

Report on the

Shelby County Board of Education

Shelby County, Alabama

October 1, 2014 through September 30, 2015

Filed: March 18, 2016



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, we submit this report on the results of the audit of the Shelby County Board of Education, Shelby County, Alabama, for the period October 1, 2014 through September 30, 2015.

Sworn to and subscribed before me this
the 26th day of February, 2016.

Lucille McKinley Womac
Notary Public

Sworn to and subscribed before me this
the 26th day of February, 2016.

Lucille McKinley Womac
Notary Public

Respectfully submitted,

Amanda Hensley

Amanda Hensley
Examiner of Public Accounts

Isabelle Lisenby

Isabelle Lisenby
Examiner of Public Accounts

rb

LUCY WOMAC
Notary Public • Alabama-State At Large
My Commission Expires 6/2/2014

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>	
Independent Auditor's Report	B
<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	F
<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 statement 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	4
Exhibit #3	6
Exhibit #4	8
Exhibit #5	9
Exhibit #6	11
Exhibit #7	13

Table of Contents

	<i>Page</i>
Exhibit #15 Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> – a report on internal controls related to the financial statements and on whether the Board complied with laws and regulations which could have a direct and material effect on the Board’s financial statements.	62
Exhibit #16 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.	64
Exhibit #17 Schedule of Findings and Questioned Costs – a schedule summarizing the results of audit findings relating to the financial statements as required by <i>Government Auditing Standards</i> and findings and questioned costs for federal awards as required by OMB Circular A-133.	67



Department of
Examiners of Public Accounts

SUMMARY

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

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 14. 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 cities having a 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, 2015.

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

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: Aubrey Miller, Peg Hill, Jane Hampton, Jimmy Bice, 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: Jane Hampton and Jimmy Bice; and representatives of the Department of Examiners of Public Accounts: Nikki Morrison, Audit Manager, and Amanda Hensley, Examiner.

This Page Intentionally Blank

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, 2015, 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, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 14 to the financial statements, in fiscal year 2015 the Shelby County Board of Education adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement Number 68, *Accounting and Financial Reporting for Pensions* – an amendment of GASB Statement Number 27. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Shelby County Board of Education's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 13) 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 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 February 18, 2016, 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

February 18, 2016

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

Shelby County Board of Education
Management's Discussion and Analysis
(MD&A) September 30, 2015

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, 2015. 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 1,541 teachers, counselors, librarians and other professionals; and 1218 support workers serving a student population of 20,029. 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 17% when compared to the previous year due to Pelham City Schools separating the last quarter of FY14. State funds decreased 9% 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 \$8.35 million dollars.

The Board's General Fund Balance decreased during the year by \$5.01 million, indicating that the Board's financial position declined due to Pelham City School's separation. (See Exhibit 5 and Exhibit 11.)

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 the two 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 4) 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 6. 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 8 and 11 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 13 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 15 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 information pertaining to the Board's net position liability and comparisons of the original adopted budget to the final amended budget of the Board's General Fund and Special Revenue 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 liabilities and deferred inflows exceeded assets and deferred outflows by \$41.05 million at September 30, 2015, reflecting a decrease in net position of \$200.61 million over the previous year due to the addition of pension liabilities with the adoption GASB Statement 68.

- Of this figure, \$123.01 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 \$4.73 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 that net position for day-to-day operations.
- The balance of unrestricted net position was (\$168.79) million primarily due to the addition of pension liabilities with the adoption of GASB Statement 68.

Table 1: Statement of Net Position
September 30, 2015
(in Millions)

	9/30/2015	9/30/2014	Increase
	Governmental	Governmental	Increase
	Activities	Activities	(decrease)
Assets			
Current and other assets	\$ 101.25	\$113.10	\$ (11.85)
Capital Assets	321.04	319.78	1.26
Total Assets	<u>422.29</u>	<u>432.88</u>	<u>(10.59)</u>
Deferred Outflows of Resources	15.67	3.44	12.23
Liabilities			
Current and other liabilities	14.18	15.88	(1.70)
Non-Current (Long-Term) liabilities	<u>372.12</u>	<u>211.32</u>	<u>160.80</u>
Total Liabilities	<u>386.30</u>	<u>227.20</u>	<u>159.10</u>
Deferred Inflows of Resources	92.71	49.56	43.15
Net Position			
Net Investment in Capital Assets	123.01	117.27	5.74
Restricted	4.73	7.87	(3.14)
Unrestricted	<u>(168.79)</u>	<u>34.42</u>	<u>(203.21)</u>
Total Net Position	<u>\$ (41.05)</u>	<u>\$159.56</u>	<u>\$(200.61)</u>

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

Considering all GAAP accruals, the Board's financial position has decreased due to a net decrease of \$200.61 million in net position due to adoption of GASB Statement 68 accounting for pension liabilities.

The results of this fiscal year's operations as a whole are reported in detail in the *Statement of Activities* on page 4. 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, 2015.

Table 2: Summary of Changes in Net Position from Operating Results
September 30, 2015
(in Millions)

	9/30/2015 Governmental Activities	9/30/2014 Governmental Activities
Revenues		
Program Revenues:		
Charges for Services	\$ 20.05	\$ 21.79
Operating grants and contributions	110.81	120.61
Capital Grants and Contributions	5.06	7.36
General Revenues:		
Local property taxes	52.36	61.90
Local sales taxes	8.71	9.32
Other taxes including Alcoholic Beverage Tax	0.85	0.95
Other	4.82	13.67
Total Revenue	202.66	235.60
Expenses		
Instructional services	105.50	124.41
Instructional support services	32.97	38.35
Operation and maintenance services	18.94	20.93
Auxiliary services	24.79	28.85
General administration and central support	3.83	4.29
Interest and fiscal charges	9.01	9.46
Other	5.13	4.86
Total Expenses	200.17	231.15
Special Item		(31.49)
Excess<Decrease> in Net Position	2.49	(27.04)
Net Position Beginning, as restated	(43.54)	186.60
Net Position Ending	\$ (41.05)	\$159.56

The Board's net position increased \$2.49 million during the current fiscal year. Due to the adoption of GASB Statement 68, the beginning fund balance decreased \$203.10 to account for pension liabilities previously unstated.

Governmental Activities - As shown in Table 2, the cost of services rendered from the Board's governmental activities for the year ended September 30, 2015 was \$200.17 million. It is important to note that not all of these costs were borne by the taxpayers of Shelby County:

- Some of the cost, \$20.05 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 \$115.87 million.
- Other general revenue sources, such as interest earnings, sale of surplus property, etc., provided for \$4.82 million in revenues.
- \$61.92 million of the Board's total costs of \$200.17 million was financed by district taxpayers.

Table 3 is a condensed statement taken from the *Statement of Activities* on page 4 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)

	9/30/2015		9/30/2014	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instructional services	\$105.50	\$15.45	\$124.41	\$24.15
Instructional support services	32.97	16.69	38.35	20.42
Operation and maintenance services	18.94	14.42	20.93	17.58
Auxiliary services	24.79	4.23	28.85	5.52
General administration and central support	3.83	3.50	4.29	4.01
Interest and fiscal charges	9.01	9.01	9.46	9.46
Other	5.13	0.95	4.86	0.25
Total	<u>\$200.17</u>	<u>\$64.25</u>	<u>\$231.15</u>	<u>\$81.39</u>

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 6.

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 8 and 11) 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 \$24.54 million.

