,494.56
Debt Issuance Costs/Other Debt Service	2,670.00	2,670.00	3,874.33
Total Expenditures	33,472,192.15	35,540,865.68	35,665,080.81
Excess (Deficiency) of Revenues Over Expenditures	(2,339,187.06)	(2,918,471.98)	(2,796,917.12)
Other Financing Sources (Uses)			
Long-Term Debt Issued	5,000.00	5,000.00	260,479.47
Transfers In	6,138,117.84	6,163,971.84	5,598,915.59
Other Financing Sources	39,120.00	32,990.00	24,980.54
Transfers Out	(3,066,808.00)	(3,066,808.00)	(2,219,421.65)
Other Fund Uses		(1,352,135.00)	
Total Other Financing Sources (Uses)	\$ 3,115,429.84	\$ 1,783,018.84	\$ 3,664,953.95

Budget to GAAP Differences	Actual Amounts GAAP Basis
\$	\$ 909,252.66
	14,125,156.71
	17,380,301.80
	453,452.52
	<u>32,868,163.69</u>
	13,951,205.53
	3,460,386.22
	1,049,688.95
	589,256.17
51,398.86	13,816,180.17
	304,993.09
	1,647,022.38
	798,004.25
	78,374.02
	17,494.56
	3,874.33
<u>51,398.86</u>	<u>35,716,479.67</u>
<u>(51,398.86)</u>	<u>(2,848,315.98)</u>
	260,479.47
	5,598,915.59
	24,980.54
	(2,219,421.65)
<u>\$</u>	<u>\$ 3,664,953.95</u>

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Special Revenue Fund
For the Year Ended September 30, 2014***

	Budgeted Amounts		Actual Amounts
	Original	Final	Budgetary Basis
<u>Special Item</u>			
Special Item	\$	\$	\$ (1,904,059.15)
Net Change in Fund Balances	776,242.78	(1,135,453.14)	(1,036,022.32)
Fund Balances - Beginning of Year	10,578,328.14	13,237,977.15	12,198,376.13
Fund Balances - End of Year	<u>\$ 11,354,570.92</u>	<u>\$ 12,102,524.01</u>	<u>\$ 11,162,353.81</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.

Budget to GAAP Differences	Actual Amounts GAAP Basis
\$	\$ (1,904,059.15)
(51,398.86)	(1,087,421.18)
(537,015.83)	11,661,360.30
<u>\$ (588,414.69)</u>	<u>\$ 10,573,939.12</u>

\$ (51,398.86)

This Page Intentionally Blank

Supplementary Information

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2014***

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
<u>U. S. Department of Education</u>		
<u>Passed Through Alabama Department of Education</u>		
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)		
Title I Grants to Local Educational Agencies (M)	84.010	N.A.
Career and Technical Education - Basic Grants to States	84.048	N.A.
Education for Homeless Children and Youth	84.196	N.A.
Education Research, Development and Dissemination	84.305	N.A.
Advanced Placement Program	84.330	N.A.
English Language Acquisition State Grants	84.365	N.A.
Improving Teacher Quality State Grants	84.367	N.A.
College Access Challenge Grant Program	84.378	N.A.
<u>Passed Through Alabama Department of Rehabilitation Services</u>		
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	N.A.
Total U. S. Department of Education		
<u>U. S. Department of Agriculture</u>		
<u>Passed Through Alabama Department of Education</u>		
Child Nutrition Cluster:		
School Breakfast Program - Cash Assistance	10.553	N.A.
National School Lunch Program:		
Cash Assistance	10.555	N.A.
Non-Cash Assistance (Commodities)	10.555	N.A.
National School Lunch Program Sub-Total		
Sub-Total Child Nutrition Cluster		
Fresh Fruit and Vegetable Program	10.582	N.A.
Total U. S. Department of Agriculture		
<u>Social Security Administration</u>		
<u>Passed Through Alabama Department of Education</u>		
Social Security - Disability Insurance	96.001	N.A.
Sub-Total Forward		

