

Report on the

Cullman County Commission on Education

Cullman County, Alabama

October 1, 2015 through September 30, 2016

Filed: October 13, 2017



Department of Examiners of Public Accounts

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Ronald L. Jones, Chief Examiner



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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 Cullman County Commission on Education, Cullman County, Alabama, for the period October 1, 2015 through September 30, 2016.

Sworn to and subscribed before me this
the 1st day of Sept, 20 17.

Stephen J. Perry
Notary Public

MY COMMISSION EXPIRES OCT. 26, 2019

Sworn to and subscribed before me this
the 8th day of September, 20 17.

W. A. Lloyd
Notary Public

Respectfully submitted,

Denise H. Olive

Denise H. Olive
Examiner of Public Accounts

Lynnley L. Clark

Lynnley L. Clark
Examiner of Public Accounts

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Department of
Examiners of Public Accounts

SUMMARY

**Cullman County Commission on Education
October 1, 2015 through September 30, 2016**

The Cullman County Commission on Education (the "Commission") is governed by a seven-member body elected by the citizens of Cullman County. The members and administrative personnel in charge of governance of the Commission are listed on Exhibit 13. The Commission is the governmental agency that provides general administration and supervision for Cullman County public schools, preschool through high school, with the exception of schools administered by the Cullman City Board of Education.

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

An unmodified opinion was issued on the financial statements, which means that the Commission'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.

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

Problems were found with the Commission's internal controls over financial reporting (Exhibit 16) and they are summarized below:

- ◆ 2016-001 relates to the Commission's failure to properly reconcile all bank accounts.
- ◆ 2015-004 relates to the failure to follow policies and procedures established for the local schools.

The following officials/administrative personnel were invited to an exit conference to discuss the contents of this report: Superintendent: Mr. Shane Barnette; former Superintendents: Dr. Craig Ross and Dr. Brandon Payne; Chief School Financial Officer: Ed Roberson; and Commission Members: Wendy Crider, Chris Carter, Kenny Brockman, Gene Sullins, James Thompson, Mike Graves and Jason Speegle. The following individuals attended the exit conference held at the offices of the Cullman County Commission on Education: Superintendent: Mr. Shane Barnette; Chief School Financial Officer: Ed Roberson; Commission Members: Chris Carter, Kenny Brockman, Gene Sullins, Mike Graves and Jason Speegle; and representatives from the Department of Examiners of Public Accounts: Denise H. Olive, Examiner of Public Accounts and Lynnley L. Clark, Examiner of Public Accounts.

Independent Auditor's Report

Independent Auditor's Report

Members of the Cullman County Commission on Education,
Superintendent and Chief School Financial Officer
Cullman, Alabama

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 Cullman County Commission on Education, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Cullman County Commission on 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 Cullman County Commission on Education is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Cullman County Commission on Education, as of September 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

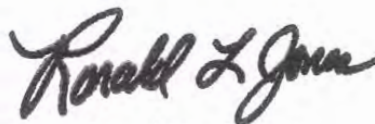
Supplementary Information

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

Other Reporting Required by Government Auditing Standards

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



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

Montgomery, Alabama

August 30, 2017

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

CULLMAN COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2016

INTRODUCTION

The Management's Discussion and Analysis (MD&A) of the Cullman County Board of Education's financial performance provides an overall review of the Board's financial activities for the fiscal year ended September 30, 2016. The intent of this discussion and analysis is to look at the board's financial performance as a whole. Readers should also review the notes to the financial statements and the financial statements to enhance their understanding of the Cullman County Board of Education's financial performance.

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

Effective September 30, 2011, the GASB passed Statement No. 54 for fund balance reporting. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer classifications and consistency among governmental agencies. Fund balances are reported in governmental funds under five categories using the definitions provided by GASB Statement No.54: non spendable, restricted, committed, assigned, and unassigned.

The GASB issued recent statements related to pensions. GASB Statement 68, "Accounting and Financial Reporting for Pensions" and GASB Statement 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date" are effective for employers with fiscal years ending June 30, 2015 and after. These new standards affect reporting for all employers participating in the Teachers' Retirement System (TRS) cost sharing pension plan. The September 30, 2016 employer's net pension liability calculation for the Board has been determined based upon the September 30, 2014 TRS actuarial valuation rolled forward to September 30, 2015 and is included in the Financial Highlights.

FINANCIAL HIGHLIGHTS

Key financial highlights of the 2015-2016 fiscal year include the following:

- The assets and deferred outflows of resources of the Board exceeded its liabilities and deferred inflows of resources at the close of the 2016 fiscal year by \$4.6 million (net position).
- The total net position decreased by \$1,841,006.56 primarily due to the Board's portion of the collective net pension liability. The new GASB standards related to pensions do not impact the Board's Governmental Funds financial statements or ending fund balances.
- General revenue increased by \$439,743.86 dollars. The primary sources of general revenue are sales tax and property tax.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

FINANCIAL ANALYSIS OF THE BOARD AS A WHOLE

As noted earlier, the Cullman County Board of Education does not have any business-type activities. Consequently, all the Board's net position is reported as Governmental Activities.