General Fund – The general fund is the primary operating fund of the Board. The general fund unassigned fund balance amount is \$11.36 million that's available as of the end of the fiscal year for spending on future operations. An additional \$0.20 million was designated as non-spendable for inventories. The general fund had \$0.02 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 #11 shows the Board's general fund balance in the amount \$26.15 million using the budgetary basis, but using the GAAP basis the general fund balance is only \$11.58 million (See Exhibit #5.) The reasons for the difference are due to the \$11.29 million accrual for salaries and fringe benefit expenditures to be paid out in the subsequent fiscal year and the deferral of \$3.27 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 \$5.01 million. This decrease in the General Fund balance was primarily due to a decrease in state revenues and local revenues by 8% and 17%, accordingly, compared to the previous year.

Special Revenue Fund – The special revenue fund ended the year with a \$9.06 million fund balance presented in the following categories: \$0.26 million nonspendable fund balance for inventories, \$2.82 million restricted for child nutrition program and \$5.98 million fund balance assigned to local schools and other purposes.

Fiduciary Funds – The Fiduciary Fund or Agency-Type financial statements appear on pages 13 and 14. 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 FY2015 was due on or before October 1, 2014. The Board passed the FY2015 Budget on August 21, 2014. Over the course of the year, the Board revised the annual operating budget twice: January 15, 2015 and June 16, 2015. 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 50. The differences between the original and the amended budget were due to changes that are briefly summarized as follows:

In the first budget amendment, the Board approved federal program carryovers, corrections to estimated beginning balances, additions to Capital Projects, adjustments to salaries, and additions of new grants.

In the second budget amendment, the Board approved adjustments to revenues, adjustments to salaries, and additions of new grants.

Capital Assets and Debt Administration

Capital Assets – The Board’s investment in capital assets for its governmental activities for the year ended September 30, 2015, amounted to an increase of \$1.25 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)	
	2015	2014	
Land and land improvements	\$ 20.90	\$ 20.26	\$ 0.64
Construction in progress	4.73	68.40	(63.67)
Buildings and improvements	282.74	218.42	64.32
Vehicles	7.33	7.72	(0.39)
Equipment	4.73	4.21	0.52
Assets Under Capital Lease	0.60	0.77	(0.17)
Total	\$321.03	\$319.78	\$ 1.25

Long-Term Debt – At year-end, the Board had \$372.12 million in Warrants Payable, PSCA Capital Improvement Bonds, Capital Leases, and Compensated Absences, and Net Pension Liability. 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	\$209.41	\$6.93	\$(15.05)	\$201.29
Other Liabilities				
Capital Leases	0.30	0.02	(0.13)	0.19
Compensated Absences	1.60		(0.50)	1.10
Compensated Absences	216.51		(46.97)	169.54
Total Governmental Activities	\$427.82	\$6.95	\$(62.65)	\$372.12

Compensated Absences – Employee vacations and compensatory time decreased by \$498,901.71 for the fiscal year ended September 30, 2015.

Economic Factors and Future Years’ Budgets

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

Economic Conditions - As of October 2015, Shelby County continues to lead the State with the lowest unemployment rate of 4.0%. The State average is 5.9% compared to a national figure of 5.0%. Large retailer and grocery chains continue to locate within the county. Major retail areas on the U.S. 280 corridor and the I-65 corridor provide a strong sales tax base.

Sales Taxes - Sales Tax decreased 7% compared to the previous year primarily due to the separation of Pelham City Schools.

Population Growth/Housing/Income – According to 2014 US Census Bureau estimations, the population of Shelby County was 206,655. 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 2015-2016 school year was 20,226.71. The ten-year figures of growth based on 40 Day ADM are indicated below.

<u>Fiscal Year</u>	<u>40 Day ADM</u>	<u>Increase/Decrease</u>
2016	\$20,226.71	\$ 197.21
2015	\$20,029.50	\$ 237.32
2014	\$19,792.18	\$(2,826.37)
2013	\$22,904.10	\$(5,841.25)
2012	\$28,432.20	\$ 260.00
2011	\$28,171.95	\$ 394.00
2010	\$27,778.20	\$ 656.00
2009	\$27,122.00	\$ 646.00
2008	\$26,476.00	\$ 610.00
2007	\$25,866.00	\$

Estimated Capital Needs: As of September 30, 2015 the Board’s capital plans for the next three years included \$3,885,000.00 in estimated needs.

Establishment of Independent City School Districts: In addition to the Shelby County School System, there are six municipal school systems partially or completely 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.

Proration of State Funds: Provisions of the Alabama State Constitution prohibit the State from engaging in deficit financing (spending more than actual revenues). The following are the most recent years and percentages of declared proration.

<u>Fiscal Year</u>	<u>Proration Percentage</u>
2011	3.00%
2010	9.50%
2009	11.00%

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	Employment Retirement Contribution Percentage	Employer Monthly PEEHIP Premium Cost
2016 Tier I	11.71%	\$780.00
2016 Tier II	11.05%	\$780.00
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

Foundation Program Allocations:

Final FY2016 State funds are \$105,485,136.

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 McCombs, CPA
gmccombs@shelbyed.k12.al.us

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

Supervisor of Accounting
 John Gwin, CPA
jgwin@shelbyed.k12.al.us

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

Basic Financial Statements

Statement of Net Position
September 30, 2015

	Governmental Activities
<u>Assets</u>	
Cash and Cash Equivalents	\$ 35,589,833.91
Investments	319,042.27
Ad Valorem Property Taxes Receivable	49,369,232.72
Receivables, Net	4,009,780.70
Accrued Interest Receivable	3,608.58
Inventories	467,660.68
Separation Agreements Receivable	11,496,215.86
Capital Assets:	
Nondepreciable	17,196,452.37
Depreciable, Net	303,840,610.57
Total Assets	<u>422,292,437.66</u>
<u>Deferred Outflows of Resources</u>	
Loss on Refunding of Debt	3,130,470.78
Employer Pension Contribution	12,543,919.59
Total Deferred Outflows of Resources	<u>15,674,390.37</u>
<u>Liabilities</u>	
Accounts Payable	377,386.03
Unearned Revenue	325,488.42
Salaries and Benefits Payable	11,878,951.84
Accrued Interest Payable	1,604,700.36
Long-Term Liabilities:	
Portion Due or Payable Within One Year	9,671,400.09
Portion Due or Payable After One Year	362,448,676.25
Total Liabilities	<u>386,306,602.99</u>
<u>Deferred Inflows of Resources</u>	
Gain on Refunding of Debt	42,638.81
Unavailable Revenue - Property Taxes	49,369,232.72
Revenue Received in Advance- Motor Vehicle Taxes	3,267,282.92
Proportionate Share of Collective Deferred Inflows Related to Net Pension Liability	40,035,000.00
Total Deferred Inflows of Resources	<u>\$ 92,714,154.45</u>

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

	Governmental Activities
<hr/>	
<u>Net Position</u>	
Net Investment in Capital Assets	\$ 123,018,948.92
Restricted for:	
Debt Service	254,696.60
Capital Projects	1,387,038.69
Other Purposes	3,084,209.28
Unrestricted	<u>(168,798,822.90)</u>
 Total Net Position	 <u><u>\$ (41,053,929.41)</u></u>

