

Report on the

Tuscaloosa City Board of Education

Tuscaloosa County, Alabama

October 1, 2015 through September 30, 2016

Filed: June 23, 2017



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

Sworn to and subscribed before me this
the 12th day of June, 2017.

Sandra E Shirley
Notary Public

Sworn to and subscribed before me this
the 12th day of June, 2017.

Sandra E Shirley
Notary Public

rb

Respectfully submitted,

Janalee Patton

Janalee Patton
Examiner of Public Accounts

Amanda B. Hynds

Amanda B. Hynds
Examiner of Public Accounts

Table of Contents

	<i>Page</i>
Summary	A
Contains items pertaining to federal, state and local legal compliance, Board operations and other matters.	
Independent Auditor's Report	B
Reports on whether the financial information constitutes a fair presentation of the financial position and results of financial operations in accordance with generally accepted accounting principles (GAAP).	
Management's Discussion and Analysis	F
Provides information required by the Governmental Accounting Standards Board (GASB) that is prepared by management of the Board introducing the basic financial statements and providing an analytical overview of the Board's financial activities for the year. This information has not been audited, and no opinion is provided about the information.	
<u>Basic Financial Statements</u>	1
Provides the minimum combination of financial statements and notes to the financial statements that is required for the fair presentation of the Board's financial position and results of operations in accordance with GAAP.	
Exhibit #1	Statement of Net Position
	2
Exhibit #2	Statement of Activities
	4
Exhibit #3	Balance Sheet – Governmental Funds
	6
Exhibit #4	Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
	8
Exhibit #5	Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
	9
Exhibit #6	Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
	11
Exhibit #7	Statement of Fiduciary Net Position
	12

Table of Contents

	<i>Page</i>
Notes to the Financial Statements	13
<u>Required Supplementary Information</u>	39
Provides information required by the Governmental Accounting Standards Board (GASB) to supplement the basic financial statements. This information has not been audited and no opinion is provided about the information.	
Exhibit #8 Schedule of the Employer’s Proportionate Share of the Net Pension Liability	40
Exhibit #9 Schedule of the Employer’s Contributions	41
Exhibit #10 Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	42
Exhibit #11 Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Special Revenue Fund	46
<u>Supplementary Information</u>	50
Contains financial information and notes relative to federal financial assistance.	
Exhibit #12 Schedule of Expenditures of Federal Awards	51
Notes to the Schedule of Expenditures of Federal Awards	55
<u>Additional Information</u>	56
Provides basic information related to the Board, including reports and items required by generally accepted government auditing standards and/or Title 2 U. S. <i>Code of Federal Regulations</i> Part 200 <i>Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards</i> (<i>Uniform Guidance</i>) for federal compliance audits.	
Exhibit #13 Board Members and Administrative Personnel – a listing of the Board members and administrative personnel.	57

Table of Contents

Page

Exhibit #14	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.	58
Exhibit #15	Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the <i>Uniform Guidance</i> – a report on internal controls over compliance with requirements of federal statutes, regulations, and the terms and conditions of the federal awards applicable to major federal programs, and an opinion on whether the Board complied with federal statutes, regulations, and the terms and conditions of its federal awards which could have a direct and material effect on each major program.	60
Exhibit #16	Schedule of Findings and Questioned Costs – a schedule summarizing the results of audit findings relating to the financial statements as required by <i>Government Auditing Standards</i> and findings and questioned costs for federal awards as required by the <i>Uniform Guidance</i> .	63



Department of **Examiners of Public Accounts**

SUMMARY

Tuscaloosa City Board of Education October 1, 2015 through September 30, 2016

The Tuscaloosa City Board of Education (the "Board") is governed by a eight-member Board as provided by Act Number 97-616, Acts of Alabama, as amended by Act Number 2000-362 and Act Number 2000-588, Acts of Alabama. The Board members and administrative personnel charged with governance of the Board are listed in Exhibit 13. The Board is the governmental agency that provides general administration and supervision for Tuscaloosa City Public School System.

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 in compliance with Act Number 97-616, Acts of Alabama, as amended.

An unmodified opinion was issued on the financial statements, which means that the Board's financial statements present fairly, in all material respects, its financial position and the results of its operations for the fiscal year ended September 30, 2016.

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

The following officials/administrative personnel were invited to an exit conference to discuss the contents of this report: Superintendent: Dr. Michael J. Daria; former Superintendent: Dr. Paul McKendrick; Chief School Financial Officer: Edward Lavigne; and Board Members: Lee Garrison, Clarence Sutton, Earnestine Tucker, Norman Crow, Cason Kirby, Harry Lee, Marvin Lucas and Erskine Simmons. The following individuals attended the exit conference, held at the Board's offices: Superintendent: Dr. Michael J. Daria; Chief School Financial Officer: Edward Lavigne; Board Member: Lee Garrison; and a representative of the Department of Examiners of Public Accounts: Janalee Patton, Examiner.

This Page Intentionally Blank

Independent Auditor's Report

Independent Auditor's Report

To: Members of the Tuscaloosa City 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 Tuscaloosa City Board of Education, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Tuscaloosa City Board of Education's basic financial statements as listed in the table of contents as Exhibits 1 through 7.

Management's Responsibility for the Financial Statements

The management of the Tuscaloosa City 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 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 Tuscaloosa City Board of Education'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 Tuscaloosa City Board of Education, as of September 30, 2016, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), the Schedule of the Employers Proportionate Share of Net Pension Liability, the Schedule of the Employer's Contributions and the Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual, (Exhibits 8 through 11), 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.

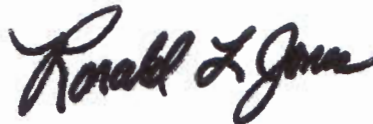
Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Tuscaloosa City Board of Education's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 12) as required by Title 2 U. S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, is presented for the purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with ***Government Auditing Standards***, we have also issued our report dated May 30, 2017, on our consideration of the Tuscaloosa City 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 Tuscaloosa City Board of Education's internal control over financial reporting and compliance.



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

Montgomery, Alabama

May 30, 2017

Management's Discussion and Analysis
(Required Supplementary Information)

Tuscaloosa City Board of Education
Management's Discussion and Analysis (MD&A)
September 30, 2016

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

The Management's Discussion and Analysis (MD&A) is an element of a reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement Number 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 prior year is required to be presented in the MD&A.

Financial Highlights: Significant Items to Note

This annual analysis reveals a stable organization poised to accept the financial challenges which will present themselves in the next several years as the state and nation reexamine ongoing funding commitments to K-12 education. While not immune to the influence of the national discussion, the local financial stability in Tuscaloosa stands in stark contrast with the national financial uncertainty.

Tuscaloosa City Schools' financial stability is driven by the following key factors:

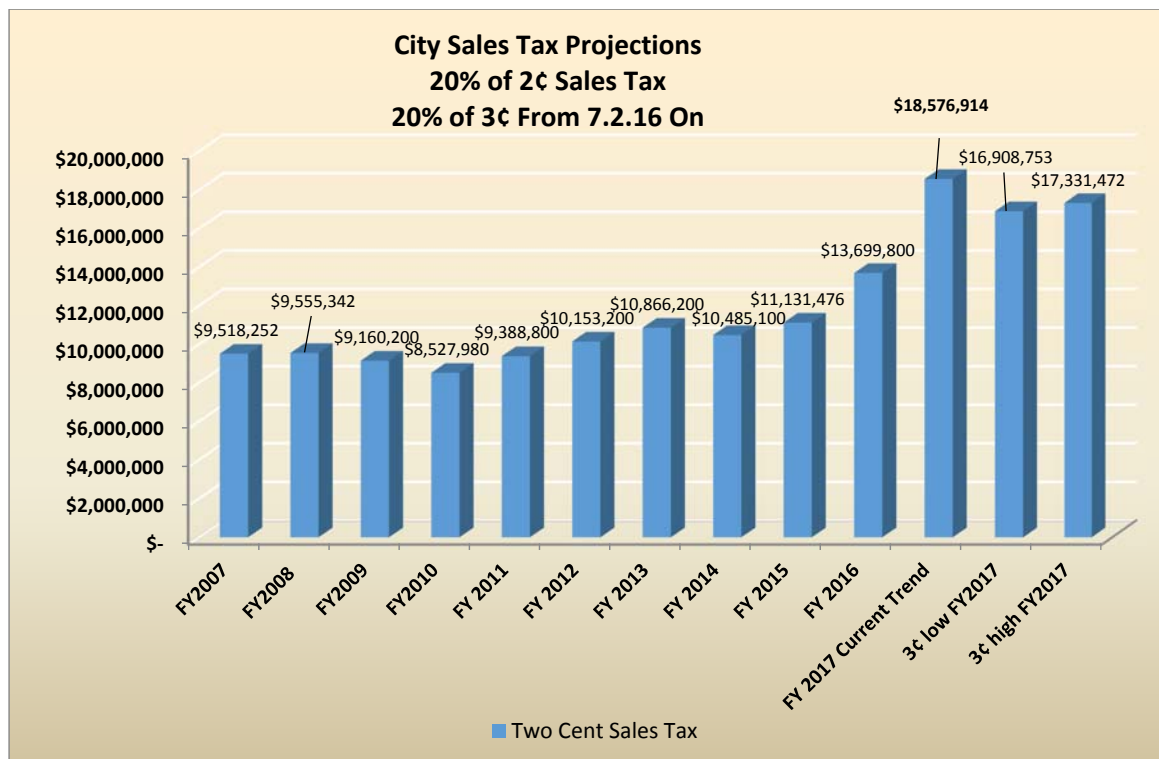
- A vibrant, expanding University of Alabama,
- Mercedes Benz USA manufacturing center
- Long established local manufacturing entities (BF Goodrich, Phifer Wire, Nucor Steel, and other smaller operations)
- Outstanding, long term community support in the form of:
 - Twenty one (21) mills of ad valorem property tax for operations, re-authorized in FY 2015 for thirty (30) years until September 30, 2046.
 - A new, **permanent** three (3cent) sales tax for general operations replacing the previous permanent 2 cent and temporary 1 cent sales tax.
 - An annual grant of \$3.3 million dollars from **the City of Tuscaloosa** in support of K-12 educational program, including pre-K education.
 - Strong business community partnerships ("Adopt a School") led by West Alabama Chamber of Commerce.
 - Continuing, multiple partnerships with The University of Alabama, Shelton State Community College, and Stillman College.
 - Continued community growth of approximately 10,000 citizens every decade as shown in U. S. Census data.

Significant Revenue Source Updates in FY 2015

In 2014 and 2015 community leaders formed a millage re-authorization committee which led to a March 2015 vote exceeding 87% “Yes” in city wide voting which **extended the millage an additional thirty years.**

Following the successful millage campaign, the core leadership group expanded to include the mayors of Tuscaloosa and Northport, the chairman of the two school boards, members of the County Commission, and the legislative delegation representing Tuscaloosa County. This new coalition resolved to merge the permanent two cent and temporary one cent sales taxes into a permanent three cent sales tax. The new, **permanent, three cent sales tax** was signed into law by Governor Robert Bentley on May 21, 2015 and **took effect July 2, 2016.**

The effect of the new sales tax structure is shown in the following graph; the final three columns on the right represent estimation of actuals + averages to date (\$18.58 mm) which exceeds the earlier estimations of a probable range for FY 2017 collections.



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

- Capital outlays during the audit period were \$11,178,830 spent on the following projects:

Transportation	\$ 5,223,156	School Buses
Eastwood Middle	645,806	CIP and CNP Equipment
Central Elementary	618,931	CIP and Playground
University Place Elementary	479,103	Security Upgrades and Playground
Northridge High	427,164	CIP, Baseball Field and Tennis Courts Improvements
MLK, Jr. Elementary	420,699	Prototype Classrooms and Playground
Arcadia Elementary	401,098	CIP and Playground
Southview Elementary	361,564	Building Upgrades and Playground
Woodland Forest Elementary	326,494	Prototype Classrooms and Playground
Central High	308,209	Prototype Classrooms, CNP Equipment and Tractor
Alberta Performing Arts	280,675	Playground and Furniture
Central Office	270,529	New Roof
Northern Middle	235,760	CIP
Paul Bryant High	229,606	CIP, CNP Equipment and Air Upgrade
Oak Hill	228,999	Building Upgrades
Verner Elementary	179,672	Playground and CNP Equipment
Oakdale Elementary	152,415	Playground
Magnet Elementary	152,415	Playground
Rock Quarry Elementary	144,297	Security Upgrades and Pre-K Playground
Northington Elementary	38,612	Pre-K Playground
Skyland Elementary	29,678	Playground
Operations and Maintenance	17,949	Vehicle
Eastwood Elementary	5,999	Instructional Support
Total	<u>\$11,178,830</u>	

CIP = Construction in Progress
CNP = Child Nutrition Program

- The assets of the Board exceeded its liabilities at the close of the 2016 fiscal year by \$156,039,561. This is an increase from the close of the 2015 fiscal year of \$3,273,899 when the net position was \$152,765,662. Of the 2016 fiscal year end amount, \$202,394,477 was net investment in capital assets. This provides the Board with reserves of (\$46,354,916), of which \$15,252,579 is restricted for future construction projects, \$4,413,528 is restricted for payment of bond debts and \$2,757,303 is restricted for other purposes. The balance of (\$68,508,327) is legally unrestricted. The negative balance is a result of booking the pension liability as required by GASB 68 discussed earlier.
- The total cost of the Board's programs for the year, as reflected on Exhibit 5, not including debt service and capital outlay, was \$114,502,670 as compared to \$107,637,579 from fiscal year 2015. The State Foundation Program provided \$54,264,895 of which \$12,553,420 was local money required by the 10-mill match. The 10-mill match is local tax revenue, which is required to be coded as state revenues.

Using the Financial Statements – An Overview for the User

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*.