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
10/01/2013-09/30/2014	\$ 4,249,874.86	\$ 4,249,874.86	\$ 4,049,821.77	\$ 4,049,821.77
10/01/2013-09/30/2014	78,328.09	78,328.09	73,312.27	73,312.27
	4,328,202.95	4,328,202.95	4,123,134.04	4,123,134.04
10/01/2013-09/30/2014	3,744,580.97	3,744,580.97	3,392,181.39	3,392,181.39
10/01/2013-09/30/2014	242,836.20	242,836.20	241,164.30	241,164.30
10/01/2013-09/30/2014	27,500.00	27,500.00	18,788.52	18,788.52
10/01/2013-09/30/2014	32,531.19	32,531.19	32,531.19	32,531.19
10/01/2013-09/30/2014	2,825.00	2,825.00	2,825.00	2,825.00
10/01/2013-09/30/2014	256,252.81	256,252.81	225,901.86	225,901.86
10/01/2013-09/30/2014	691,119.89	691,119.89	589,695.32	589,695.32
10/01/2013-09/30/2014	15,000.00	15,000.00	14,980.19	14,980.19
10/01/2013-09/30/2014	26,185.83	26,185.83	26,185.83	26,185.83
	9,367,034.84	9,367,034.84	8,667,387.64	8,667,387.64
10/01/2013-09/30/2014	884,204.11	884,204.11	884,204.11	884,204.11
10/01/2013-09/30/2014	3,650,696.35	3,650,696.35	3,650,696.35	3,650,696.35
10/01/2013-09/30/2014	740,403.18	740,403.18	740,403.18	740,403.18
	4,391,099.53	4,391,099.53	4,391,099.53	4,391,099.53
	5,275,303.64	5,275,303.64	5,275,303.64	5,275,303.64
10/01/2013-09/30/2014	182,465.43	182,465.43	182,465.43	182,465.43
	5,457,769.07	5,457,769.07	5,457,769.07	5,457,769.07
10/01/2013-09/30/2014	4,878.00	4,878.00	4,878.00	4,878.00
	\$ 14,829,681.91	\$ 14,829,681.91	\$ 14,130,034.71	\$ 14,130,034.71

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2014***

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

Sub-Total Brought Forward

Other Federal Assistance

U. S. Department of Defense

Direct Program

ROTC - Army

N.A.

N.A.

ROTC - Navy

N.A.

N.A.

Total U. S. Department of Defense

Total Expenditures of Federal Awards

(M) = Major Program

N.A. = Not Applicable/Not Available

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		
	\$ 14,829,681.91	\$ 14,829,681.91	\$ 14,130,034.71	\$ 14,130,034.71
10/01/2013-09/30/2014	67,673.85	67,673.85	67,673.85	67,673.85
10/01/2013-09/30/2014	59,877.45	59,877.45	59,877.45	59,877.45
	<u>127,551.30</u>	<u>127,551.30</u>	<u>127,551.30</u>	<u>127,551.30</u>
	<u>\$ 14,957,233.21</u>	<u>\$ 14,957,233.21</u>	<u>\$ 14,257,586.01</u>	<u>\$ 14,257,586.01</u>

***Notes to the Schedule of Expenditures
of Federal Awards
For the Year Ended September 30, 2014***

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Shelby 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 financial statements.

Additional Information

Board Members and Administrative Personnel
October 1, 2013 through September 30, 2014

Board Members

Term Expires

Hon. Aubrey Miller	President	2016
Hon. Peg Hill	Vice-President	2020
Hon. Steve Martin	Member	Resigned effective 07/31/2014
Hon. Jane Hampton	Member	2016
Hon. Jimmy Bice	Member	2018
Hon. Kevin Morris	Member	2018

Administrative Personnel

Hon. Randy Fuller	Superintendent	2018
Mr. Gary McCombs	Assistant Superintendent of Finance/ Chief School Financial Officer	Annual Contract

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

Independent Auditor's Report

To: Members of the Shelby County Board of Education, Superintendent and Chief School Finance 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 Shelby County Board of Education, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Shelby County Board of Education's basic financial statements and have issued our report thereon dated June 3, 2015.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

We noted a certain matter that we reported to management of the Shelby County Board of Education in the Schedule of State and Local Compliance and Other Findings.