Statement of Activities
For the Year Ended September 30, 2015

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<u>Governmental Activities</u>			
Instructional	\$ 105,508,364.74	\$ 6,364,413.71	\$ 80,822,136.10
Instructional Support	32,975,510.49	1,120,218.20	14,684,878.15
Operation and Maintenance	18,941,692.91	877,330.65	3,646,134.45
Student Transportation	13,173,645.71	420,538.93	9,405,101.94
Food Service	11,613,220.34	8,287,971.22	737,486.35
General Administrative	3,827,916.73	113,328.36	215,253.15
Interest and Fiscal Charges	9,010,313.71		
Other Expenses	5,125,477.38	2,867,499.38	1,300,977.55
Total Governmental Activities	<u>\$ 200,176,142.01</u>	<u>\$ 20,051,300.45</u>	<u>\$ 110,811,967.69</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

Gain on Disposition of Capital Assets

Miscellaneous

Total General Revenues

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	
\$	2,869,688.72	\$	(15,452,126.21)
	482,907.59		(16,687,506.55)
			(14,418,227.81)
	1,254,000.00		(2,094,004.84)
	448,414.21		(2,139,348.56)
			(3,499,335.22)
			(9,010,313.71)
			(957,000.45)
\$	5,055,010.52		(64,257,863.35)

45,555,847.74
6,809,682.78
8,710,275.00
215,458.79
637,168.45
429,383.23
83,729.82
59,072.92
4,245,005.23
<u>66,745,623.96</u>
2,487,760.61
<u>(43,541,690.02)</u>
\$ (41,053,929.41)

Balance Sheet
Governmental Funds
September 30, 2015

	General Fund	Special Revenue Fund
<u>Assets</u>		
Cash and Cash Equivalents	\$ 23,752,746.95	\$ 7,943,651.04
Investments		319,042.27
Ad Valorem Property Taxes Receivable	49,369,232.72	
Receivables, Net	2,501,090.46	1,512,264.50
Due from Other Funds	39,000.00	
Inventories	203,838.00	263,822.68
Total Assets	<u>75,865,908.13</u>	<u>10,038,780.49</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>		
<u>Liabilities</u>		
Accounts Payable	346,615.58	30,770.45
Due to Other Funds		39,000.00
Unearned Revenues		325,488.42
Salaries and Benefits Payable	11,299,912.90	579,038.94
Total Liabilities	<u>11,646,528.48</u>	<u>974,297.81</u>
<u>Deferred Inflows of Resources</u>		
Unavailable Revenue - Property Taxes	49,369,232.72	
Revenue Received in Advance - Motor Vehicle Taxes	3,267,282.92	
Total Deferred Inflows of Resources	<u>52,636,515.64</u>	
<u>Fund Balances</u>		
Nonspendable	203,838.00	263,822.68
Restricted for:		
Debt Service		
Capital Projects		
Child Nutrition Program		2,820,386.60
Assigned:		
Local Schools		5,978,656.43
Other Purposes	594.39	1,616.97
Capital Projects	15,040.69	
CNP Fundraisers	2,462.43	
Unassigned	11,360,928.50	
Total Fund Balances	<u>11,582,864.01</u>	<u>9,064,482.68</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 75,865,908.13</u>	<u>\$ 10,038,780.49</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 3,893,435.92	\$ 35,589,833.91
	319,042.27
	49,369,232.72
34.32	4,013,389.28
	39,000.00
	467,660.68
<u>3,893,470.24</u>	<u>89,798,158.86</u>
	377,386.03
	39,000.00
	325,488.42
	<u>11,878,951.84</u>
	<u>12,620,826.29</u>
	49,369,232.72
	<u>3,267,282.92</u>
	<u>52,636,515.64</u>
	467,660.68
2,058,830.65	2,058,830.65
1,834,639.59	1,834,639.59
	2,820,386.60
	5,978,656.43
	2,211.36
	15,040.69
	2,462.43
	<u>11,360,928.50</u>
<u>3,893,470.24</u>	<u>24,540,816.93</u>
<u>\$ 3,893,470.24</u>	<u>\$ 89,798,158.86</u>

This Page Intentionally Blank

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

Total Fund Balances - Governmental Funds (Exhibit 3) \$ 24,540,816.93

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	\$ 435,465,769.28	
Accumulated Depreciation is	<u>(114,428,706.34)</u>	321,037,062.94

Long-term receivables do not provide current financial resources and
therefore are not reported as receivables in the funds. 11,496,215.86

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. 3,130,470.78

Gains on refunding of debt are reported as deferred inflows of resources and are not due
and payable in the current period and therefore, are not shown as liabilities in the funds. (42,638.81)

Deferred outflows and deferred inflows of resources related to pensions are applicable to
future periods and, therefore, are not reported in the governmental funds. (27,491,080.41)

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

Current Portion of Long-Term Debt	\$ 9,671,400.09	
Noncurrent Portion of Long-Term Debt	<u>362,448,676.25</u>	(372,120,076.34)

Interest on long-term debt is not accrued in the funds but rather is
recognized as an expenditure when due.

Accrued Interest Payable	\$ 1,604,700.36	
		<u>(1,604,700.36)</u>

Total Net Position - Governmental Activities (Exhibit 1) \$ (41,053,929.41)

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

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

	General Fund	Special Revenue Fund
<u>Revenues</u>		
State	\$ 101,972,359.25	\$ 323,858.70
Federal	125,531.30	12,390,998.92
Local	54,895,902.98	15,806,510.16
Other	314,047.02	228,220.20
Total Revenues	157,307,840.55	28,749,587.98
<u>Expenditures</u>		
Current:		
Instructional	92,699,698.77	12,241,275.24
Instructional Support	30,021,733.85	3,173,915.22
Operation and Maintenance	18,355,726.54	1,032,477.09
Auxiliary Services:		
Student Transportation	11,904,485.59	330,660.71
Food Service		11,824,198.85
General Administrative	3,761,173.18	338,049.70
Other	3,691,932.83	1,529,023.92
Capital Outlay	571,909.68	805,319.89
Debt Service:		
Principal Retirement	1,485.44	129,291.93
Interest and Fiscal Charges	266.56	21,225.32
Debt Issuance Costs/Other Debt Service		3,757.29
Total Expenditures	161,008,412.44	31,429,195.16
Excess (Deficiency) of Revenues Over Expenditures	(3,700,571.89)	(2,679,607.18)
<u>Other Financing Sources (Uses)</u>		
Indirect Cost	1,063,009.51	
Long-Term Debt Issued		20,744.56
Premiums on Long-Term Debt Issued		
Transfers In	1,887,405.86	3,008,222.26
Other Financing Sources	42,343.16	25,464.78
Sale of Capital Assets	12,250.00	3,125.00
Transfers Out	(4,313,910.11)	(1,887,405.86)
Payments to Refunding Escrow Agent		
Total Other Financing Sources (Uses)	(1,308,901.58)	1,170,150.74
Net Changes in Fund Balances	(5,009,473.47)	(1,509,456.44)
Fund Balances - Beginning of Year	16,592,337.48	10,573,939.12
Fund Balances - End of Year	\$ 11,582,864.01	\$ 9,064,482.68