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

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

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

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

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

Auxiliary Services – include 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. Also included are 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 Office Support – includes salaries and benefits for the superintendent, assistants, clerical and financial staff, curriculum 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 – include 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 financial 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. 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 Exhibit # 1) is most closely related to a balance sheet. It presents information on all the Board's assets (what it owns) and liabilities (what it owes), with the difference between the two reported as net assets. The net assets reported in this statement represent the accumulation of changes in net assets for the current fiscal year and all fiscal years in the past combined. Over time, the increases or decreases in net assets 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 Exhibit #2) is most closely related to an income statement. It presents information showing how the Board's net position changed during the current fiscal year only. All of the current year's revenues and expenses are accounted for in the *statement of activities* regardless of when the 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 assets 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 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The new reporting model still requires the Board to present financial statements on a fund basis, but with some modifications. All of the funds of the Board can be classified into two categories: governmental funds and fiduciary funds.

Balance Sheet – Governmental Funds – Governmental fund financial statements begin on Exhibit #3. 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 new reporting model, the new fund financial statements presented herein display information on each of the Board’s most important governmental funds or major funds. This is required in order to better assess the Board’s accountability for significant governmental programs or certain dedicated revenue. The Board’s major funds are the General Fund, Special Revenue Fund and the Capital Projects Fund.

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

Fiduciary Funds – The Board can serve as a 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. The Board had a small amount of activity as presented in Exhibit 7. 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 following this section.

After the presentation of the basic financial statements, the new reporting model requires additional *required supplementary information* to be presented following the *notes to the basic financial statements*. The *required supplementary information* contained on Exhibits 8 and 9 provide a comparison of the original adopted budget to the final amended budget of the Board’s General Fund and the Special Revenue Fund which are then further compared to the actual operating results for the fiscal year. The comparison of this data allows users to assess management’s ability to project and plan for its operations throughout the year.

Financial Analysis of the Board as a Whole

As indicated earlier, net position may serve over time as a useful indicator of a government’s financial position. Refer to Table 1 when reading the following analysis of net position.

- The Board’s assets exceeded liabilities by \$152,765,662 at September 30, 2015, and by \$156,039,561 at September 30, 2016. Of these amounts, over \$195 million at September 30, 2015, and over \$202 million at September 30, 2016, reflects the Board’s net investment in capital assets. This increase is due primarily to building improvements across the district and school bus purchases.

Table 1: Summary of Net Position
As of September 30, 2015 and 2016
(in millions)

	2015 Governmental Activities	2016 Governmental Activities	2016 Percent of Total
Current Assets	\$ 67.9	\$ 58.5	19.02%
Noncurrent Assets	232.3	235.1	76.43%
Deferred Outflows of Resources	8.0	14.0	4.55%
Total Assets	300.2	307.6	100.00%
Current Liabilities	3.2	3.5	2.31%
Noncurrent Liabilities	113.9	121.1	79.88%
Deferred Inflows of Resources	30.4	27.0	17.81%
Total Liabilities	147.5	151.6	100.00%
Net Assets:			
Invested in Capital Assets, Net of Related Debt	196.0	202.4	129.74%
Restricted for Capital Projects	15.2	15.2	9.74%
Restricted for Debt Service	4.2	4.1	2.63%
Other Purposes	2.0	2.8	1.80%
Unrestricted	(64.7)	(68.5)	(43.91)%
Total Net Assets	\$152.7	\$156.0	100.00%

The Alabama School Fiscal Accountability Act, ACT Number 2006-196, became effective June 1, 2006, and requires in *Para 16-13A-9 Reserve Funds: A local board of education shall develop a plan to establish and maintain a minimum reserve fund equal to one month's operating expenses*. Tuscaloosa City Board of Education Policy DM-Reserve Funds meets this requirement. The State Department of Education calculates a one month operating balance by dividing the budgeted General Fund expenditures and fund transfers out by 12. The Board's General Fund budgeted expenditures and fund transfers out for fiscal year 2017 are \$94.7 million which requires a reserve of \$7.9 million. Since we have budgeted an unreserved fund balance of \$24.1 million, we exceed this requirement.

Table 2: Summary of Changes in Net Position from Operating Results
Fiscal Year Ended September 30, 2015 and 2016
(in millions)

	2015 Governmental Activities	2016 Governmental Activities	2016 Percent of Total
<u>Revenues:</u>			
Program Revenues:			
Charges for Services	\$ 8.0	\$ 9.0	12.80%
Operating Grants and Contributions	64.6	59.1	84.07%
Capital Grants and Contributions	2.1	2.2	3.13%
Total Program Revenues	74.7	70.3	100.00%
General Revenues:			
Taxes:			
Property Taxes for General Purposes	25.1	25.8	46.15%
Sales and Use Tax – General	11.2	13.7	24.51%
Miscellaneous Taxes	10.6	8.9	15.92%
Grants and Contributions Restricted for Specific Purposes	3.2	3.3	5.91%
Interest	0.1	0.1	0.18%
Miscellaneous	4.0	4.1	7.33%
Total General Revenues	54.2	55.9	100.00%
<u>Expenses:</u>			
Governmental Activities:			
Instruction	57.4	60.0	50.13%
Instructional Support	19.6	21.0	17.12%
Operation and Maintenance	13.4	15.1	11.70%
Auxiliary Services:			
Food Service	7.6	8.0	6.51%
Transportation	5.3	6.3	5.13%
General Administration and Central Support	5.6	5.7	4.64%
Other	4.6	5.8	4.72%
Interest and Fiscal Charges	1.0	1.0	0.80%
Total Expenses	114.5	122.9	100.00%
Increase in Net Position	14.4	3.3	
Net Assets – Beginning of Year	138.4	152.8	
Net Assets – End of Year	\$152.8	\$156.0	

The Board's net position increased by \$3.3 million during the current fiscal year.

Governmental Activities – As shown in *Table 2*, the cost of services rendered from the Board’s governmental activities for the year ended September 30, 2016, was \$122.9 million. It is important to note that not all of these costs were borne by the taxpayers of Tuscaloosa City Schools.

- Some of the cost, \$9.0 million, was paid by users who benefited from services provided during the year, such as school lunches and participation in sports activities in the middle and high schools.
- State and federal governments subsidized certain programs with operating grants and contributions totaling \$59.1 million and capital grants and contributions totaling \$2.2 million in revenues.
- Local revenue raised through ad valorem and sales tax totaled \$48.4 million.
- Other general revenue sources, such as minimal interest earnings, unrestricted grants, donations, miscellaneous, etc. provided \$7.5 million in revenues.

Table 3 is a condensed statement taken from Exhibit #2, *Statement of Activities* showing the total cost for providing identified services for four major Board activities. Total cost of services is compared to the net cost of providing these services. The net cost of services is the remaining cost of services after subtracting grants and charges for services that the Board used to offset the program’s total cost. In other words, the net cost shows the financial burden that was placed on all taxpayers 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. All of these activities are required by the State of Alabama to be a component of a K – 12 Local Educational Agency.

Table 3: Net Cost of Governmental Activities

Fiscal Year Ended September 30, 2016

(in millions)

	Total Cost of Services	Net Cost of Services
Instructional Services	\$ 60.0	\$(23.2)
Instructional Support	21.0	(8.4)
Operation and Maintenance	15.1	(11.4)
Auxiliary Services:		
Food Service	8.0	
Transportation	6.3	(2.2)
General Administration and Central Support	5.7	(4.3)
Other	5.8	(2.1)
Interest and Fiscal Charges	1.0	(1.0)
Total Expenses	\$122.9	\$(52.6)

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.

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 Exhibits 4 and 6). The financial performance of the Board as a whole is reflected in its governmental funds as well. At the end of the fiscal year, the Board's governmental funds reported combined ending fund balances of \$30.0 million detailed as follows:

- \$8.2 million is the total General Fund balance.
- \$5.1 million is the total Special Revenue Fund balance. Of this balance, \$189 thousand is nonspendable for CNP inventories.
- \$12.6 million is the total Capital Projects Fund balance.
- \$4.1 million is the total Other Governmental Fund balance.

General Fund – The General Fund is the primary operating fund of the Board. The \$2.4 million decrease in fund balance as a result of operations this year was primarily from:

- Increases in curriculum services and curriculum support staff
- Extensive operations and maintenance expenditures
- 1% raise to all employees

Special Revenue Fund – The Special Revenue Fund is also an operational fund which is used to account for and report the proceeds of special revenue sources (all Federal funds, Child Nutrition Program) that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital Projects Fund – This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

- **County Sales Tax Fund Capital Projects Fund** – This fund was established when the Board began receiving revenues from the One-Cent County-Wide sales tax that took effect on July 1, 2005, and remained in effect until June 30, 2009. This tax was extended for one year in 2009, and then again in 2010 for an additional six years. This tax stream ended on July 1, 2016. In FY 2016, this fund received \$9.5 million in new revenue of which \$8 million was used to complete capital projects on the Board's five year Capital Projects Plan and the remaining \$1.5 million was transferred to the General Fund to be used for operations. The Board is required by the State to maintain a five year Capital Projects Plan which is updated annually.

Other Governmental Funds – This is made up of the Debt Service Fund.

- **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. For example, the QSCB bond revenue detailed in the Capital Projects fund is being repaid at the rate of \$607,000 per year from Debt Service. Debt Service fund has a dedicated revenue stream of 6.0 mills currently providing an annual revenue stream of ~\$7.9 million dedicated to debt service. All local bond obligations were retired on August 15th, 2016.

Fiduciary Funds

- **Agency Fund** – These funds are used to report assets held by the Board in a purely custodial capacity which are non-public Local School Funds.

Capital Asset and Debt Administration

Capital Assets

As of September 30, 2016, the Board had invested \$313,366,980 (before accumulated depreciation) in a broad range of capital assets, including land, buildings, school furniture, school buses, instructional equipment, computer hardware and software, maintenance vehicles, custodial equipment, and athletic equipment. The most notable additions in 2016 were 73 new school buses and building and playground improvements at many schools per the District's strategic plan.

Table 4 provides additional information on these assets.

Table 4: Capital Assets
Fiscal Year Ended September 30, 2016
(in millions)

	09/30/2015	Adjustments	Adjustments	09/30/2016
Governmental Activities:				
Capital Assets, Not Being Depreciated	\$ 9.411	\$ 2.412	\$ (0.366)	\$ 11.457
Capital Assets, Being Depreciated:				
Land Improvements	5.677	0.400		6.077
Land Improvements Under Capital Lease	0.062		(0.062)	
Building and Building Improvements	253.133	31.992		285.125
Building and Building Improvements Under Capital Lease	30.788		(30.788)	
Vehicles, Equipment and Furniture	15.432	7.590	(0.857)	22.165
Total Capital Assets Being Depreciated	305.092	39.982	(31.707)	313.367
Less Accumulated Depreciation	(82.132)	(13.491)	6.004	(89.649)
Total Capital Assets Being Depreciated	222.930	26.491	(25.703)	223.718
Total Governmental Activities Capital Assets, Net	\$232.342	\$ 28.903	\$(26.069)	\$235.176

Long-Term Debt

At year-end, the Board had \$121 million in long-term debt payable, a net increase of \$7 million from FY 2015. This increase was primarily due to the 2016 fleet bus loan issued to purchase 73 new buses. Table 5 provides a summary of the Boards activities with respect to long-term debt.

Table 5: Long-Term Debt
Fiscal Year Ended September 30, 2016
(in millions)

	Debt Outstanding 09/30/215	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 09/30/2016	Amounts Due Within One Year
Governmental Activities:					
Warrants and Notes Payable:					
2010 Qualified School Construction	\$ 13.545	\$	\$	\$ 13.545	\$
2010-B Funding Agreement	2.600		2.600		
Note Payable Series 2009-B, PSCA	2.755		0.638	2.117	0.670
Note Payable Series 2013-D, PSCA	6.503		0.280	6.223	0.288
Note Payable Series 2013-D, PSCA		5.925	0.443	5.482	0.493
Total Warrants and Notes Payable	25.403	5.925	3.961	27.367	1.451
Other Liabilities:					
2009-B Capital Leases	3.850		3.850		
2009 Capital Lease	1.395		1.395		
Net Pension Liability	82.924	10.708		93.632	
Premium on Issuance of Debt	0.274		0.154	0.120	0.034
Total Other Liabilities	88.443	10.708	5.399	93.752	0.034
Total Governmental Activities Long-Term Liabilities	\$113.846	\$16.633	\$9.360	121.119	\$1.485

Budgetary Highlights of Major Funds

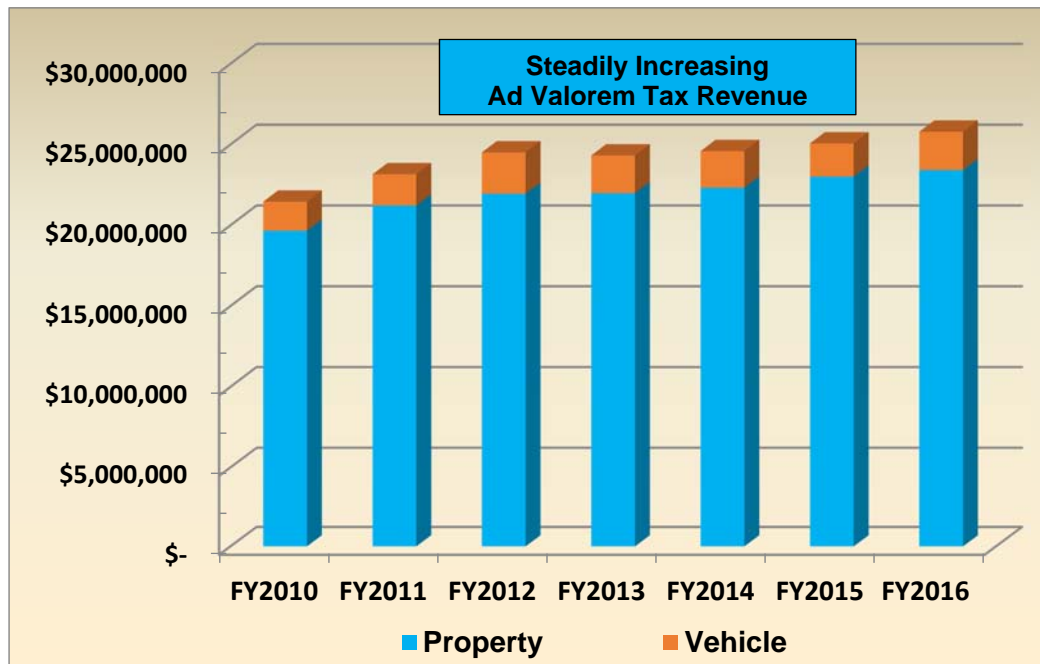
On or before October 1 of each year, the Board is mandated by state law to prepare and submit to the State Superintendent of Education the annual budget adopted by the Board. The original fiscal year 2016 budget was adopted by the Board on September 15, 2015. Over the course of the year, the Board revises the annual operating budgets one or more times to include many federal grants that were not available at the time of the original budget approval.