Board's Response to the Finding

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

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

Purpose of this Report

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



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

Montgomery, Alabama

June 3, 2015

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

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited the Shelby 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 Shelby County Board of Education's major federal programs for the year ended September 30, 2014. The Shelby 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 Shelby 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 Shelby 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 Shelby County Board of Education's compliance.

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

Opinion on Each Major Federal Program

In our opinion, the Shelby 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, 2014.

Report on Internal Control Over Compliance

Management of the Shelby 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 Shelby 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 Shelby 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 combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

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



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

Montgomery, Alabama

June 3, 2015

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2014

Section I – Summary of Examiner's Results

Financial Statements

Type of opinion issued: Unmodified

Internal control over financial reporting:
 Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:
 Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified? _____ Yes X None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? _____ Yes X No

Identification of major programs:

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

Dollar threshold used to distinguish between Type A and Type B programs: \$427,727.58

Auditee qualified as low-risk auditee? _____ Yes X No

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2014

Section II – Financial Statement Findings (GAGAS)

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

Section III – Federal Awards Findings and Questioned Costs

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

Auditee Response

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

For the Year Ended September 30, 2014

Finding 2014-001: The Public Works Law, as found in Chapter 2 of Title 39 of the *Code of Alabama 1975*, provides that before entering into any contract for a public works involving an amount in excess of \$50,000, the Board shall advertise for sealed bids and that the contract shall be awarded to the lowest responsible and responsive bidder. While change orders are not specifically addressed in the Public Works Law, various Alabama Attorney General Opinions have interpreted the legislative intent to allow change orders in excess of 30% under certain extraordinary circumstances. The Board of Education issued change orders that increased the total cost of a project from the original bid total of \$868,448, to \$1,654,546.21. While portions of these change orders (\$323,708.54) appear to have been due to extraordinary circumstances, \$462,389.67 appears to have been due to a change in the focus and scope of the project rather than an extraordinary circumstance necessary to complete the original project that was awarded.



Randy Fuller
Superintendent

Board Members

Aubrey Miller, President

Peg Hill, Vice President

Jimmy Bice

Jane Hampton

Kevin Morris

The following is the official statement of the Shelby County Board of Education concerning the results of the Examiners of Public Accounts Audit presented at the Exit Conference on May 28th, 2015 at 4:30 PM.

Response: The renovations to Montevallo High School were the subject matter of an original contract with Williford Orman Construction, LLC. The original contract was dated April 26, 2013, and was in the original amount of \$868,448.00. The original contract had three primary aspects, as follows:

(1) Main Building – Renovation of existing administrative suite including reception area, conference room, teacher work room, two faculty restrooms, health room, and classroom renovation.

(2) Front Drive – New front drive with parking.

(3) Career Tech / Culinary Arts – New windows and removal of some existing windows and infill with brick, demolition of existing lab, and new sidewalks and canopies from main building to Career Tech building.

Aspect “(1)” which dealt with the renovation of the Main Building went according to plans and specifications without substantial changed being needed.

Aspect “(2)” dealing with the drive and parking did, as previously explained, run into substantial problems. After the construction had begun, it developed that the existing parking lot for the building was located on property which was not owned by the Board of Education but which was owned by the University of Montevallo. The University wanted half of that existing parking back for its use, so “midstream” in contract performance the Board of Education was faced with the realization that it had to increase parking and make corresponding alterations in the construction of the drive and parking area. Also, to add to the problem, some rather serious drainage problems developed. The existing drainage system was simply inadequate to handle the additional surface water runoff. Substantial changes had to be made to accommodate those drainage issues, as well.