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

Other Governmental Funds	Total Governmental Funds
\$ 4,716,686.82	\$ 107,012,904.77
	12,516,530.22
14,040,734.95	84,743,148.09
	542,267.22
<u>18,757,421.77</u>	<u>204,814,850.30</u>
	104,940,974.01
	33,195,649.07
	19,388,203.63
	12,235,146.30
	11,824,198.85
31,394.67	4,130,617.55
	5,220,956.75
7,823,856.24	9,201,085.81
8,306,399.26	8,437,176.63
8,881,626.59	8,903,118.47
14,162.50	17,919.79
<u>25,057,439.26</u>	<u>217,495,046.86</u>
(6,300,017.49)	(12,680,196.56)
	1,063,009.51
5,849,363.22	5,870,107.78
1,075,413.77	1,075,413.77
1,598,187.85	6,493,815.97
	67,807.94
120,000.00	135,375.00
(292,500.00)	(6,493,815.97)
<u>(6,543,382.32)</u>	<u>(6,543,382.32)</u>
<u>1,807,082.52</u>	<u>1,668,331.68</u>
(4,492,934.97)	(11,011,864.88)
8,386,405.21	35,552,681.81
<u>\$ 3,893,470.24</u>	<u>\$ 24,540,816.93</u>

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

Net Changes in Fund Balances - Total Governmental Funds (Exhibit 5) \$ (11,011,864.88)

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

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

Capital Outlays	\$ 9,201,085.81	
Depreciation Expense	<u>(7,867,912.95)</u>	1,333,172.86

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. (20,744.56)

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. 8,437,176.63

Payments to refunding escrow agent are recorded as expenditures or other financing uses in the governmental funds, but reduce long-term liabilities in the Statement of Net Position, and do not affect the Statement of Activities. 6,543,382.32

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. (5,849,363.22)

Premiums on debt issuance are reported as other financing sources in the governmental funds, but are amortized in the Statement of Activities. (1,075,413.77)

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

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	\$ (135,375.00)	
Gain on Disposition of Capital Assets	<u>59,072.92</u>	(76,302.08)

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	\$ (15,533.55)	
Compensated Absences, Current Year Decrease in Noncurrent Portion	(498,901.71)	
Amortization of Premiums/Gain or Loss on Refunding	104,809.00	
Pension Expense, Current Year Increase	<u>(6,075,919.59)</u>	6,485,545.85

The Board has a long-term receivable that resulted from prior separation agreements with Alabaster City Schools and Pelham City Schools. Activity related to these separation agreements do not provide current financial resources and are not reported in the funds.

Reduction in Separation Agreement Receivable		<u>(2,277,828.54)</u>
--	--	-----------------------

Change in Net Position of Governmental Activities (Exhibit 2)		<u>\$ 2,487,760.61</u>
---	--	------------------------

Statement of Fiduciary Net Position
September 30, 2015

	Private-Purpose Trust Funds	Agency Funds
<u>Assets</u>		
Cash and Cash Equivalents	\$ 148.03	\$ 890,390.79
Investments	11,000.00	
Receivables	111.61	
Total Assets	<u>11,259.64</u>	<u>890,390.79</u>
<u>Liabilities</u>		
Accounts Payable		15,473.55
Due to External Organizations		874,917.24
Total Liabilities		<u>\$ 890,390.79</u>
<u>Net Position</u>	<u>\$ 11,259.64</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, 2015***

	Private-Purpose Trust Funds
<u>Additions</u>	
Earnings on Investments	\$ 111.61
Total Additions	<u>111.61</u>
<u>Deductions</u>	
Other	<u>500.00</u>
Total Deductions	<u>500.00</u>
Changes in Net Position	(388.39)
Net Position - Beginning of Year	<u>11,648.03</u>
Net Position - End of Year	<u><u>\$ 11,259.64</u></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, 2015

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, 2015

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

Fund Financial Statements

The fund financial statements provide information about the Board's funds, 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 expended for the purposes of the applicable federal grants. Also included in this fund are the public and non-public funds received by the local schools, which are generally not considered restricted or committed.

The 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.

Notes to the Financial Statements

For the Year Ended September 30, 2015

- ◆ **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.

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.

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

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

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

1. Deposits and Investments

Cash 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.

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.

Notes to the Financial Statements

For the Year Ended September 30, 2015

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.

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

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

6. Deferred Outflows of Resources

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

7. Long-Term Obligations

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

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

Notes to the Financial Statements

For the Year Ended September 30, 2015

10. Pensions

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

11. Net Position/Fund 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, 2015

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, 2015

Note 2 – Stewardship, Compliance, and Accountability

Budgets

Budgets are adopted on a basis of accounting consistent with accounting principles generally accepted in the United States of America (GAAP) for the General Fund 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, 2015

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, 2015, 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
Fidelity Institutional Money Market Treasury Only Funds	Unknown	\$1,430,457.11
Total		<u>\$1,430,457.11</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, 2015, 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.

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.

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

Note 4 – Receivables

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

	General Fund	Special Revenue Fund	Capital Projects Fund	Total
Governmental Funds:				
Accounts	\$ 1,974.00	\$ 9,254.39	\$	\$ 11,228.39
Intergovernmental	2,495,625.14	1,502,927.17		3,998,552.31
Other	3,491.32	82.94	34.32	3,608.58
Total Receivables	\$2,501,090.46	\$1,512,264.50	\$34.32	\$4,013,389.28

Government-wide financial statements report a Separation Agreement receivable of \$11,496,215.86. This amount includes \$6,559,368.97 due from the Alabaster City School Board per the Separation Agreement dated June 27, 2013 and \$4,936,846.89 due from the Pelham City School Board per the Separation Agreement dated June 5, 2014. Alabaster City School’s portion of the receivable includes \$662,710.80 of Series 2006 Special School Tax Warrants maturing February 1, 2031 and \$5,896,658.17 of Series 2009 Capital Outlay School Warrants maturing February 1, 2018. Pelham City School’s portion of the receivable includes \$1,305,663.46 of Series 2009 Capital Outlay School Warrants maturing February 1, 2018 and \$3,631,183.43 of Series 2011 Capital Outlay School Warrants maturing February 1, 2024.

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

Note 5 – Capital Assets

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

	Balance 10/01/2014	Additions/ Reclassifications (*)	Retirements/ Reclassifications (*)	Balance 09/30/2015
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 12,360,782.72	\$ 140,195.88	\$ (37,500.00)	\$ 12,463,478.60
Construction in Progress	68,401,599.74	7,131,728.91	(70,800,354.88)	4,732,973.77
Total Capital Assets, Not Being Depreciated	80,762,382.46	7,271,924.79	(70,837,854.88)	17,196,452.37
Capital Assets Being Depreciated:				
Land Improvements - Exhaustible	13,458,735.21	1,025,345.92		14,484,081.13
Buildings	257,411,038.05	64,696,521.62		322,107,559.67
Building Improvements	42,050,031.64	5,078,487.34		47,128,518.98
Equipment and Furniture	11,595,564.63	1,126,651.66	(276,055.83)	12,446,160.46
Vehicles	19,848,872.98	804,083.80	(117,661.25)	20,535,295.53
Assets Under Capital Lease	1,611,226.58	5,483.56	(49,009.00)	1,567,701.14
Total Capital Assets Being Depreciated	345,975,469.09	72,736,573.90	(442,726.08)	418,269,316.91
Less Accumulated Depreciation for:				
Land Improvements - Exhaustible	(5,559,011.63)	(487,267.30)		(6,046,278.93)
Buildings	(70,283,983.38)	(4,284,167.35)		(74,568,150.73)
Building Improvements	(10,755,288.85)	(1,169,209.28)		(11,924,498.13)
Equipment and Furniture	(7,385,726.46)	(596,091.11)	266,051.97	(7,715,765.60)
Vehicles	(12,133,356.22)	(1,183,558.51)	105,895.13	(13,211,019.60)
Assets Under Capital Lease	(840,292.85)	(148,783.98)	26,083.48	(962,993.35)
Total Accumulated Depreciation	(106,957,659.39)	(7,869,077.53)	398,030.58	(114,428,706.34)
Total Capital Assets Being Depreciated, Net	239,017,809.70	64,867,496.37	(44,695.50)	303,840,610.57
Total Governmental Activities Capital Assets, Net	\$319,780,192.16	\$72,139,421.16	\$(70,882,550.38)	\$321,037,062.94
(*) Included in the "Additions" and "Retirements" columns above are reclassifications totaling \$70,800,354.88 from Construction in Progress to Land Improvements (\$1,025,345.92), Buildings (\$64,696,521.62), and Building Improvements (\$5,078,487.34) as well as reclassifications totaling \$7,058.00 from Assets Under Capital Lease to Vehicles. Also included are in the "Additions" and "Retirements" columns above are reclassifications totaling \$1,164.58 from Accumulated Depreciation for Assets Under Capital Lease to Vehicles.				