Economic Factors, Local Revenue Streams and Next Year's Budget

The following are currently known Tuscaloosa City economic factors considered as we move into the FY 2017.

Ad Valorem Tax Discussion

- Over the past 10 years, ad valorem tax collections in the City of Tuscaloosa have increased an **average of 5.96% annually**. This rate of increase is much higher than most communities in Alabama and has allowed the Board to accomplish many objectives that otherwise would have been impossible. While the April 27th 2011, tornado destroyed over 5000 homes and business, the major retail areas of the City were not harmed and continue to create a strong business climate as evidenced by increasing sales tax revenues. The majority of the destroyed homes were decades old and had lower assessed values. The effect of the rebuilding of businesses and homes has yet to mirror the increases immediately following the end of "Great Recession" which averaged 8.75% in the three year period FY 2009 ending FY 2011.
- City residents re-authorized a thirty year (30) extension of 21 mills of ad valorem property taxes in a FY2016 election; the authorization ends on September 30, 2046. Property taxes in Alabama are collected in arrears – the 2046 tax will be paid beginning October 1, 2046 through December 30, 2046.
- The State of Alabama maintains a vehicle value table which is applied for all automotive property taxes throughout the State.

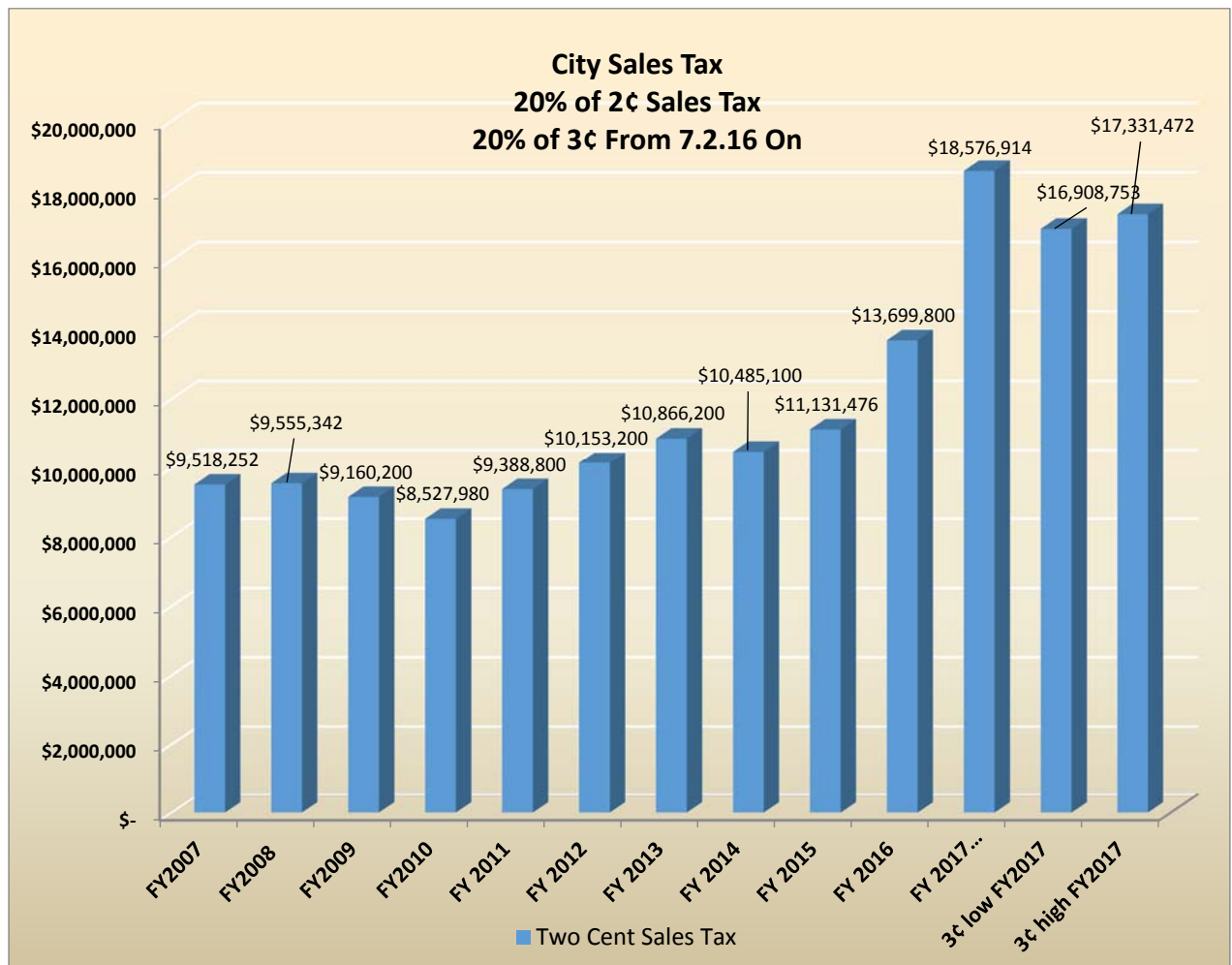


- Because of the uncertainty caused by the 2007 global and national financial meltdown, there is a continuing impact on Tuscaloosa City Schools. Pro forma, longer range budget projections are based on a 4.0% increase in local ad valorem tax collections which is less than the prior **ten year historical average of 5.96%**. Local ad valorem taxes that were collected and distributed to the LEA in FY 2016 represent stable property values after national economic conditions began to have a local effect. While the tightening of mortgage rules has slowed the residential real estate market, local property values continue to increase; Zillow.com has previously predicted an annual increase of 3.0%. The increase in ad valorem taxes is in addition to an approximate increase of 2.5% +/- in local sales tax revenue. Internal projections for ad valorem increases are 4% for FY 2017 and 2% for FY 2018 and beyond.

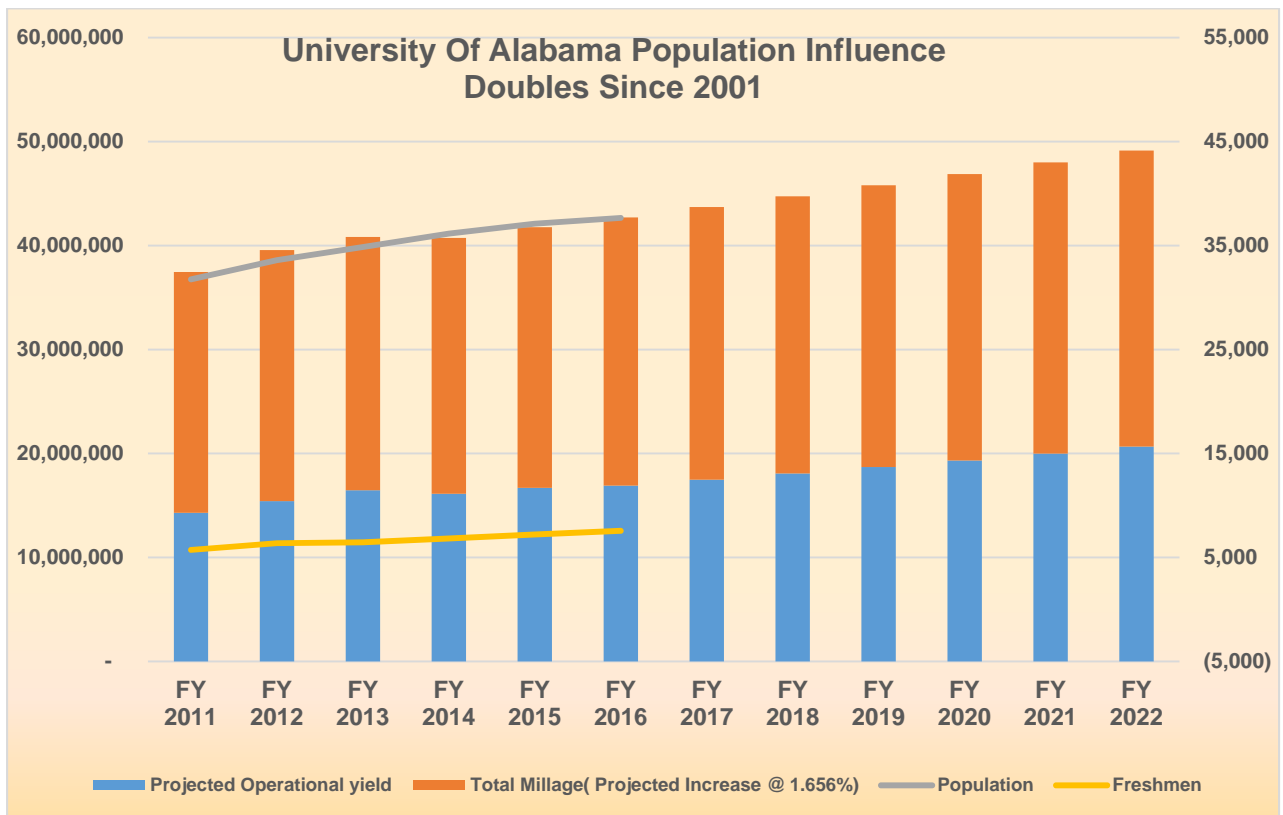
Sales Tax Discussion

The new, **permanent, three cent sales tax** was signed into law by Governor Robert Bentley on May 21, 2015 and **took effect July 2, 2016**.

The effect of the new sales tax structure is shown in the following graph; the final three columns on the right represent estimation of actuals + averages to date (\$18.58 mm) which exceeds the earlier estimations of a probable range for FY 2017 collections.

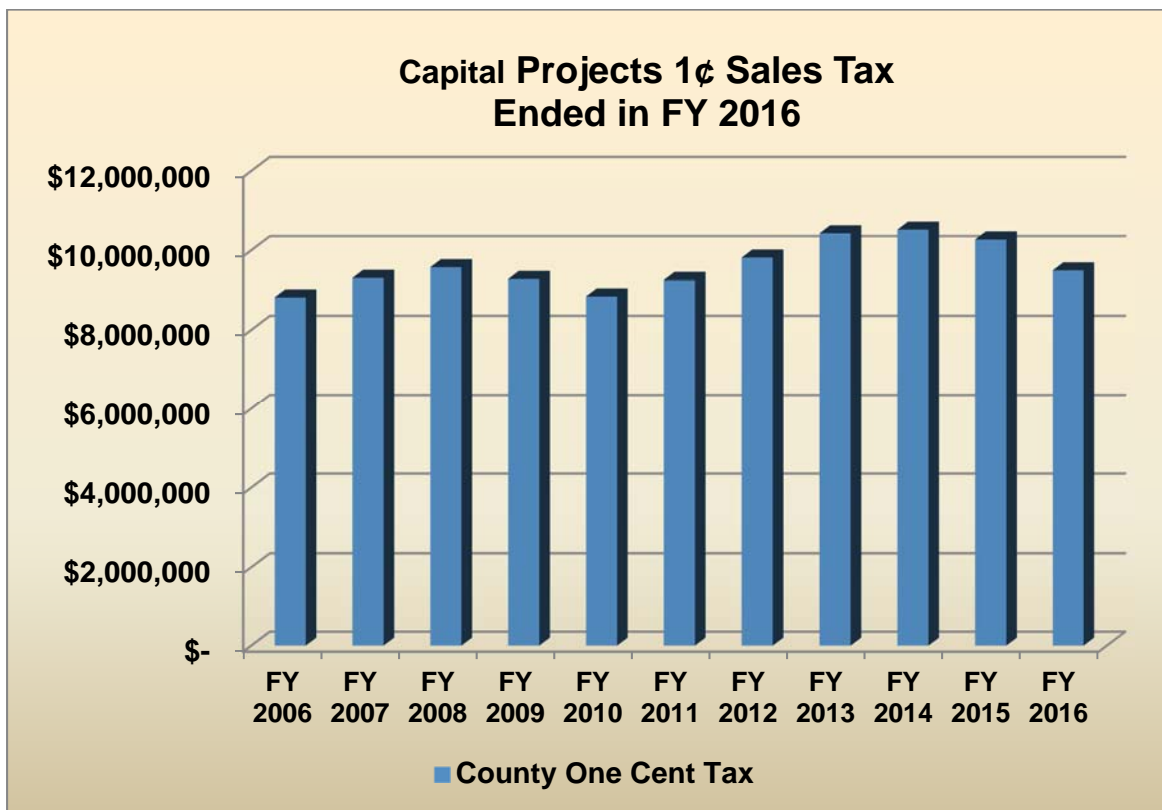


- The University of Alabama continues to be one of the two main engines driving the economic uptick. Beginning with the hiring of Dr. Robert Witt in 2003, U of Alabama enrollment has increased by over 80%, **from 20,000 students to well over 36,000** at the Tuscaloosa campus.
 - Three national football championships and
 - women's national titles in gymnastics, golf, and softball, will continue to attract students from around the nation.
 - More than 50% of students in Tuscaloosa are out of state.
 - Forty percent (40%) of freshmen have ACT scores greater than 30!
- This large increase in student count **contributes to the continued increase in sales tax revenues.**
- Additionally, many of the older home areas destroyed by the 2011 tornado, have had student housing built **which provides ad valorem tax receipts at twice the rate of comparable residential housing.**