With respect to Aspect “(3)”, which was the Career Tech / Culinary Arts Center, the original contract for the Culinary Arts area provided for much smaller household type appliances and accompanying utilities and other installations than were ultimately used. A couple of years prior, the Board of Education had put in a major Culinary Arts renovation at Pelham High School which involved the use of much larger commercial type stoves, appliances, and equipment. That project at Pelham had proven successful and, at the request of the supervisor and staff, it was decided that the Montevallo High School project should be revised to also reflect a more modern installation of the

410 East College Street
Post Office Box 1910
Columbiana, AL 35051

(205) 682-7000 Phone
(205) 682-7005 Fax

www.shelbyed.k12.al.us

type of equipment which would introduce these students to the real world of culinary arts and thus open avenues for career education and development for the students participating in the program. After the project had been started and the teacher using the Culinary Arts area for her classes had already displaced her classroom of students for approximately two months, a decision was made to make a shift focus for the Career Tech / Culinary Arts area.

Following the shift in focus to a more sophisticated and modern array of culinary arts appliances and equipment, a series of circumstances developed which led to this rather large change order. For example, the wiring in the existing walls was not adequate to handle the new equipment and appliances, the installation of which everyone agreed was in the best interest of the students. Major changes in the wiring and plumbing had to be made. Another example is the large commercial type "hood" which had to be situated above the new commercial sized cooking surfaces to remove the air and odors. Not only was the existing electrical supplies inadequate to handle that "hood", the weight of the hood was such that the entire supporting structure in the ceiling above had to be redesigned and re-built.

Both the Board of Education representatives and the architects for the Board of Education reached out to Mr. Frank C. Ellis and Mr. Donald Sweeney as Attorneys for the Board of Education as soon as it became apparent that large change orders were going to be necessary. Our Attorneys concurred that it was rather obvious that stopping the project on the Career Tech / Culinary Arts building for bidding of an additional contract would result in a confused "mess" in the construction site. Not only would the students be displaced from their classroom for probably another year, if a separate contract had been issued for that additional work, you would have potentially two contractors on the same work site, each working on separate components of the same portions of the same building and project. It would have just been a confusing nightmare for that new and additional work to go forward as a separate contract.

The Shelby County Board of Education and the architects and persons working on the job were operating in good faith as simply doing what we thought had to be done in the best interest of the students and which would result in the project being completed in the most efficient manner. With the project being completed under change orders as opposed to having second overlapping contracts on the job, the Board of Education gained considerable advantage:

- (1) Convenience – The contractor was already on the site and the project could be completed without further delays and increased costs from multiple mobilization;
- (2) Quality – The same contractor would complete all aspects of the job with consistent quality control;

(3) Drainage – With respect to the paving and drainage, the drainage design would be consistent;

(4) Warranty – Warranty with the change orders would be under one contractor rather than having multiple contractors which significantly reduces the possibility of “finger pointing” should work product problems arise post construction.

Finally Mr. Frank C Ellis, as Attorney for the Board of Education, explained his opinion which was based on several decisions of the Attorney General and the decisions of the Alabama Supreme Court. He cited to the Board the decision in *White v. McDonald Ford Tractor Co.*, 287 Ala. 77, 248 So. 2d 121, 129 (1971). Mr. Ellis also relies on Opinions to Hon. Barbara Coffey, Mayor, City of Moulton, dated January 8, 1993, Attorney General Opinion No. 93-00105, and Hon. Wayman Sherrer, Attorney for the Utilities Board of the Town of Blountsville, dated May 29, 1991, Attorney General Opinion No. 91-00279.

It was his thought, and we concur, that the facts and circumstances facing the Board of Education in this current situation were very similar to the facts presented in the Sherrer Opinion in which the Attorney General found that a change order in excess of thirty percent (30%) was permissible. The appellate cases and Opinions of the Attorney General indicate that the most important requirement of the Competitive Bid Law is the good faith of the officials charged with the responsibility of executing the requirements of the law.

In this case, it is our position that the Board of Education, its architects, and contractors acted in good faith, responding to a very unusual combination of “perfect storm” circumstances which resulted in this project having such substantial change orders. We respectfully request that the finding presented in the Exit Conference on May 28th, 2015 to the Board of Education be revised and removed.