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

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

	Current Year Depreciation Expense
<u>Governmental Activities:</u>	
Instruction	\$4,351,157.43
Instructional Support	1,163,699.98
Operation and Maintenance	106,467.29
Auxiliary Services	
Student Transportation	1,274,433.82
Food Services	958,884.37
General Administration	9,760.30
Other Expenditures	3,509.76
Total Depreciation Expense - Governmental Activities	<u>\$7,867,912.95</u>

Note 6 – Defined Benefit Pension Plan

A. Plan Description

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

B. Benefits Provided

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

Notes to the Financial Statements

For the Year Ended September 30, 2015

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

C. Contributions

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

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

Participating employers' contractually required contribution rate for the year ended September 30, 2015 was 11.71% of annual pay for Tier 1 members and 11.05% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the System were \$12,543,920 for the year ended September 30, 2015.

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

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

At September 30, 2015, the System reported a liability of \$169,538,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2013. The System's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2014, the System's proportion was 1.866222%, which was a decrease of .344152% from its proportion measured as of September 30, 2013.

For the year ended September 30, 2015, the System recognized pension expense of \$6,468,000. At September 30, 2015, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$	\$
Changes of assumptions		
Net difference between projected and actual earnings on pension plan investments		12,711,000
Changes in proportion and differences between Employer Contributions and proportionate share of contributions		27,324,000
Employer contributions subsequent to the measurement date	12,543,920	
Total	<u>\$12,543,920</u>	<u>\$40,035,000</u>

\$12,543,920 reported as deferred outflows of resources related to pensions resulting from System contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending	
September 30, 2016	\$(9,533,000)
2017	\$(9,533,000)
2018	\$(9,533,000)
2019	\$(9,533,000)
2020	\$(1,903,000)
Thereafter	\$

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

E. Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of September 30, 2013 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Investment Rate of Return (*)	8.00%
Projected Salary Increases	3.50% - 8.25%
(*) Net of pension plan investment expense	

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

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

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

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

The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

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

(*) Includes assumed rate of inflation of 2.50%

F. Discount Rate

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

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

G. Sensitivity of the System’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

	1% Decrease (7.00%)	Current Rate (8.00%)	1% Increase (9.00%)
Increases:			
System’s proportionate share of collective net pension liability	\$230,963,000	\$169,538,000	\$117,476,000

H. Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2014. The supporting actuarial information is included in the GASB Statement Number 67 Report for the TRS prepared as of September 30, 2014. The auditor’s report dated May 1, 2015 on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense for the sum of all participating entities as of September 30, 2014 along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

Note 7 – Other Postemployment Benefits (OPEB)

A. Plan Description

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

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

B. Funding Policy

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

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

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, 2015

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

Fiscal Year Ended September 30,	Active Health Insurance Premiums Paid By Board	Amount of Premium Attributable to Retirees	Percentage of Active Employee Premiums Attributable to Retirees	Total Amount Paid Attributable to Retirees	Percentage of Required Amount Contributed
2015	\$780.00	\$180.76	23.17%	\$5,647,922.44	100%
2014	\$714.00	\$220.09	30.83%	\$7,610,695.13	100%
2013	\$714.00	\$216.90	30.38%	\$8,860,253.48	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, 2015, the Board was obligated under the following significant construction contracts:

	Total Amount Paid	Total Contract Amount
Chelsea Middle School	\$1,830,681.66	\$2,483,895.00
Inverness Elementary	9,604.00	10,780.00
Linda Nolen Learning Center	1,376.40	18,925.50
Montevallo Middle	2,670,841.63	3,067,320.05
Montevallo High School Football Field	3,920.00	53,900.00
Painting at Various Schools	48,291.46	54,204.70
Total	<u>\$4,564,715.15</u>	<u>\$5,689,025.25</u>

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

Note 9 – Lease Obligations

Capital Leases

The Board is obligated under certain leases accounted for as capital leases. Assets under capital leases totaled \$1,567,701.14, at September 30, 2015. If the Board completes the lease payments according to the schedule below, which is the stated intent of the Board, ownership of the leased equipment will pass to the Board. Until that time, the leased equipment will be identified separately on the balance sheet. The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of September 30, 2015.

Fiscal Year Ending	Governmental Activities
September 30, 2016	\$124,846.13
2017	73,862.78
2018	6,512.27
2019	3,739.80
Total Minimum Lease Payments	208,960.98
Less: Amount Representing Interest	(17,232.15)
Present Value of Net Minimum Lease Payments	<u>\$191,728.83</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 Bonds, Series 2008, Series 2009-B, Series 2009-C, 2011-B, 2012-A, 2013-D, 2014-A and 2015-B in anticipation of their Public School Fund allocations, which are received from the Alabama Department of Education. Series 2008 and Series 2009-C was partially refunded by the issuance of the Capital Improvement Pool Refunding Bonds, Series 2015-B. 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 Refunding 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, 2015

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 \$37,243.19 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 \$41,925.97 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 Refunding 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 \$1,053,630.00, cost of issuance \$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.

Notes to the Financial Statements

For the Year Ended September 30, 2015

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.

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, \$26,866.29 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.

On May 5, 2015, the Alabama Public School and College Authority, on behalf of various Boards of Education in the pool, issued \$47,610,000 in Capital Improvement Pool Refunding Bonds Series 2015-B (“Series 2015-B”) with interest rates ranging from 3.00% to 5.00% to partially refund \$29,790,000 of outstanding Capital Improvement Bonds Series 2008 (“Series 2008”) with interest rates ranging from 3.25% to 4.25% and \$22,415,000 of outstanding Capital Improvement Bonds Series 2009-C (“Series 2009-C”) with interest rates ranging from 3.00% to 4.00%. The Board had 11.55% participation in the bonds, resulting in the Board’s share of the principal, issuance costs, and premium of \$5,499,363.22, \$31,394.67 and \$1,075,413.77, 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, 2015

On January 12, 2015, the Board issued \$350,000 Capital Outlay School Warrants (One Mill) for the purpose of constructing athletic complex and facilities at Helena High School at 3.15% interest rate will expire February 1, 2025.

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.