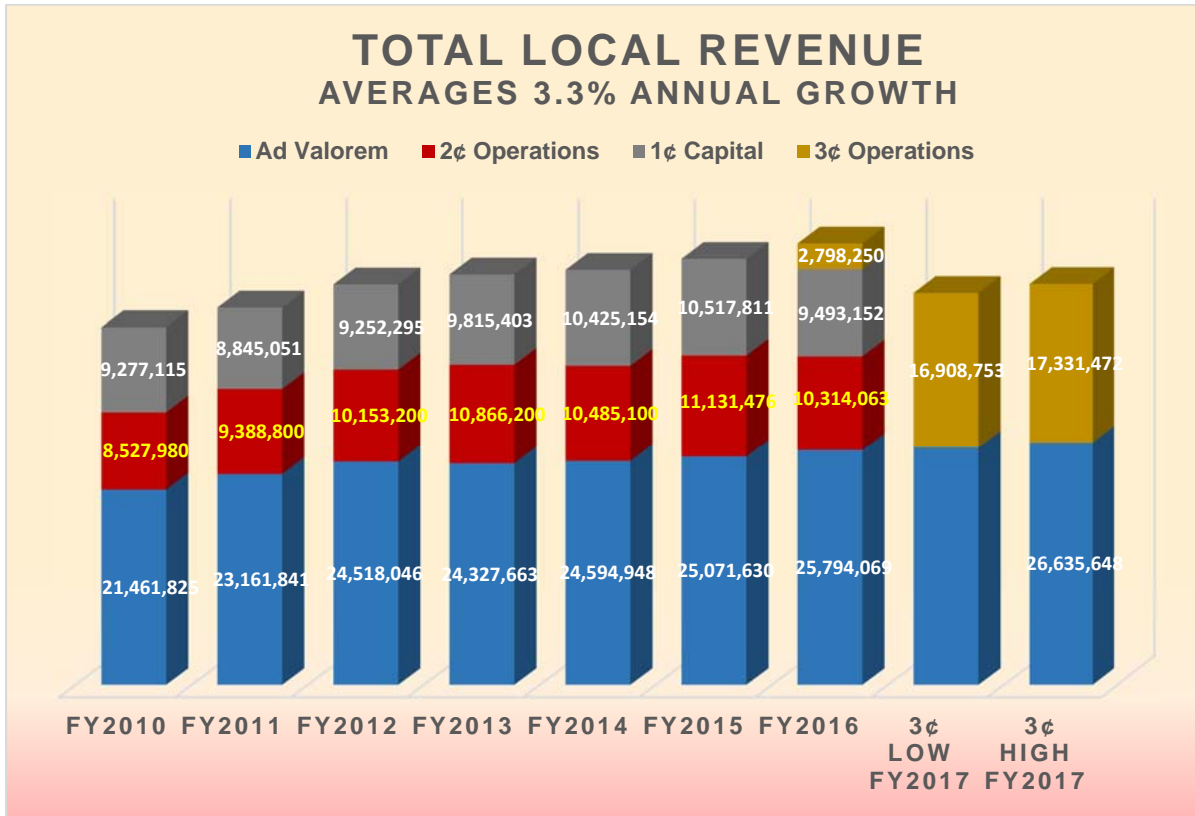


- The City Council, City of Tuscaloosa, has continued its support of the City School System by approving, in their budget, an annual grant of approximately \$ 3.2 M. This money is used by the Board to support educational programs, including pre-K in the school district.

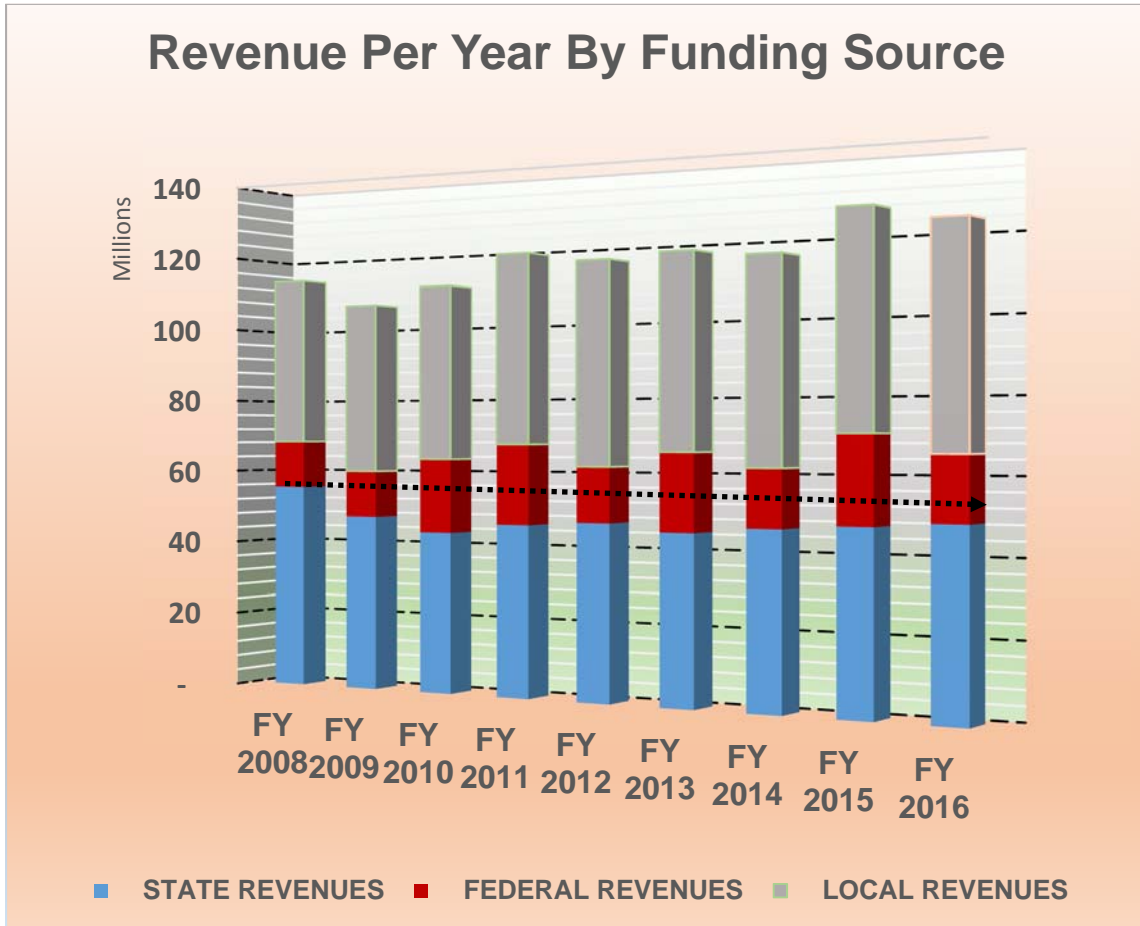
- The other main economic engine is Mercedes Benz located on Interstate 20/59. MBUSA previously announced the addition of a new line of vehicles to be assembled at the plant. The expansion is a continuation of the company's five-year expansion plan, which began in 2010 and totaled \$2.4 billion by 2015. Approximately 1,400 new hires were projected during that time frame, Currently, **more than 3,500 workers are employed at the Tuscaloosa plant; this workforce built more than 300,000 vehicles last year.** Contributing to MBUSA's decision to expand the Tuscaloosa plant is an extremely high daily attendance rate – exceeding 98%.
- An additional vehicle line which was added is the "ML Coupe." The car is the fifth model built at the Tuscaloosa plant, along with the new C-Class Coupe, the M-Class, the GL-Class SUV and the R-Class crossover. Mercedes recently announced a new \$1.3 million expansion to build the next generation SUVs.
- On September 15, 2015 Mercedes-Benz **announced an additional \$1.3 billion, 300-job expansion.** This expansion will bring Mercedes' total investment at the plant up to about \$5.8 billion, and will increase the workforce of full-time Mercedes employees to 3,800.
- The combination of Mercedes-Benz and student population growth is driving increased sales tax revenues as illustrated in the next two graphs.



The following chart clearly shows the effects of additional University of Alabama students, an expanding workforce presence by Mercedes-Benz, the consumer uncertainty associated with the Great Recession, and the very gradual, continued recovery of the greater Tuscaloosa economy. It also shows cautious projections for total local revenue (operational) for FY 2017.

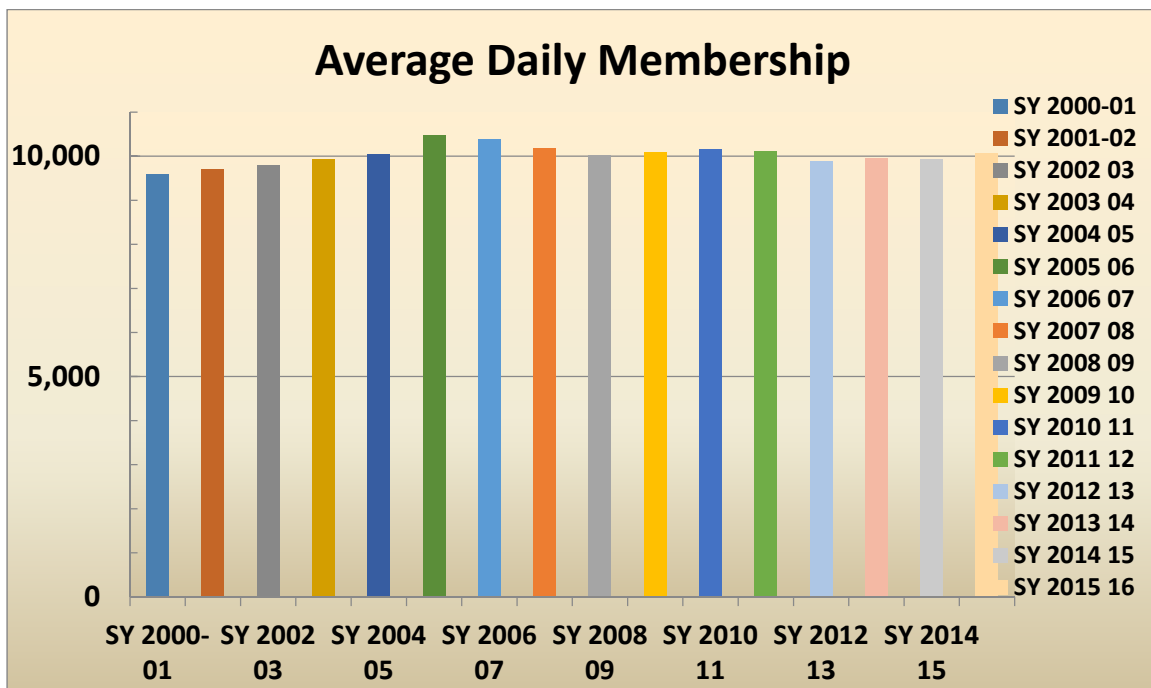


The following chart shows both the importance and the variability of Federal Funding. In a school district with an estimated 65% +/- of at risk students, **the importance of the National School Lunch Program cannot be overstated. It is difficult to be thinking about arithmetic, or reading, or art or music if you haven't had breakfast or lunch.**



- Student enrollment. The 20 day after labor day average daily membership is:

SY2000-01	9,599
SY2001-02	9,695
SY2002-03	9,800
SY2003-04	9,932
SY2004-05	10,049
SY2005-06	10,484(*)
SY2006-07	10,385
SY2007-08	10,170
SY2008-09	10,026
SY2009-10	10,097
SY2010-11	10,152
SY2011-12	10,117
SY2012-13	9,873
SY2013-14	9,948
SY2014-15	9,931
SY2015-16	10,057
SY2016-17	9,991



(*) Note: The Average Daily Membership (ADM) for School Year 2005-2006 included over 200 evacuee students from Mississippi and Louisiana that were forced from their homes as a result of Hurricane Katrina. This influx of students inflated the SY2005-06 ADM enrollment number. Notice the ***decrease in ADM*** following **the April 27th, 2011 tornado**; the District attributes this to a decrease in the large number of affordable housing units destroyed with many lower income families displaced.

TCS District contribution retirement percentage for the Teachers' Retirement System increased from FY 2015 by 0.23% for Tier I employees and decreased 0.21% for Tier II employees in FY 2016. Employee monthly health insurance remained the same per employee for FY 2016.

- Alabama's Retirement System actuarially funded estimated percentage in FY 2011 was 66.9%, down from 79.4% in FY2007, as a result of the Great Recession. This is the latest year for which an estimate is available.
- Known costs are listed below:

Fiscal Year	Retirement Percentage		PEEHIP Per month
	Tier I	Tier II	
FY2002	5.96%		\$422
FY2003	5.02%		\$433
FY2004	6.56%		\$479
FY2005	7.03%		\$583
FY2006	8.17%		\$668
FY2007	9.36%		\$717
FY2008	11.75%		\$775
FY2009	12.07%		\$752
FY2010	12.51%		\$752
FY2011	12.51%		\$752
FY2012	10.00%		\$714
FY2013	10.08%	9.44%	\$714
FY2014	11.71%	11.08%	\$714
FY2015	11.71%	11.05%	\$780
FY2016	11.94%	10.84%	\$780

There are important, **significant differences** which exist between for profit companies and K-12 public school systems which are routinely dismissed out of hand:

- For profit companies exist to return profits to the company owners/shareholders
- K-12 public schools return profits to the owners (the community) in the form of educated citizens beginning to understand the basic rules which bind society together in a nation of laws.
- It is common sense public policy that if you collect taxes for the purpose of providing a stated service or a needed capital project, then the taxing entity ought to spend the money on providing the services or building the project(s).
- For a K-12 school district the above policy translates to **“spend this year’s money on this year’s students.”**
- If current funding is used to add cash to a reserve account beyond reasonable goals (8% - 12% of operational expenses), then current students are deprived of the services those resources could have provided.

A “for profit” company whose balance sheet shows increasing net position on an annual basis is viewed as well run and more financially stable. A K-12 district whose balance sheet shows a similar increase either has capital projects that are being added to assets as the project is completed **OR** has unspent revenue which was allocated for the current year’s students that was not spent on this year’s students.

Finally, it should not go without saying that without the investment of the American Recovery and Reinvestment Act (ARRA) from the Federal government that either our net position would have decreased by approximately \$12.75 M by the end of FY12 **OR** the District would have had to have suffered a large decrease in staff meeting the educational needs of the communities’ students. From our perspective, ARRA achieved what it set out to do: inserting a measure of stability in Tuscaloosa’s employment picture.

The importance of the five year ago ARRA funding stream is especially apparent at the end of this 2015-16 school year, as multiple Governors throughout the nation face increasing dissatisfaction over lack of educational funding in addition to mounting legal challenges contesting the ongoing cuts in state budgets imposed during the Great Recession. In an increasingly complex world with more difficult challenges facing tomorrow’s citizens, what is most disconcerting about the educational funding in many states, including Alabama, have not been restored to pre- recession levels.

In an increasingly complex world with more difficult challenges facing tomorrow’s citizens, what is most disconcerting about educational funding in many states, including Alabama, is that funding for tomorrow’s citizens has not only not increased beyond FY 2007 levels, the funding has not even equaled those pre-recessions levels!

Contacting the School Board’s Financial Management

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Board’s finances and to show the Board’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact Edward LaVigne, Chief School Financial Officer, Tuscaloosa City Schools, 1210 21st Avenue or P. O. Box 038991, Tuscaloosa, Alabama 35403-8991 or by calling 759-3529 during regular office hours, Monday through Friday, from 8:00 a.m. to 5:00 p.m., central time.

Basic Financial Statements

Statement of Net Position

September 30, 2016

	Governmental Activities
<u>Assets</u>	
Cash and Cash Equivalents	\$ 27,961,893.37
Investments	5,000.00
Ad Valorem Property Taxes Receivable	24,364,775.18
Receivables (Note 4)	5,993,800.64
Inventories	189,399.84
Capital Assets (Note 5):	
Nondepreciable	11,457,943.05
Depreciable, Net	223,717,915.04
Total Assets	<u>293,690,727.12</u>
<u>Deferred Outflows of Resources</u>	
Loss on Refunding of Debt	107,954.07
Employer Pension Contribution	6,855,083.14
Proportionate Share of Collective Deferred Outflows Related to Net Pension Liability	7,005,000.00
Total Deferred Outflows of Resources	<u>13,968,037.21</u>
<u>Liabilities</u>	
Payables	1,479,895.30
Unearned Revenue	57,656.53
Accrued Interest Payable	57,114.53
Salaries and Benefits Payable	1,937,469.91
Long-Term Liabilities:	
Portion Payable Within One Year:	
Bonds/Warrants Payable/Funding Agreement	288,135.59
Notes Payable	1,163,068.98
Premium on Issuance of Debt	34,354.90
Portion Payable After One Year:	
Bonds/Warrants Payable/Funding Agreement	19,480,028.25
Notes Payable	6,436,445.29
Premium on Issuance of Debt	85,887.25
Net Pension Liability	93,632,000.00
Total Liabilities	<u>124,652,056.53</u>
<u>Deferred Inflows of Resources</u>	
Unavailable Revenue - Property Taxes	24,117,375.86
Revenue Received in Advance - Motor Vehicle Taxes	914,770.79
Proportionate Share of Collective Deferred Inflows Related to Net Pension Liability	1,935,000.00
Total Deferred Inflows of Resources	<u>\$ 26,967,146.65</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	\$ 202,394,477.62
Restricted for:	
Capital Projects	15,252,579.71
Debt Service	4,143,528.01
Other Purposes	2,757,303.18
Unrestricted	<u>(68,508,327.37)</u>
Total Net Position	<u><u>\$ 156,039,561.15</u></u>

Statement of Activities
For the Year Ended September 30, 2016

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<u>Governmental Activities</u>			
Instruction	\$ 60,028,174.15	\$ 706,503.19	\$ 34,495,747.95
Instructional Support	20,967,083.82	139,225.15	12,414,720.62
Operation and Maintenance	15,164,289.33	112,670.32	3,090,232.64
Auxiliary Services:			
Student Transportation Services	6,354,474.03	311,966.48	3,687,627.51
Food Services	8,054,042.11	7,469,049.96	535,397.78
General Administrative and Central Support	5,776,018.57	893.75	1,450,151.42
Interest and Fiscal Charges	729,383.37		
Other Expenses	5,787,254.69	258,364.97	3,352,103.52
Total Governmental Activities	\$ 122,860,720.07	\$ 8,998,673.82	\$ 59,025,981.44

General Revenues:

Taxes:

 Property Taxes for General Purposes

 Local Sales 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

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	
\$	1,560,238.61	\$	(23,265,684.40)
			(8,413,138.05)
	520,670.16		(11,440,716.21)
	114,882.00		(2,239,998.04)
			(49,594.37)
			(4,324,973.40)
			(729,383.37)
			(2,176,786.20)
\$	2,195,790.77		(52,640,274.04)

25,785,770.45
13,699,800.00
8,889,182.13
3,240,499.97
144,217.64
9,381.80
4,145,321.22
55,914,173.21
3,273,899.17
152,765,661.98
\$ 156,039,561.15

Balance Sheet
Governmental Funds
September 30, 2016

	General Fund	Special Revenue Fund
<u>Assets</u>		
Cash and Cash Equivalents	\$ 7,300,523.89	\$ 3,600,682.31
Investments		5,000.00
Ad Valorem Property Taxes Receivable	24,364,775.18	
Receivables (Note 4)	2,948,363.00	3,045,437.64
Interfund Receivable	1,256,072.24	
Inventories		189,399.84
Total Assets	<u>35,869,734.31</u>	<u>6,840,519.79</u>
<u>Liabilities, Deferred Inflow of Resources and Fund Balances</u>		
<u>Liabilities</u>		
Payables	767,359.15	347,369.20
Interfund Payable		1,256,072.24
Unearned Revenues		57,656.53
Salaries and Benefits Payable	1,849,809.73	87,660.18
Total Liabilities	<u>2,617,168.88</u>	<u>1,748,758.15</u>
<u>Deferred Inflows of Resources</u>		
Unavailable Revenue - Property Taxes	24,117,375.86	
Revenue Received in Advance - Motor Vehicle Taxes	914,770.79	
Total Deferred Inflows of Resources	<u>25,032,146.65</u>	
<u>Fund Balances</u>		
Nonspendable:		
Inventories		189,399.84
Capital Projects		
Restricted for:		
Debt Service		
Child Nutrition		2,567,903.34
Assigned to:		
Local Schools		2,334,458.46
Other Purposes	7,405,347.64	
Capital Projects		
Unassigned	815,071.14	
Total Fund Balances	<u>8,220,418.78</u>	<u>5,091,761.64</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 35,869,734.31</u>	<u>\$ 6,840,519.79</u>

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

Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ 12,917,159.16	\$ 4,143,528.01	\$ 27,961,893.37
		5,000.00
		24,364,775.18
		5,993,800.64
		1,256,072.24
		189,399.84
12,917,159.16	4,143,528.01	59,770,941.27
365,166.95		1,479,895.30
		1,256,072.24
		57,656.53
		1,937,469.91
365,166.95		4,731,093.98
		24,117,375.86
		914,770.79
		25,032,146.65
9,908,279.96		189,399.84
		9,908,279.96
	4,143,528.01	4,143,528.01
		2,567,903.34
		2,334,458.46
		7,405,347.64
2,643,712.25		2,643,712.25
		815,071.14
12,551,992.21	4,143,528.01	30,007,700.64
\$ 12,917,159.16	\$ 4,143,528.01	\$ 59,770,941.27

This Page Intentionally Blank

***Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Position
September 30, 2016***

Total Fund Balances - Governmental Funds (Exhibit 3) \$ 30,007,700.64

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

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

The Cost of Capital Assets is	\$ 324,824,922.92	
Accumulated Depreciation is	<u>(89,649,064.83)</u>	
		235,175,858.09

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. 107,954.07

Deferred outflows and inflows of resources related to pensions are applicable to future
periods and, therefore, are not reported in the governmental funds. 11,925,083.14

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	\$ 1,485,559.47	
Noncurrent Portion of Long-Term Debt	<u>119,634,360.79</u>	
		(121,119,920.26)

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

Accrued Interest Payable	<u>(57,114.53)</u>
--------------------------	--------------------

Total Net Position - Governmental Activities (Exhibit 1)	<u><u>\$ 156,039,561.15</u></u>
--	---------------------------------

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

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

	General Fund	Special Revenue Fund
<u>Revenues</u>		
State	\$ 48,561,180.87	\$
Federal	133,997.85	16,779,347.59
Local	36,950,575.66	20,598,446.36
Other	232,475.48	518,555.18
Total Revenues	<u>85,878,229.86</u>	<u>37,896,349.13</u>
<u>Expenditures</u>		
Current:		
Instruction	47,916,748.75	5,944,878.45
Instructional Support	16,675,729.47	3,955,624.19
Operation and Maintenance	10,595,916.57	305,427.00
Auxiliary Services:		
Student Transportation Services	5,723,789.51	231,914.95
Food Services		8,487,393.36
General Administrative and Central Support	5,243,810.14	491,580.07
Other	2,788,757.54	3,002,161.83
Capital Outlay	128,374.72	164,674.80
Debt Service:		
Principal Retirement		
Interest and Fiscal Charges		
Debt Issuance Costs/Other Debt Service		
Total Expenditures	<u>89,073,126.70</u>	<u>22,583,654.65</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(3,194,896.84)</u>	<u>15,312,694.48</u>
<u>Other Financing Sources (Uses)</u>		
Indirect Cost	974,496.53	
Long-Term Debt Issued		
Transfers In	1,493,572.68	1,763,135.34
Other Financing Sources	3,975.22	
Sale of Capital Assets	57,585.50	
Transfers Out	(1,763,135.34)	(17,388,848.42)
Total Other Financing Sources (Uses)	<u>766,494.59</u>	<u>(15,625,713.08)</u>
Net Changes in Fund Balances	(2,428,402.25)	(313,018.60)
Fund Balances - Beginning of Year	<u>10,648,821.03</u>	<u>5,404,780.24</u>
Fund Balances - End of Year	<u>\$ 8,220,418.78</u>	<u>\$ 5,091,761.64</u>

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

Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ 2,130,259.27	\$ 58,243.50	\$ 50,749,683.64
		16,913,345.44
49,676.28	108,504.18	57,707,202.48
		751,030.66
2,179,935.55	166,747.68	126,121,262.22
126,962.81		53,988,590.01
2,099.99		20,633,453.65
2,967,366.29		13,868,709.86
22,924.09		5,978,628.55
		8,487,393.36
19,585.37		5,754,975.58
		5,790,919.37
10,885,780.36		11,178,829.88
1,360,487.25	7,845,000.00	9,205,487.25
467,629.16	303,142.21	770,771.37
	2,209.52	2,209.52
15,852,835.32	8,150,351.73	135,659,968.40
(13,672,899.77)	(7,983,604.05)	(9,538,706.18)
		974,496.53
5,925,042.00		5,925,042.00
8,031,960.65	7,863,315.09	19,151,983.76
		3,975.22
		57,585.50
		(19,151,983.76)
13,957,002.65	7,863,315.09	6,961,099.25
284,102.88	(120,288.96)	(2,577,606.93)
12,267,889.33	4,263,816.97	32,585,307.57
\$ 12,551,992.21	\$ 4,143,528.01	\$ 30,007,700.64

This Page Intentionally Blank

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

Net Changes in Fund Balances - Total Governmental Funds (Exhibit 5) \$ (2,577,606.93)

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

Governmental funds report capital outlay as an expenditure. 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 differed from capital outlay in the current period.

Capital Outlays	\$ 11,178,829.88	
Depreciation Expense	<u>(8,296,310.97)</u>	2,882,518.91

Repayment of debt principal is an expenditure in governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.	9,205,487.25
---	--------------

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.	(5,925,042.00)
--	----------------

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	(57,585.50)	
Gain on Disposition of Capital Assets	<u>9,381.80</u>	(48,203.70)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Accrued Interest Payable, Current Year Increase/(Decrease)	\$ 47,191.30	
Amortization of Deferred Amounts on Refunding	(3,593.78)	
Pension Expense, Current Year Increase/Decrease	<u>(306,851.88)</u>	(263,254.36)

Change in Net Position of Governmental Activities (Exhibit 2)	<u><u>\$ 3,273,899.17</u></u>
---	-------------------------------

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

Statement of Fiduciary Net Position
September 30, 2016

	Agency Funds
<hr/>	
<u>Assets</u>	
Cash and Cash Equivalents	\$ 202,560.26
Total Assets	<u>202,560.26</u>
<u>Liabilities</u>	
Due to External Organizations	202,560.26
Total Liabilities	<u>\$ 202,560.26</u>

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

Notes to the Financial Statements

For the Year Ended September 30, 2016

Note 1 – Summary of Significant Accounting Policies

The financial statements of the Tuscaloosa City 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 eight members elected by the qualified electors of the City. The Board is responsible for the general administration and supervision of the public schools for the educational interests of the City.

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

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

Notes to the Financial Statements

For the Year Ended September 30, 2016

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

Fund Financial Statements

The fund financial statements provide information about the Board's funds, including fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as 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 fund sources included the federal funds that are received for Special Education, Title I, School Improvement Grants, and the Child Nutrition Program in addition to various smaller grants, which are required to be spent for 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.
- ◆ **Capital Projects Fund** – This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlay, including the acquisition or construction of capital facilities and other capital assets.