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

	Debt Outstanding 10/01/2014	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 09/30/2015	Amounts Due Within One Year
Governmental Activities:					
Bonds/Warrants Payable:					
Capital Outlay School Warrants					
Series 2011	\$ 285,426.07		\$ (18,589.60)	\$ 266,836.47	\$ 19,473.56
Series 2015		350,000.00		350,000.00	30,320.41
Capital Outlay School Refunding Warrants:					
Series 2009	14,605,000.00		(3,435,000.00)	11,170,000.00	3,580,000.00
Series 2011	115,170,000.00		(750,000.00)	114,420,000.00	770,000.00
PSCA Capital Improvement Pool Bonds:					
Series 2008	5,421,578.91		(4,527,324.51)	894,254.40	286,279.27
Series 2009-B	4,402,818.01		(982,062.35)	3,420,755.66	1,025,005.19
Series 2009-C	2,252,328.41		(1,772,177.99)	480,150.42	113,173.01
Series 2011-B	2,751,578.27			2,751,578.27	
Series 2012-A	3,155,775.34		(310,508.51)	2,845,266.83	322,768.53
Series 2013-D	2,710,169.49		(109,039.55)	2,601,129.94	111,864.41
Series 2014-A	9,223,662.69		(680,687.60)	8,542,975.09	699,117.66
Series 2015-B		5,499,363.22		5,499,363.22	
Qualified School Construction Bonds:					
Series 2009-D	774,777.59			774,777.59	
Qualified Zone Academy Bonds:					
Series 2011-A	852,598.77			852,598.77	
Special Tax School Warrants:					
Series 2006	40,530,000.00		(1,615,000.00)	38,915,000.00	1,700,000.00
Sub-Total Bonds/Warrants Payable	202,135,713.55	5,849,363.22	(14,200,390.11)	193,784,686.66	8,658,002.04
Unamortized Premium	7,276,185.92	1,075,413.77	(851,545.57)	7,500,054.12	790,424.27
Total Bonds/Warrants Payable, Net	209,411,899.47	6,924,776.99	(15,051,935.68)	201,284,740.78	9,448,426.31
Other Liabilities:					
Capital Leases Contracts Payable	301,761.64	20,744.56	(130,777.37)	191,728.83	112,413.11
Compensated Absences	1,604,508.44		(498,901.71)	1,105,606.73	110,560.67
Net Pension Liability	216,511,000.00		(46,973,000.00)	169,538,000.00	
Total Other Liabilities	218,417,270.08	20,744.56	(47,602,679.08)	170,835,335.56	222,973.78
Total Governmental Activities Long-Term Liabilities	\$427,829,169.55	\$6,945,521.55	\$(62,654,614.76)	\$372,120,076.34	\$9,671,400.09

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

Payments on the Series 2006 warrants payable are made by the Debt Service Fund with property taxes and sales taxes. Payments on the Series 2009, Series 2011 (Ten Mill), 2011 (One Mill), and Series 2015 (One Mill) 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, 2014-A, and 2015-B 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, 2016	\$ 8,658,002.04	\$ 8,682,683.05	\$112,413.11	\$12,433.02	\$ 17,465,531.22
2017	9,008,070.99	8,329,994.05	69,797.76	4,065.02	17,411,927.82
2018	9,368,478.28	7,963,917.62	5,985.23	527.04	17,338,908.17
2019	9,740,336.70	7,574,157.65	3,532.73	207.07	17,318,234.15
2020	10,222,595.87	7,130,269.78			17,352,865.65
2021-2025	50,140,995.12	28,597,069.16			78,738,064.28
2026-2030	53,228,100.33	16,579,696.88			69,807,797.21
2031-2035	22,638,107.33	6,817,992.22			29,456,099.55
2036-2040	16,890,000.00	3,009,362.50			19,899,362.50
2041	3,890,000.00	92,525.00			3,982,525.00
Totals	\$193,784,686.66	\$94,777,667.91	\$191,728.83	\$17,232.15	\$288,771,315.55

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, 2015

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.

The Board has a deferred loss on refunding and a premium in connection with the issuance of its PSCA Capital Improvement Pool Warrants, Series 2015-B which partially refunded the Capital Improvement Pool Warrants, Series 2008 and Series 2009-C. The deferred loss on refunding and premium are being amortized using the straight-line method over a period of fourteen 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	\$9,984,384.99
Amount Amortized Prior Years	2,986,067.20	16,399.61	2,708,199.07
Balance Gain/Loss on Refunding and Premium	3,443,993.68	49,198.61	7,276,185.92
Current Year Additions	543,461.26		1,075,413.77
Current Year Deletions			105,930.21
Current Amount Amortized	856,984.16	6,559.80	745,615.36
Balance Deferred Gain/Loss on Refunding and Premium	\$3,130,470.78	\$42,638.81	\$7,500,054.12

Notes to the Financial Statements

For the Year Ended September 30, 2015

Pledged Revenues

The Board issued Series 2008, Series 2009-B, Series 2009-C, Series 2011-B, 2012-A, 2013-D, 2014-A, and 2015-B Capital Improvement Pool Bonds, 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 \$36,696,756.16 are pledged to repay the principal and interest on the warrants at September 30, 2015. Proceeds of the public school fund in the amount of \$3,412,269.00 were received by the Board during the fiscal year ended September 30, 2015, of which \$3,325,165.91 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, Series 2014-A and 2015-B warrants will mature in fiscal years 2018, 2019, 2019, 2026, 2026, 2021, 2024, 2033, 2026, and 2029 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 \$55,040,272.17 are pledged to repay the principal and interest on the warrants at September 30, 2015. Proceeds of the sales tax in the amount of \$8,608,478.41 were received by the Board during the fiscal year ended September 30, 2015, of which \$3,437,793.76 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 \$11,851,800.00 are pledged to repay the remaining principal and interest on the warrants at September 30, 2015. Proceeds of the 10 mill tax in the amount of \$17,845,690.79 were received by the Board during the fiscal year ended September 30, 2015, of which \$3,950,500.00 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, 2015

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 \$347,557.66 are pledged to repay the principal and interest on the warrants at September 30, 2015. Proceeds from the one mill tax in the amount of \$2,158,842.25 were received by the Board during the fiscal year ended September 30, 2015 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 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 \$184,212,514.75 are pledged to repay the remaining principal and interest on the warrants at September 30, 2015. Proceeds of the ten mill tax in the amount of \$17,845,690.79 were received by the Board during fiscal year ended September 30, 2015 of which \$6,048,012.50 was used to pay principal and interest on the warrants. The Capital Outlay School Warrants Series 2011 will expire in fiscal year 2041.

The Board issued \$350,000.00 Capital Outlay School Warrants, Series 2014 for the purpose of renovating, constructing and equipping an athletic complex and related facilities. 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 \$413,453.83 are pledged to repay the principal and interest on the warrants at September 30, 2015. Proceeds from the one mill tax in the amount of \$2,158,842.25 were received by the Board during the fiscal year ended September 30, 2015. The Capital Outlay School Warrants Series 2014 will expire in fiscal year 2025.

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, 2015, \$10,475,000.00 in outstanding warrants are considered defeased.

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

Defeased Debt

On May 5, 2015, the Alabama Public School and College Authority, on behalf of the various Boards of Education in the pool, issued \$47,610,000 in Capital Improvement Pool Refunding Bonds Series 2015-B (“Series 2015-B”) with interest rates ranging from 3.00% to 5.00% to partially refund \$29,790,000 of outstanding Capital Improvement Pool Warrants Series 2008 (“Series 2008”) with interest rates ranging from 3.25% to 4.25% and \$22,415,000 of outstanding Capital Improvement Pool Warrants Series 2009-C (“Series 2009-C”) with interest rates ranging from 3.00% to 4.00%. The net proceeds of \$56,648,455.46 (after a premium of \$9,310,250.60 and payment of \$271,795.14 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 2008 and Series 2009-C are considered to be partially defeased and the liabilities for those warrants have been partially removed. The Board had an 11.55% participation in the Series 2015-B which resulted in the Board being obligated for \$5,499,363.22 of the total principal of \$47,610,000.