Notes to the Financial Statements

For the Year Ended September 30, 2016

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

Governmental Fund Type

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

The Board reports the following fiduciary fund type:

Fiduciary Fund Type

- ◆ **Agency Fund** – This fund is 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, 2016

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 City or city board of education secured by the pledged of the three-mill school tax and certificates of deposit.

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

2. Receivables

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

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

Receivables due from other governments include amounts due from grantors for grants issued for specific programs and capital projects. These also include amounts due from the City of Tuscaloosa and the Tuscaloosa County Special Tax Board for the Board's share of sales tax revenue.

Notes to the Financial Statements

For the Year Ended September 30, 2016

3. Inventories

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

4. Restricted Assets

Certain funds received from the State Department of Education for capital projects and improvements, as well as certain resources set aside for repayment of debt included in cash and cash equivalents on the balance sheet are considered restricted assets because they are maintained separately and their use is limited. The Public School Capital Projects, Fleet Renewal, Bond Issue Payments, Bonds and Warrants, and Qualified Zone Academy Bonds funds are used to report proceeds that are restricted for use in various construction projects and the purchase of school buses. The Debt Service Fund is used to report resources set aside to pay the principal and interest on debt as it become due.

5. Capital Assets

Capital assets, which include property and equipment are reported in the 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 Improvements	\$50,000	20 years
Buildings	\$50,000	25 - 50 years
Building Improvements	\$50,000	5 - 30 years
Equipment and Furniture	\$ 5,000	5 - 20 years
Vehicles	\$ 5,000	8 - 15 years
Equipment Under Capital Lease	\$ 5,000	5 - 20 years

Notes to the Financial Statements

For the Year Ended September 30, 2016

6. Deferred Outflows of Resources

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

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Premiums and discounts are deferred and amortized over the life of the debt. Long-term debt is reported gross with the applicable premium or discount reported separately. 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. Deferred Inflows of Resources

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

9. Pensions

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

Notes to the Financial Statements

For the Year Ended September 30, 2016

10. Net Position/Fund Balances

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

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

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

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

Notes to the Financial Statements

For the Year Ended September 30, 2016

- D. Assigned fund balances consist of amounts that are intended to be used by the Board for specific purposes. The Board authorizes the Superintendent or Chief School Financial Officer to make a determination of the assigned amounts of fund balance. Such assignments may not exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. Assigned fund balances require the same level of authority to remove the constraint.
- E. Unassigned fund balances include all spendable amounts not contained in the other classifications. This portion of the total fund balance in the General Fund is available to finance operating expenditures.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, restricted amounts are considered to have been reduced first. When an expenditure is incurred for the purposes for which amounts in any of the unrestricted fund balance classifications could be used, committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

The Board has established a minimum fund balance policy which directs that a General Fund reserve fund balance be maintained of an amount not less than one month's operating expenditures. Operating expenditures shall include all funds necessary to support normal operations of the school district for one month and shall be calculated based on the current budget or current actual expenditures, whichever is greater.

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 and sales 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 adopt project-length budgets. All appropriations lapse at fiscal year-end.

Notes to the Financial Statements

For the Year Ended September 30, 2016

On or before October 1 of each year, each city board of education shall prepare and submit to the State Superintendent of Education the annual budget to be adopted by the city board of education. The Superintendent or city 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

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.

Note 4 – Receivables

On September 30, 2016, receivables for the Board's individual major funds are as follows:

	General Fund	Special Revenue Fund	Total
<u>Receivables:</u>			
Accounts	\$	\$ 19,316.19	\$ 19,316.19
Intergovernmental	2,948,363.00	3,018,745.60	5,967,108.60
Other		7,375.85	7,375.85
Total Receivables	<u>\$2,948,363.00</u>	<u>\$3,045,437.64</u>	<u>\$5,993,800.64</u>

Notes to the Financial Statements

For the Year Ended September 30, 2016

Note 5 – Capital Assets

Capital asset activity for the year ended September 30, 2016, was as follows:

	Balance 10/01/2015	Additions/ Reclassifications (*)	Deletions/ Reclassifications (*)	Balance 09/30/2016
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 9,045,162.41	\$ 365,628.99	\$	\$ 9,410,791.40
Land Under Capital Lease	365,628.99		(365,628.99)	
Construction in Progress		2,047,151.65		2,047,151.65
Total Capital Assets, Not Being Depreciated	9,410,791.40	2,412,780.64	(365,628.99)	11,457,943.05
Capital Assets Being Depreciated:				
Land Improvements (Exhaustible)	5,677,459.28	400,501.28		6,077,960.56
Land Improvements Under Capital Lease	62,037.00		(62,037.00)	
Buildings and Building Improvements	253,132,801.68	31,991,663.32		285,124,465.00
Buildings and Building Improvements Under Capital Lease	30,788,286.55		(30,788,286.55)	
Vehicles, Equipment and Furniture	15,432,035.33	7,589,837.18	(857,318.20)	22,164,554.31
Total Capital Assets Being Depreciated	305,092,619.84	39,982,001.78	(31,707,641.75)	313,366,979.87
Less Accumulated Depreciation for:				
Land Improvements (Exhaustible)	(2,916,586.40)	(582,295.23)		(3,498,881.63)
Land Improvements Under Capital Lease	(55,796.50)		55,796.50	
Buildings and Building Improvements	(63,580,897.01)	(11,597,013.81)		(75,177,910.82)
Buildings and Building Improvements Under Capital Lease	(5,139,428.63)		5,139,428.63	
Vehicles, Equipment and Furniture	(10,469,159.82)	(1,312,227.06)	809,114.50	(10,972,272.38)
Total Accumulated Depreciation	(82,161,868.36)	(13,491,536.10)	6,004,339.63	(89,649,064.83)
Total Capital Assets Being Depreciated, Net	222,930,751.48	26,490,465.68	(25,703,302.12)	223,717,915.04
Total Governmental Activities Capital Assets, Net	\$232,341,542.88	\$28,903,246.32	\$(26,068,931.11)	\$235,175,858.09
(*) Included in Additions/Deletions are reclassifications of assets from Land Under Capital Lease to Land in the amount of \$365,628.99, Land Improvements Under Capital Lease to Land Improvements in the amount of \$62,037.00, and Building and Improvements Under Capital Lease to Buildings and Improvements in the amount \$30,788,286.55. The corresponding accumulated depreciation was also reclassified from Land Improvements Under Capital Lease to Land Improvements in the amount of \$55,796.50 and Building and Improvements Under Capital Lease to Building Improvements in the amount of \$5,139,428.63. These reclassifications were necessary to properly reflect the extinguishment of debt related to these assets.				

Notes to the Financial Statements

For the Year Ended September 30, 2016

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

	Current Year Depreciation Expense
<u>Governmental Activities:</u>	
Instruction	\$5,731,148.76
Instructional Support	319,071.71
Operations and Maintenance	1,270,952.18
Auxiliary Services:	
Student Transportation	309,426.23
Food Service	411,788.52
General Administration and Central Support	244,050.12
Other	9,873.45
Total Depreciation Expense – Governmental Activities	<u>\$8,296,310.97</u>

Note 6 – Defined Benefit Pension Plan

A. Plan Description

The Teachers' Retirement System of Alabama ("TRS"), a cost-sharing multiple-employer public employee retirement plan (the "Plan"), was established as of September 15, 1939, under the provisions of Act Number 419, Acts of Alabama 1939, for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by State-supported educational institutions. The responsibility for the general administration and operation of the TRS is vested in its Board of Control. The TRS Board of Control consists of 15 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). The *Code of Alabama 1975*, Section 16-25-2, grants the authority to establish and amend the benefit terms to the TRS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

Notes to the Financial Statements

For the Year Ended September 30, 2016

B. Benefits Provided

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

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

C. Contributions

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

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

Notes to the Financial Statements

For the Year Ended September 30, 2016

Participating employers' contractually required contribution rate for the year ended September 30, 2016, was 11.94% of annual pay for Tier 1 members and 10.84% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the Board were \$6,855,083.14 for the year ended September 30, 2016.

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

At September 30, 2016, the Board reported a liability of \$93,632,000.00 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2014. The Board's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2015, the Board's proportion was .894661%, which was an increase of .018145% from its proportion measured as of September 30, 2014.

For the year ended September 30, 2016, the Board recognized pension expense of \$7,163,000.00. At September 30, 2016, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$	\$ 507,000.00
Net difference between projected and actual earnings on pension plan investments	6,130,000.00	
Changes in proportion and differences between Employer contributions and proportionate share of contributions	875,000.00	1,428,000.00
Employer contributions subsequent to the measurement date	6,855,083.14	
Total	\$13,860,083.14	\$1,935,000.00

Notes to the Financial Statements

For the Year Ended September 30, 2016

The \$6,855,083.14 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending	
September 30, 2017	\$ 956,000.00
2018	\$ 956,000.00
2019	\$ 956,000.00
2020	\$2,294,000.00
2021	\$ (92,000.00)
Thereafter	\$

E. Actuarial Assumptions

The total pension liability was determine by an actuarial valuation as of September 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Investment rate of return (*)	8.00%
Projected salary increases	3.50% - 8.25%
(*) Net of pension plan investment expense	

The actuarial assumptions used in the actuarial valuation as of September 30, 2014, were based on the results of an investigation of the economic and demographic experience for the TRS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012.

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

Notes to the Financial Statements

For the Year Ended September 30, 2016

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

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

F. Discount Rate

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

Notes to the Financial Statements

For the Year Ended September 30, 2016

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

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

	1% Decrease (7.00%)	Current Rate (8.00%)	1% Increase (9.00%)
Board's proportionate share of collective net pension liability	\$123,869	\$93,632	\$67,988
(Dollar amounts in thousands)			

H. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2015. The supporting actuarial information is included in the GASB Statement Number 67 Report for the TRS prepared as of, September 30, 2015. The auditor's report dated October 17, 2016, on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense for the sum of all participating entities as of, September 30, 2015, along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

Notes to the Financial Statements

For the Year Ended September 30, 2016

Note 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.

B. Funding Policy

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

	Fiscal Year 2016
Individual Coverage – Non-Medicare Eligible	\$ 151.00
Family Coverage – Non-Medicare Eligible Retired Member and Non-Medicare Eligible Non-Spousal Dependent(s)	\$ 391.00
Family Coverage – Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) With Non-Medicare Eligible Spouse	\$ 416.00
Family Coverage – Non-Medicare Eligible Retired Member and Non-Spousal Dependent Medicare Eligible	\$ 250.00
Family Coverage – Non-Medicare Eligible Retired Member and Spouse Dependent Medicare Eligible	\$ 260.00
Individual Coverage – Medicare Eligible Retired Member	\$ 10.00
Family Coverage – Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) – No Spouse	\$ 250.00
Family Coverage – Medicare Eligible Retired Member and Dependent Medicare Eligible With Non-Medicare Eligible Spouse	\$ 275.00
Family Coverage – Medicare Eligible Retired Member and Non-Spousal Dependent Medicare Eligible	\$ 109.00
Family Coverage – Medicare Eligible Retired Member and Spousal Dependent Medicare Eligible	\$ 119.00
Surviving Spouse – Non-Medicare Eligible	\$ 740.00
Surviving Spouse – Non-Medicare Eligible and Dependent Non-Medicare Eligible	\$ 987.00
Surviving Spouse – Non-Medicare Eligible and Dependent Medicare Eligible	\$1,033.00
Surviving Spouse – Medicare Eligible	\$ 425.00
Surviving Spouse – Medicare Eligible and Dependent Non-Medicare Eligible	\$ 679.00
Surviving Spouse – Medicare Eligible and Dependent Medicare Eligible	\$ 725.00

Notes to the Financial Statements

For the Year Ended September 30, 2016

For employees that retire other than for disability on or after October 1, 2005 and before January 1, 2012, for each year under 25 years of service, the retiree pays two percent of the employer premium and for each year over 25 years of service, the retiree premium is reduced by two percent of the employer premium. Employees who retire on or after January 1, 2012, with less than 25 years of service, are required to pay 4% for each year under 25 years of service. In addition, non-Medicare eligible employees are required to pay 1% more for each year less than 65 (age premium) and to pay the net difference between the active employee subsidy and the non-Medicare eligible retiree subsidy (subsidy premium). When the retiree becomes Medicare eligible, the age and subsidy premium no longer applies, but the years of service premium (if applicable to the retiree) will continue to be applied throughout retirement. These changes are being phased in over a 5 year period. The tobacco premium is \$50.00 per month for retired members that use tobacco.

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

Fiscal Year Ended September 30,	Active Health Insurance Premiums Paid By Board	Amount of Premium Attributable to Retirees	Percentage of Active Employee Premiums Attributable to Retirees	Total Amount Paid Attributable to Retirees	Percentage of Required Amount Contributed
2016	\$780.00	\$211.21	27.08%	\$3,455,114.25	100%
2015	\$780.00	\$180.76	23.17%	\$2,915,248.01	100%
2014	\$714.00	\$220.09	30.83%	\$3,639,916.88	100%

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

Notes to the Financial Statements

For the Year Ended September 30, 2016

Note 8 – Lease Obligations

2009 Funding Agreement

On September 1, 2009, the City of Tuscaloosa Public Educational Building Authority (the “Authority”), issued \$9,070,000.00 in Refunding Revenue Bonds pursuant to the provisions of the constitution and laws of the State of Alabama. Simultaneously, the Tuscaloosa City Board of Education entered into a capital lease agreement with the Authority. Under the terms of the agreement, the Board transferred one parcel of land and one school building to the Authority. The Board agreed to lease these facilities from the Authority and pay lease payments sufficient to pay principal and interest due on the Refunding Revenue Bonds, Series 2009. Also, under the terms of the funding agreement, the Board will continue to be completely responsible for the property. At the end of the lease term, the Board can buy the land and building for \$10.00. The payments will be made by the Debt Service Fund with proceeds from property taxes.