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 \$543,461.26. 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 increased its total debt service requirements by \$40,736.90, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$111,881.45.

Notes to the Financial Statements

For the Year Ended September 30, 2015

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. The SIF has a \$10,000,000 cumulative loss annual deductible and a \$3,500,000 specific loss deductible for all perils except wind, and a \$20,000,000 specific loss deductible for wind losses. Excess insurance covers claims exceeding the deductible with a \$200,000,000 limit for named wind storms and a \$1,500,000,000 limit for all other perils. Second event wind coverage for \$19,000,000 in excess of \$1,000,000 is purchased to provide additional protection for the SIF. 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, 2015

Note 12 – Interfund Transactions

Interfund Transfers

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

	Transfers Out			Total
	General Fund	Special Revenue Fund	Other Governmental Funds	
Transfers In:				
General Fund	\$	\$1,887,405.86	\$	\$1,887,405.86
Special Revenue Fund	2,715,722.26		292,500.00	3,008,222.26
Other Governmental Funds	1,598,187.85			1,598,187.85
Totals	\$4,313,910.11	\$1,887,405.86	\$292,500.00	\$6,493,815.97

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, 2015:

	Contract Amount
Chelsea High School – Paving	\$108,500.00
Helena High School – Athletic Facility	96,000.00
Total	\$204,500.00

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

Note 14 – Restatements

In fiscal year 2015, the Shelby County Board of Education adopted Governmental Accounting Standards Board (GASB) Statement Number 68, ***Accounting and Financial Reporting for Pensions***. The provisions of this Statement establish accounting and financial reporting standards for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts. Implementation of this statement requires a restatement to beginning net position. The adoption of this statement has a significant impact on the Shelby County Board of Education’s financial statements. For fiscal year 2015, the Board made prior period adjustments due to the adoption of GASB Statement Number 68 which required the restatement of the September 30, 2014, net position in Governmental Activities. The result is a decrease in Net Position at October 1, 2014 of \$203,105,000.00.

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

	Governmental Activities
Net Position Balance, September 30, 2014, as Previously Reported	\$ 159,563,309.98
Restatements:	
Accounting for Pensions	
Due to Adoption of GASB Statement Number 68	(203,105,000.00)
Governmental Activities Net Position, September 30, 2014, as Restated	\$ (43,541,690.02)

This Page Intentionally Blank

Required Supplementary Information

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

	2015
Employer's proportion of the net pension liability	1.866222000%
Employer's proportionate share of the net pension liability	\$ 169,538
Employer's covered-employee payroll during the measurement period (*)	\$ 118,415
Employer's proportionate share of the collective net pension liability as a percentage of its covered-employee payroll	143.17%
Plan fiduciary net position as a percentage of the total collective pension liability	71.01%

(*) Employer's covered-employee payroll during the measurement period is the total payroll paid to covered employees (not just pensionable payroll). For fiscal year 2015, the measurement period is October 1, 2013 - September 30, 2014.

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

Schedule of Contributions
For the Year Ended September 30, 2015
(Dollar amounts in thousands)

	2015
Contractually required contribution	\$ 12,544
Contributions in relation to the contractually required contribution	<u>12,544</u>
Contribution deficiency (excess)	\$
Employer's covered-employee payroll	\$ 107,701
Contributions as a percentage of covered-employee payroll	11.65%

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

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>
<u>Revenues</u>			
State	\$ 101,390,541.72	\$ 101,885,278.39	\$ 101,972,359.25
Federal	99,050.40	118,554.29	125,531.30
Local	51,625,313.00	52,484,809.00	54,458,283.51
Other	207,500.00	207,500.00	314,047.02
Total Revenues	<u>153,322,405.12</u>	<u>154,696,141.68</u>	<u>156,870,221.08</u>
<u>Expenditures</u>			
Current:			
Instructional	95,817,873.65	95,123,456.48	93,936,035.34
Instructional Support	30,938,617.33	30,694,079.90	30,225,302.81
Operation and Maintenance	17,519,493.00	17,310,969.81	18,361,396.46
Auxiliary Services:			
Student Transportation	12,049,089.00	11,932,457.00	11,903,039.54
General Administrative	3,736,569.39	3,821,343.42	3,759,338.19
Other	2,765,967.00	3,784,788.02	3,717,098.73
Capital Outlay			
Personal Property	314,092.00	553,853.00	
Real Property		56,911.61	571,909.68
Debt Service:			
Principal Retirement	1,485.44	1,485.44	1,485.44
Interest and Fiscal Charges	266.56	266.56	266.56
Total Expenditures	<u>163,143,453.37</u>	<u>163,279,611.24</u>	<u>162,475,872.75</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(9,821,048.25)</u>	<u>(8,583,469.56)</u>	<u>(5,605,651.67)</u>
<u>Other Financing Sources (Uses)</u>			
Indirect Cost	1,115,616.40	1,063,870.16	1,063,009.51
Transfers In	2,126,020.60	2,191,440.71	1,887,405.86
Other Financing Sources			42,343.16
Sale of Capital Assets	20,000.00	20,000.00	12,250.00
Transfers Out	(4,228,400.48)	(3,991,986.51)	(4,313,910.11)
Total Other Financing Sources (Uses)	<u>(966,763.48)</u>	<u>(716,675.64)</u>	<u>(1,308,901.58)</u>
Net Change in Fund Balances	(10,787,811.73)	(9,300,145.20)	(6,914,553.25)
Fund Balances - Beginning of Year	28,907,875.50	33,064,613.07	33,064,613.08
Fund Balances - End of Year	<u>\$ 18,120,063.77</u>	<u>\$ 23,764,467.87</u>	<u>\$ 26,150,059.83</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
\$	\$ 101,972,359.25
	125,531.30
437,619.47	54,895,902.98
	314,047.02
<u>437,619.47</u>	<u>157,307,840.55</u>
(1,236,336.57)	92,699,698.77
(203,568.96)	30,021,733.85
(5,669.92)	18,355,726.54
1,446.05	11,904,485.59
1,834.99	3,761,173.18
(25,165.90)	3,691,932.83
	571,909.68
	1,485.44
	266.56
<u>(1,467,460.31)</u>	<u>161,008,412.44</u>
<u>1,905,079.78</u>	<u>(3,700,571.89)</u>
	1,063,009.51
	1,887,405.86
	42,343.16
	12,250.00
	(4,313,910.11)
	<u>(1,308,901.58)</u>
1,905,079.78	(5,009,473.47)
(16,472,275.60)	16,592,337.48
<u>\$ (14,567,195.82)</u>	<u>\$ 11,582,864.01</u>