The buildings under capital lease associated with this funding agreement were destroyed by tornadoes on April 27, 2011. The value of the capital asset was reduced to reflect a zero balance at September 30, 2011. As of September 30, 2016, all lease payments associated with this agreement were paid in full.

2009-B Funding Agreement

On November 1, 2009, the City of Tuscaloosa Public Educational Building Authority (the “Authority”), issued \$17,115,000.00 in Refunding Revenue Bonds pursuant to the provisions of the constitution and laws of the State of Alabama. Simultaneously, the Tuscaloosa City Board of Education entered into a capital lease agreement with the Authority. Under the terms of the agreement, the Board transferred two parcels of land, one school building and one school building under construction to the Authority. The Board agreed to lease these facilities from the Authority and pay lease payments sufficient to pay principal and interest due on the 2009-B Refunding Revenue Bonds. As of September 30, 2016, all lease payments associated with this agreement were paid in full.

Note 9 – Long-Term Debt

2013 Capital Outlay Pool Warrant

On October 15, 2013, the Alabama Public School and College Authority issued Capital Outlay Pool Warrant Series 2013 Qualified School Construction Bonds on behalf of various Boards of Education in the State. The bond documents were approved by the Board on January 7, 2014. The Board had a 28.25% participation in the bonds resulting in the Board’s share of principal of \$6,775,423.73. The Board’s obligation is paid solely from the Board’s portion of the Public School Funds received from the State of Alabama.

Notes to the Financial Statements

For the Year Ended September 30, 2016

2010 Qualified School Construction Bonds

On September 8, 2010, the Alabama Public School and College Authority issued Capital Outlay Pool Warrant, Series 2010, Qualified School Construction Bonds with an interest rate of 5.15% on behalf of various Boards of Education in the State. The bond documents were approved by the Board on December 21, 2010. The Board had an 8.75% participation in the bonds resulting in the Board's share of principal of \$13,545,000.00. The Board is required to make sinking fund deposits of \$603,624.88 on September 1, each year for sixteen years so that such deposits and interest earned thereon shall be used to pay the principal of the bonds upon the maturity and are pledged to pay the debt service requirement 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.

2010-B Funding Agreement Payable

On May 1, 2010, the City of Tuscaloosa issued \$13,860,000.00 in General Obligation Warrants, Series 2010-B, in order to provide funds necessary to enable the Board to redeem and retire the Series 2002 General Obligation Warrants and to provide the funding for various capital improvements. Simultaneously, the Board entered into a Funding and Payment Agreement with the City of Tuscaloosa. Under the terms of this agreement, the Board agreed to apply proceeds of the special school district ad valorem tax to pay the principal and interest on the 2010-B General Obligation Warrants. The payments will be made by the Local Source Debt Service Fund. Additionally, under the terms of this agreement, the City provided a cash reserve deposit in the amount of \$6.7 million which was used for various construction projects. Under certain conditions, this amount was to be repaid by the Board to the City. It was estimated at the time of the agreement that the Board would receive approximately \$31 million from the July 1, 2005, sales tax. Per conditions of the agreement, once the proceeds from the July 1, 2005, sales tax exceed the \$31 million, the Board is required to repay the \$6.7 million cash reserve deposit to the City of Tuscaloosa. Once the \$6.7 million is repaid, the Board shall be entitled to all further remittances from the July 1, 2005 sales tax. During the period October 1, 2009 through September 30, 2010, the Board's proceeds from the July 1, 2005, sales tax exceeded the \$31 million, and the Board repaid the \$6.7 million as required by the funding agreement. As of September 30, 2016, this funding agreement was paid in full.

2016 Fleet Bus Loan

On October 30, 2015, the Board signed a promissory note (term loan) with Capstone Bank in the amount of \$5,925,042, annual interest rate of 2.11%, 11 year loan period to purchase 73 new school buses. The loan is secured by an interest in the assets financed by the loan. The Board will make monthly principal and interest payments on the loan using fleet renewal funds as provided by the State Department of Education.

Notes to the Financial Statements

For the Year Ended September 30, 2016

Notes Payable

During fiscal year 2010, the Board, as part of a pooled bond issuance with other school systems within the State of Alabama, issued Capital Improvement Pool Refunding Bonds, Series 2009-B, in order to refund and retire the Capital Improvement Pool Bonds, Series 1999-D. The Alabama Department of Education withholds the required debt service payments from the Board's Public School Fund allocation. The proceeds from these bonds provided funds for the acquisition, construction and renovation of school facilities. Payments on the bonds are made by the Debt Service Fund with Public School funds withheld from the Board's allocation from the Alabama Department of Education.

The following is a summary of long-term debt transactions for the Board for the year ended September 30, 2016:

	Debt Outstanding 10/01/2015	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 09/30/2016	Amounts Due Within One Year
<u>Governmental Activities:</u>					
Warrants and Notes Payable:					
2010 Qualified School Construction Bonds	\$ 13,545,000.00	\$	\$	\$ 13,545,000.00	\$
2010-B Funding Agreement	2,600,000.00		(2,600,000.00)		
Notes Payable, Series 2009-B	2,755,298.50		(637,845.37)	2,117,453.13	669,953.21
Capital Outlay Pool Warrant Series 2013	6,502,824.86		(279,661.02)	6,223,163.84	288,135.59
2016 Fleet-Bus Loan		5,925,042.00	(442,980.86)	5,482,061.14	493,115.77
Total Warrants and Notes Payable	25,403,123.36	5,925,042.00	(3,960,487.25)	27,367,678.11	1,451,204.57
<u>Other Liabilities:</u>					
2009-B Funding Agreement – Capital Lease	3,850,000.00		(3,850,000.00)		
2009 Funding Agreement – Capital Lease	1,395,000.00		(1,395,000.00)		
Net Pension Liability	82,924,000.00	10,708,000.00		93,632,000.00	
Premium on Issuance of Debt	273,772.08		(153,529.93)	120,242.15	34,354.90
Total Other Liabilities	88,442,772.08	10,708,000.00	(5,398,529.93)	93,752,242.15	34,354.90
Total Governmental Activities Long-Term Liabilities	\$113,845,895.44	\$16,633,042.00	\$(9,359,017.18)	\$121,119,920.26	\$1,485,559.47

Notes to the Financial Statements

For the Year Ended September 30, 2016

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

Fiscal Year Ending	2010 Qualified School Construction Bonds Payable		2009-B Notes Payable		Capital Outlay Pool Warrant, Series 2013	
	Principal	Interest	Principal	Interest	Principal	Interest
September 30, 2017	\$	\$ 58,243.50	\$ 669,953.21	\$105,939.18	\$ 288,135.59	\$ 210,688.56
2018		58,243.50	703,693.67	72,441.52	293,785.31	204,925.86
2019		58,243.50	743,806.25	37,256.85	300,847.46	199,050.16
2020		58,243.50			306,497.18	193,033.20
2021		58,243.50			314,971.75	183,838.28
2022-2026		291,217.50			1,727,401.13	769,728.14
2027-2031	13,545,000.00	58,243.50			2,052,259.88	444,897.60
2032-2033					939,265.54	58,495.78
Totals	<u>\$13,545,000.00</u>	<u>\$640,678.50</u>	<u>\$2,117,453.13</u>	<u>\$215,637.55</u>	<u>\$6,223,163.84</u>	<u>\$2,264,657.58</u>

Deferred Inflows/Outflows on Refunding, Discounts and Premiums

The Board has a deferred loss on refunding in connection with the issuance of a capital lease with the City of Tuscaloosa Public Educational Building Authority, dated September 1, 2009. The deferred loss on refunding is being amortized using the straight-line method over a period of seven years.

During fiscal year 2010, the Board incurred premiums and deferred losses on refunding in connection with the issuance of its Refunding Revenue Bonds, 2009-B, General Obligation Warrants, Series 2010-B, and Capital Improvement Pool Refunding Bonds, Series 2009-B. The premiums and deferred losses on refunding are being amortized using the straight-line method over a period of six years, six years, and ten years, respectively.

The Board has a premium in connection with the issuance of its Capital Outlay Pool Warrant, Series 2013.

	Deferred Loss on Refunding	Premium
Total Deferred Loss on Refunding and Premium	\$ 1,834,374.20	\$ 1,818,339.43
Amount Amortized Prior Years	(1,569,296.42)	(1,544,567.35)
Balance Deferred Loss on Refund and Premium	265,077.78	273,772.08
Current Amount Amortized	(157,123.71)	(153,529.93)
Total Balance Deferred Loss on Refunding and Premium	<u>\$ 107,954.07</u>	<u>\$ 120,242.15</u>

Notes to the Financial Statements

For the Year Ended September 30, 2016

2016 Fleet Bus Loan		Total Principal and Interest Requirements to Maturity
Principal	Interest	
\$ 493,115.77	\$110,920.80	\$ 1,936,996.61
503,621.74	100,414.84	1,937,126.44
514,351.52	89,685.04	1,943,240.78
525,309.91	78,726.66	1,161,810.45
536,501.76	67,534.81	1,161,090.10
2,858,912.46	157,270.40	5,804,529.63
50,247.98	88.35	16,150,737.31
		997,761.32
<u>\$5,482,061.14</u>	<u>\$604,640.90</u>	<u>\$31,093,292.64</u>

Pledged Revenues

The Board issued Series 2009-B Capital Improvement Pool Refunding Bonds which are pledged to be repaid from their allocation of public school funds received from the State of Alabama. The proceeds from the Series 2009-B Capital Improvement Pool Refunding Bonds were used to refund and retire the Series 1999D Capital Improvement Bonds. Future revenues in the amount of \$2,333,090.68 are pledged to repay the principal and interest on the bonds at September 30, 2016. Pledged funds in the amount of \$775,676.81 were used to pay principal and interest on the bonds during the fiscal year ended September 30, 2016. This amount represents 42.40 percent of the pledged funds received by the Board. The Series 2009-B bonds will mature in fiscal year 2019.

The Board issued the 2010 Qualified School Construction Bonds which are pledged to be repaid from their allocation of public school funds received from the State of Alabama. The proceeds from the 2010 Qualified School Construction Bonds were used for the construction, rehabilitation, repair and acquisition of public school facilities. Future revenues in the amount of \$14,185,678.50 are pledged to repay the principal and interest on the bonds at September 30, 2016. Pledged funds in the amount of \$58,243.50 were used to pay interest on the bonds during the fiscal year ended September 30, 2016. This amount represents 3.18 percent of the pledged funds received by the Board. The 2010 Qualified School Construction will mature in fiscal year 2027.

Notes to the Financial Statements

For the Year Ended September 30, 2016

The Board issued the 2013 Qualified School Construction Bonds which are pledged to be repaid from their allocation of public school funds received from the State of Alabama. The proceeds from the 2013 Qualified School Construction Bonds will be used for the construction, rehabilitation, repair and acquisition of public school facilities. Future revenues in the amount of \$8,487,821.42 are pledged to repay the principal and interest on the bonds at September 30, 2016. Pledged funds in the amount of \$498,739.42 were used to pay principal and interest on the bonds during the fiscal year ended September 30, 2016. This amount represents 27.26 percent of the pledged funds received by the Board. The 2013 Qualified School Construction will mature in fiscal year 2033.

Note 10 – Risk Management

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

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

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

Notes to the Financial Statements

For the Year Ended September 30, 2016

Note 11 – Interfund Transactions

Interfund Receivables and Payables

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

	Interfund Receivables General Fund	Total
<u>Interfund Payables:</u>		
Special Revenue Fund	\$1,256,072.24	\$1,256,072.24
Totals	<u>\$1,256,072.24</u>	<u>\$1,256,072.24</u>

Interfund Transfers

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

	General Fund	Transfers Out Special Revenue Fund	Totals
<u>Transfers In:</u>			
General Fund	\$	\$ 1,493,572.68	\$ 1,493,572.68
Special Revenue Fund	1,763,135.34		1,763,135.34
Capital Projects Fund		8,031,960.65	8,031,960.65
Other Governmental Funds		7,863,315.09	7,863,315.09
Totals	<u>\$1,763,135.34</u>	<u>\$17,388,848.42</u>	<u>\$19,151,983.76</u>

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

Notes to the Financial Statements

For the Year Ended September 30, 2016

Note 12 – Construction and Other Significant Commitments

The Board is obligated under the following construction commitments:

	Project Cost	Construction Costs Paid	Remaining Balance
Construction Projects:			
New Eastern Elementary School	\$17,000,000.00	\$ 248,682.79	\$16,751,317.21
Central Elementary Addition/Renovation	7,800,000.00	394,702.03	7,405,297.97
Paul Bryant High School Renovation	15,600,000.00	181,263.69	15,418,736.31
Eastwood Middle School Renovations	5,500,000.00	628,086.93	4,871,913.07
Northridge High School Renovations	13,000,000.00	82,439.25	12,917,560.75
New Rock Quarry Middle School	32,000,000.00	235,759.54	31,764,240.46
Southview Elementary Renovation	2,000,000.00	209,149.22	1,790,850.78
University Place Elementary Renovation	1,200,000.00	67,068.20	1,132,931.80
Totals	<u>\$94,100,000.00</u>	<u>\$2,047,151.65</u>	<u>\$92,052,848.35</u>

Note 13 – Subsequent Event

On December 14, 2016, the Board approved the issuance of the Series 2016 School Tax Warrants in the amount of \$152,130,000.00 for the acquisition and construction of new infrastructure, and improvements and repairs to existing infrastructure.

Required Supplementary Information

***Schedule of the Employer's Proportionate Share of the
Net Pension Liability
For the Year Ended September 30, 2016***

	2016	2015
Employer's proportion of the net pension liability	0.894661%	0.912806%
Employer's proportionate share of the net pension liability	\$93,632,000.00	\$ 82,924,000.00
Employer's covered-employee payroll during the measurement period (*)	\$56,776,721.07	\$ 57,910,674.64
Employer's proportionate share of the collective net pension liability as a percentage of its covered-employee payroll	164.91%	143.19%
Plan fiduciary net position as a percentage of the total collective pension liability	67.51%	71.01%

(*) Employer's covered-employee payroll during the measurement period is the total payroll paid to covered employees (not just pensionable payroll). For fiscal year 2016, the measurement period is October 1, 2014 - September 30, 2015.