\$ 1,905,079.78

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

	Budgeted Amounts		Actual Amounts Budgetary Basis
	Original	Final	
Revenues			
State	\$	\$ 323,858.70	\$ 323,858.70
Federal	11,060,274.98	12,668,038.61	12,390,998.92
Local	14,386,250.83	14,809,594.74	15,806,510.16
Other	349,764.30	347,204.47	228,220.20
Total Revenues	25,796,290.11	28,148,696.52	28,749,587.98
Expenditures			
Current:			
Instructional	10,522,086.95	11,178,576.35	12,241,275.24
Instructional Support	2,306,712.22	3,106,389.71	3,173,915.22
Operation and Maintenance	871,072.00	872,547.85	1,032,477.09
Auxiliary Services:			
Student Transportation	389,450.16	396,960.16	330,660.71
Food Service	11,849,456.36	12,025,854.71	11,833,574.60
General Administrative	263,545.70	365,647.76	338,049.70
Other	2,235,753.41	2,292,747.92	1,529,023.92
Capital Outlay			
Personal Property	344,000.00	780,671.30	
Real Property			805,319.89
Debt Service:			
Principal Retirement	125,549.00	125,549.00	129,291.93
Interest and Fiscal Charges	8,711.00	8,711.00	21,225.32
Debt Issuance Costs/Other Debt Service	2,002.00	2,002.00	3,757.29
Total Expenditures	28,918,338.80	31,155,657.76	31,438,570.91
Excess (Deficiency) of Revenues Over Expenditures	(3,122,048.69)	(3,006,961.24)	(2,688,982.93)
Other Financing Sources (Uses)			
Long-Term Debt Issued			20,744.56
Transfers In	4,754,648.88	3,149,526.95	3,008,222.26
Other Financing Sources	9,568.87	9,688.87	25,464.78
Sale of Capital Assets			3,125.00
Transfers Out	(2,652,269.00)	(2,654,669.00)	(1,887,405.86)
Total Other Financing Sources (Uses)	2,111,948.75	504,546.82	1,170,150.74
Net Change in Fund Balances	(1,010,099.94)	(2,502,414.42)	(1,518,832.19)
Fund Balances - Beginning of Year	9,278,352.62	12,125,855.70	11,162,353.81
Fund Balances - End of Year	\$ 8,268,252.68	\$ 9,623,441.28	\$ 9,643,521.62

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
\$	\$ 323,858.70
	12,390,998.92
	15,806,510.16
	228,220.20
	<u>28,749,587.98</u>
	12,241,275.24
	3,173,915.22
	1,032,477.09
	330,660.71
(9,375.75)	11,824,198.85
	338,049.70
	1,529,023.92
	805,319.89
	129,291.93
	21,225.32
	3,757.29
(9,375.75)	<u>31,429,195.16</u>
<u>9,375.75</u>	<u>(2,679,607.18)</u>
	20,744.56
	3,008,222.26
	25,464.78
	3,125.00
	<u>(1,887,405.86)</u>
	<u>1,170,150.74</u>
9,375.75	(1,509,456.44)
(588,414.69)	10,573,939.12
<u>\$ (579,038.94)</u>	<u>\$ 9,064,482.68</u>

\$ 9,375.75

This Page Intentionally Blank

Supplementary Information

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

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
<u>U. S. Department of Education</u>		
<u>Passed Through Alabama Department of Education</u>		
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	84.010	N.A.
Career and Technical Education - Basic Grants to States	84.048	N.A.
Safe and Drug-Free Schools and Communities - National Programs	84.184	N.A.
Education 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.
<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.
Sub-Total National School Lunch Program		
Summer Food Service Program for Children	10.559	N.A.
Sub-Total Child Nutrition Cluster (M)		
State Administrative Expenses for Child Nutrition	10.560	N.A.
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		
10/01/2014-09/30/2015	\$ 3,865,458.39	\$ 3,865,458.39	\$ 3,852,381.95	\$ 3,852,381.95
10/01/2014-09/30/2015	69,563.82	69,563.82	55,433.27	55,433.27
	3,935,022.21	3,935,022.21	3,907,815.22	3,907,815.22
10/01/2014-09/30/2015	3,166,048.58	3,166,048.58	2,900,676.78	2,900,676.78
10/01/2014-09/30/2015	196,375.90	196,375.90	188,721.71	188,721.71
10/01/2014-09/30/2015	1,500.00	1,500.00	1,500.00	1,500.00
10/01/2014-09/30/2015	25,000.00	25,000.00	23,791.51	23,791.51
10/01/2014-09/30/2015	37,348.15	37,348.15	28,567.36	28,567.36
10/01/2014-09/30/2015	22,439.00	22,439.00	22,439.00	22,439.00
10/01/2014-09/30/2015	139,333.95	139,333.95	124,397.23	124,397.23
10/01/2014-09/30/2015	716,984.57	716,984.57	642,865.14	642,865.14
10/01/2014-09/30/2015	26,539.58	26,539.58	26,539.58	26,539.58
	8,266,591.94	8,266,591.94	7,867,313.53	7,867,313.53
10/01/2014-09/30/2015	749,291.96	749,291.96	749,291.96	749,291.96
10/01/2014-09/30/2015	2,980,744.24	2,980,744.24	2,980,744.24	2,980,744.24
10/01/2014-09/30/2015	599,231.67	599,231.67	599,231.67	599,231.67
	3,579,975.91	3,579,975.91	3,579,975.91	3,579,975.91
10/01/2014-09/30/2015	55,134.26	55,134.26	55,134.26	55,134.26
	4,384,402.13	4,384,402.13	4,384,402.13	4,384,402.13
10/01/2014-09/30/2015	33,259.29	33,259.29	33,259.29	33,259.29
10/01/2014-09/30/2015	105,992.11	105,992.11	105,992.11	105,992.11
	4,523,653.53	4,523,653.53	4,523,653.53	4,523,653.53
10/01/2014-09/30/2015	4,396.00	4,396.00	4,396.00	4,396.00
	\$ 12,794,641.47	\$ 12,794,641.47	\$ 12,395,363.06	\$ 12,395,363.06

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

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

Sub-Total Brought Forward

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		
	\$ 12,794,641.47	\$ 12,794,641.47	\$ 12,395,363.06	\$ 12,395,363.06
10/01/2014-09/30/2015	68,601.35	68,601.35	68,601.35	68,601.35
10/01/2014-09/30/2015	52,533.95	52,533.95	52,533.95	52,533.95
	<u>121,135.30</u>	<u>121,135.30</u>	<u>121,135.30</u>	<u>121,135.30</u>
	<u>\$ 12,915,776.77</u>	<u>\$ 12,915,776.77</u>	<u>\$ 12,516,498.36</u>	<u>\$ 12,516,498.36</u>

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

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the 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, 2014 through September 30, 2015

Board Members		Term Expires
Hon. Aubrey Miller	President	2016
Hon. Peg Hill	Vice-President	2020
Hon. Jane Hampton	Member	2016
Hon. Jimmy Bice	Member	2018
Hon. Kevin Morris	Member	2018
 <u>Administrative Personnel</u>		
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 Financial Officer

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards*** issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Shelby County Board of Education, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Shelby County Board of Education's basic financial statements, and have issued our report thereon dated February 18, 2016.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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***.

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

February 18, 2016

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

Independent Auditor's Report

To: Members of the 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, 2015. 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, 2015.

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

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

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

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



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

Montgomery, Alabama

February 18, 2016

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

Section I – Summary of Examiner's Results

Financial Statements

Type of opinion issued: Unmodified

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

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

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

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

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

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

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

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.553, 10.555 and 10.559 84.027 and 84.173	Child Nutrition Cluster Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$375,494.95

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

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

Section II – Financial Statement Findings (GAGAS)

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

Section III – Federal Awards Findings and Questioned Costs

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