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

Schedule of the Employer's Contributions
For the Year Ended September 30, 2016

	2016	2015
Contractually required contribution	\$ 6,855,083.14	\$ 6,600,935.02
Contributions in relation to the contractually required contribution	<u>\$ 6,855,083.14</u>	<u>\$ 6,600,935.02</u>
Contribution deficiency (excess)	\$	\$
Employer's covered-employee payroll	\$ 58,287,649.75	\$ 56,776,721.07
Contributions as a percentage of covered-employee payroll	11.76%	11.63%

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

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

	Budgeted Amounts		Actual Amounts
	Original	Final	Budgetary Basis
<u>Revenues</u>			
State	\$ 48,162,599.00	\$ 48,411,626.00	\$ 48,561,180.87
Federal	121,500.00	121,500.00	133,997.85
Local	33,978,168.00	35,308,168.00	36,956,968.10
Other	80,000.00	80,000.00	232,475.48
Total Revenues	82,342,267.00	83,921,294.00	85,884,622.30
<u>Expenditures</u>			
Current:			
Instruction	48,321,935.13	48,943,135.47	47,845,534.36
Instructional Support	16,237,169.40	16,286,898.06	16,618,072.80
Operation and Maintenance	9,357,909.61	9,367,909.61	10,578,942.32
Auxiliary Services:			
Student Transportation	4,749,346.44	4,749,346.44	5,700,820.64
General Administration and Central Support	4,894,734.00	4,894,734.00	5,224,426.59
Other	2,644,372.24	2,644,388.24	2,768,000.19
Capital Outlay	287,110.00	286,110.00	128,374.72
Total Expenditures	86,492,576.82	87,172,521.82	88,864,171.62
Excess (Deficiency) of Revenues Over Expenditures	(4,150,309.82)	(3,251,227.82)	(2,979,549.32)
<u>Other Financing Sources (Uses)</u>			
Indirect Costs	888,214.00	974,234.00	974,496.53
Transfers In	1,456,223.05	1,456,223.05	1,493,572.68
Other Financing Sources			3,975.22
Sale of Capital Assets			57,585.50
Transfers Out	(2,311,399.63)	(1,737,808.48)	(1,763,135.34)
Total Other Financing Sources (Uses)	33,037.42	692,648.57	766,494.59
Net Changes in Fund Balances	(4,117,272.40)	(2,558,579.25)	(2,213,054.73)
Fund Balances - Beginning of Year	12,400,000.00	12,950,654.71	12,950,654.71
Fund Balances - End of Year	\$ 8,282,727.60	\$ 10,392,075.46	\$ 10,737,599.98

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	\$	\$ 48,561,180.87
		133,997.85
(1)	(6,392.44)	36,950,575.66
		232,475.48
	<u>(6,392.44)</u>	<u>85,878,229.86</u>
(2)	(71,214.39)	47,916,748.75
(2)	(57,656.67)	16,675,729.47
(2)	(16,974.25)	10,595,916.57
(2)	(22,968.87)	5,723,789.51
(2)	(19,383.55)	5,243,810.14
(2)	(20,757.35)	2,788,757.54
		128,374.72
	<u>(208,955.08)</u>	<u>89,073,126.70</u>
	<u>(215,347.52)</u>	<u>(3,194,896.84)</u>
		974,496.53
		1,493,572.68
		3,975.22
		57,585.50
		<u>(1,763,135.34)</u>
		<u>766,494.59</u>
	(215,347.52)	(2,428,402.25)
(3)	<u>(2,301,833.68)</u>	<u>10,648,821.03</u>
	<u>\$ (2,517,181.20)</u>	<u>\$ 8,220,418.78</u>

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

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

The Board budgets on the modified accrual basis of accounting with the following exceptions:

- (1) The Board recognizes ad valorem taxes and sales taxes as they are received without regard to when they are earned (GAAP).
- (2) The Board budgets salaries and benefits payable as they are actually paid rather than on the modified accrual basis (GAAP).

Net Decrease in Fund Balance - Budget to GAAP

- (3) The amount reported as "fund balance" on the budgetary basis of accounting derives from the basis of accounting used in preparing the Board's budget. This amount differs from the fund balance reported in the statement of revenues, expenditures and changes in fund balances because of the cumulative effect of transactions such as those described above.

\$ (6,392.44)

(208,955.08)

\$ (215,347.52)

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

	Budgeted Amounts		Actual Amounts
	Original	Final	Budgetary Basis
<u>Revenues</u>			
Federal	\$ 11,616,358.99	\$ 15,461,124.01	\$ 16,779,347.59
Local	20,263,728.05	21,135,552.05	20,598,446.36
Other	304,000.00	304,000.00	518,555.18
Total Revenues	32,184,087.04	36,900,676.06	37,896,349.13
<u>Expenditures</u>			
Current:			
Instruction	4,894,169.00	6,344,281.71	5,944,878.45
Instructional Support	2,720,885.00	4,501,853.26	3,955,624.19
Operation and Maintenance	278,103.00	284,303.00	305,427.00
Auxiliary Services:			
Student Transportation	225,109.00	225,109.00	231,914.95
Food Service	7,062,165.51	7,062,165.51	8,465,795.96
General Administration and Central Support	396,077.00	488,878.00	491,580.07
Other	2,257,846.25	2,772,238.30	3,002,161.83
Capital Outlay		11,998.00	164,674.80
Total Expenditures	17,834,354.76	21,690,826.78	22,562,057.25
Excess (Deficiency) of Revenues Over Expenditures	14,349,732.28	15,209,849.28	15,334,291.88
<u>Other Financing Sources (Uses)</u>			
Transfers In	2,414,954.63	1,841,363.48	1,763,135.34
Transfers Out	(16,918,099.69)	(16,918,099.69)	(17,388,848.42)
Total Other Financing Sources (Uses)	(14,503,145.06)	(15,076,736.21)	(15,625,713.08)
Net Change in Fund Balances	(153,412.78)	133,113.07	(291,421.20)
Fund Balances - Beginning of Year	5,884,213.94	5,678,962.48	5,470,843.02
Fund Balances - End of Year	\$ 5,730,801.16	\$ 5,812,075.55	\$ 5,179,421.82

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	\$	\$ 16,779,347.59
		20,598,446.36
		518,555.18
		<u>37,896,349.13</u>
		5,944,878.45
		3,955,624.19
		305,427.00
		231,914.95
(1)	(21,597.40)	8,487,393.36
		491,580.07
		3,002,161.83
		164,674.80
	(21,597.40)	<u>22,583,654.65</u>
	(21,597.40)	<u>15,312,694.48</u>
		1,763,135.34
		<u>(17,388,848.42)</u>
		<u>(15,625,713.08)</u>
	(21,597.40)	(313,018.60)
(2)	(66,062.78)	<u>5,404,780.24</u>
	\$ (87,660.18)	<u>\$ 5,091,761.64</u>

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

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

The Board budgets on the modified accrual basis of accounting with the following exceptions:

- (1) The Board budgets for salaries and benefits only to the extent they are expected to be paid in the current fiscal period, rather than on the modified accrual basis (GAAP).

Net Decrease in Fund Balance - Budget to GAAP

- (2) The amount reported as "fund balance" on the budgetary basis of accounting derives from the basis of accounting used in preparing the Board's budget. This amount differs from the fund balance reported in the Statement of Revenues, Expenditures and Changes in Fund Balances (Exhibit 5) because of the cumulative effect of transactions such as those described above.

\$ (21,597.40)

\$ (21,597.40)

This Page Intentionally Blank

Supplementary Information

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2016

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number
<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
National School Lunch Program:	
Cash Assistance	10.555
Non-Cash Assistance (Commodities)	10.555
Sub-Total National School Lunch Program	
Sub-Total Child Nutrition Cluster	
Fresh Fruit and Vegetable Program	10.582
Total U. S. Department of Agriculture	
<u>U. S. Department of Education</u>	
<u>Passed Through Alabama Department of Education</u>	
Title I - Grants to Local Educational Agencies (M)	84.010
Special Education Cluster:	
Special Education - Grants to States	84.027
Special Education - Preschool Grants	84.173
Sub-Total Special Education Cluster	
Career and Technical Education - Basic Grants to States	84.048
Education for Homeless Children and Youth	84.196
Twenty-First Century Community Learning Centers	84.287
Advanced Placement Program	84.330
English Language Acquisition Grants	84.365
Improving Teacher Quality State Grants	84.367
School Improvement Grants	84.377
Total U. S Department of Education	
Sub-Total Forward	

Pass-Through Grantor's Number	Expenditures
N.A.	\$ 2,460,962.37
N.A.	3,995,144.50
N.A.	353,311.26
	<u>4,348,455.76</u>
	6,809,418.13
N.A.	182,086.52
	<u>6,991,504.65</u>
N.A.	3,716,069.10
N.A.	2,208,809.00
N.A.	98,465.00
	<u>2,307,274.00</u>
N.A.	176,682.00
N.A.	26,000.00
N.A.	399,781.24
N.A.	11,707.00
N.A.	57,940.96
N.A.	632,475.54
N.A.	2,459,913.10
	<u>9,787,842.94</u>
	\$ 16,779,347.59

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2016

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number
Sub-Total Brought Forward	
<u>Social Security Administration</u>	
<u>Passed Through Alabama Department of Education</u>	
Social Security - Disability Insurance	96.001
<u>Other Federal Assistance</u>	
<u>Direct Program</u>	
<u>U. S. Department of Defense</u>	
R.O.T.C	N.A.
Total Expenditures of Federal Awards	

(M) = Major Program

N.A. = Not Available/Not Applicable

The accompanying Notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

Pass-Through Grantor's Number	Expenditures
	\$ 16,779,347.59
N.A.	9,874.00
N.A.	<u>124,123.85</u>
	<u><u>\$ 16,913,345.44</u></u>

***Notes to the Schedule of Expenditures
of Federal Awards
For the Year Ended September 30, 2016***

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal grant activity of the Tuscaloosa City Board of Education and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U. S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (*Uniform Guidance*). Because the Schedule presents only a selected portion of the operations of the Tuscaloosa City Board of Education, it is not intended to and does not present the financial position or changes in net position of the Tuscaloosa City Board of Education.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the *Uniform Guidance* wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Tuscaloosa City Board of Education has elected not to use the 10-percent de minimis indirect cost rate allowed in the *Uniform Guidance*.

Additional Information

Board Members and Administrative Personnel
October 1, 2015 through September 30, 2016

Board Members		Term Expires
Hon. Lee Garrison	Chairman	2017
Hon. Clarence Sutton	District 1	2017
Hon. Earnestine Tucker	District 2	2017
Hon. Norman Crow	District 3	2017
Hon. Cason Kirby	District 4	2017
Hon. Harry C. Lee	District 5	2017
Hon. Marvin L. Lucas	District 6	2017
Hon. Erskine Simmons	District 7	2017
<u>Administrative Personnel</u>		
Dr. Michael J. Daria	Superintendent	2020
Dr. Paul McKendrick	Superintendent	August 2016
Edward LaVigne	Chief School Financial Officer	2020

***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 Tuscaloosa City 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 Tuscaloosa City Board of Education, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Tuscaloosa City Board of Education's basic financial statements and have issued our report thereon dated May 30, 2017.

Internal Control Over Financial Reporting

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

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

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

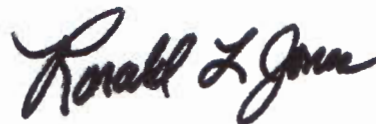
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Tuscaloosa City 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

May 30, 2017

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Independent Auditor's Report

To: Members of the Tuscaloosa City Board of Education, Superintendent and Chief School Financial Officer

Report on Compliance for Each Major Federal Program

We have audited the Tuscaloosa City Board of Education's compliance with the types of compliance requirements described in the ***OMB Compliance Supplement*** that could have a direct and material effect on the Tuscaloosa City Board of Education's major federal program for the year ended September 30, 2016. The Tuscaloosa City Board of Education's major federal program is identified in the Summary of Examiner's Results Section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Tuscaloosa City Board of Education's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U. S. ***Code of Federal Regulations*** Part 200, ***Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)***. Those standards and *Uniform Guidance* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Tuscaloosa City 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 the major federal program. However, our audit does not provide a legal determination of the Tuscaloosa City Board of Education's compliance.

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Opinion on Each Major Federal Program

In our opinion, the Tuscaloosa City 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, 2016.

Report on Internal Control Over Compliance

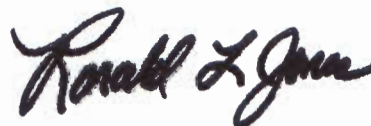
Management of the Tuscaloosa City Board of Education is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Tuscaloosa City Board of Education's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the *Uniform Guidance*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Tuscaloosa City Board of Education's over compliance.

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

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

***Report on Compliance for Each Major Federal Program and
Report on Internal Control Over Compliance Required
by the Uniform Guidance***

The purpose of this report on internal control over compliance is solely to describe the scope of our testing on internal control over compliance and the results of that testing based on the requirements of the *Uniform Guidance*. Accordingly, this report is not suitable for any other purpose.



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

Montgomery, Alabama

May 30, 2017

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2016

Section I – Summary of Examiner's Results

Financial Statements

Type of opinion issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? Yes X No

Significant deficiency(ies) identified? Yes X None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes X No

Significant deficiency(ies) identified? Yes X None reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) of the *Uniform Guidance*? Yes X No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
84.010	Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000.00

Auditee qualified as low-risk auditee? X Yes No

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2016

Section II – Financial Statement Findings (GAGAS)

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

Section III – Federal Awards Findings and Questioned Costs

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