CULLMAN COUNTY BOARD OF EDUCATION Net Position - Governmental Activities		
	Prior Year	Current Year
Current and Other Assets	\$24,476,623.79	\$22,696,548.58
Capital Assets	\$87,238,599.48	\$87,054,535.41
Total Assets	\$111,712,223.27	\$109,751,083.99
Deferred Outflows of Resources	\$6,737,946.63	\$12,337,485.00
Current and Other Liabilities	\$6,507,060.64	\$8,279,157.32
Long-term Liabilities	\$95,138,354.62	\$103,468,608.17
Total Liabilities	\$101,645,415.26	\$111,747,765.49
Deferred Inflows of Resources	\$10,347,944.58	\$5,725,000.00
Net Position		
Net Investment in Capital Assets	\$61,218,468.13	\$62,421,647.61
Restricted	\$3,335,596.74	\$0
Unrestricted	(\$58,097,254.81)	(\$57,805,844.11)
Total Net Position	\$6,456,810.06	\$4,615,803.50

The Board's assets exceeded liabilities by \$4.6 million at the close of the fiscal year. This is a decrease of \$1,841,006.56 from fiscal 2015. The majority of the Board's net position is invested in capital assets (land, buildings, and equipment) owned by the Board. Since these capital assets are used in governmental activities, this portion of net position is not available for future spending or funding of operations. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by enabling legislation, debt covenants, or other legal requirements – is (\$57.8) million at the end of the year due to the Board's portion of the pension liability.

The following table of the Board's total revenues and expenditures condenses the results of operations for the fiscal year into a format where the reader can easily see total revenues of the Board for the year. It also shows the impact operations had on changes in net position as of September 30, 2016.

CULLMAN COUNTY BOARD OF EDUCATION Summary of Changes in Net position from Operating Results		
	Prior Year	Current Year
<u>Revenues</u>		
Program Revenues:		
Charge for Services	\$7,735,811.14	\$8,443,745.32
Operating Grants and Contributions	\$60,972,999.86	\$61,594,112.96
Capital Grants and Contributions	\$3,342,385.47	\$3,108,710.00
General Revenue		
Property Tax	\$6,978,015.72	\$7,211,183.39
Sales & Use Tax - General	\$10,613,294.46	\$9,725,713.65
Miscellaneous Taxes	\$162,252.73	\$168,692.55
Grants and Contributions - Non Restricted		
Investment on Earnings	\$22,128.90	\$45,131.61
Gain on Disposition of Capital Assets	\$110,742.50	
Miscellaneous	\$2,546,380.02	\$3,721,836.99
Total Revenues	<u>\$92,484,010.80</u>	<u>\$94,019,126.47</u>
<u>Expenses</u>		
Instruction	\$52,211,814.91	\$54,287,707.11
Instruction Support	\$15,053,455.90	\$15,590,702.30
Operations and Maintenance	\$8,268,305.08	\$8,175,908.93
Transportation	\$5,581,953.93	\$6,175,954.13
Food Service	\$6,087,832.49	\$6,081,427.76
General Administration and Central Support	\$2,355,762.57	\$2,582,537.71
Other	\$2,178,105.25	\$2,441,675.09
Interest and Fiscal Charges	\$935,062.59	\$524,220.00
Total Expenses	<u>\$92,672,292.72</u>	<u>\$95,860,133.03</u>
Increase (Decrease) in Net Position	(\$188,281.92)	(\$1,841,006.56)
Net Position – Beginning, as Restated	<u>\$6,645,091.98</u>	<u>\$6,456,810.06</u>
Net Position - Ending	<u>\$6,456,810.06</u>	<u>\$4,615,803.50</u>

Revenue Analysis:

- Program revenues, specifically operating grants and contributions, are the largest component of total revenues (78%).
- Operating grants and contributions make up 85% of program revenues and 65% of total revenues. The major sources of revenues in this category are state foundation program funds, state transportation operating funds, and state and federal funds restricted for specific programs.
- Capital grants and contributions include state capital outlay funds and state funds to replace buses.
- Charges for services include federal reimbursement for meals, student meal purchases, and local school revenues.
- General revenues primarily consist of property taxes and sales taxes.

Expense Analysis:

- Instructional expenses, primarily salaries and benefits for classroom teachers, are the largest expense function of the Board (56%). In addition to teacher salaries and benefits, instructional services include teacher aides, substitute teachers, textbooks, depreciation of instructional buildings, and classroom instructional materials, supplies, and equipment.
- Instructional support services accounts for 16% of total expenses. These include salaries and benefits for school principals, assistant principals, librarians, counselors, school secretaries, school bookkeepers, speech therapists, school nurses, and professional development expenses.
- Operation and maintenance services accounts for 9% of total expenses. These include utilities, security services, janitorial services, maintenance services, and depreciation of maintenance-related assets. In addition to bus driver salaries and benefits, student transportation services include mechanics, bus aides, vehicle maintenance and repair expenses, vehicle fuel, depreciation of buses and the bus shop, fleet insurance, and general administration of the transportation program. Transportation expense accounts for 6% of the total expenses.
- Food services comprise 7% of total expenses. These include salaries and benefits for cooks, servers, lunchroom managers, and cashiers, as well as donated and purchased food, food preparation and service supplies, kitchen and lunchroom equipment, general administration of the food service program, and depreciation of equipment and facilities.
- General administrative services (3%) include salaries and benefits for the superintendent, clerical, financial staff, technology, 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.
- Other expenses (2%) include the salaries and benefits for preschool teachers, aides, and extended day personnel. Also included are the materials, supplies, equipment, related depreciation, and other expenses for operating programs outside of those for educating students in the K through 12 instructional programs.
- Debt service (1%) includes interest, but not principal payments, on long-term debt issues and other expenses related to the issuance and continuance of debt issues.

NET COST OF SERVICES

The following tables are extracted from the *Statement of Activities*, Exhibit #2, condenses the total cost of the Board's activities. The total cost of services is compared to the net cost of providing these services. The net cost of services is the remaining cost 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.

CULLMAN COUNTY BOARD OF EDUCATION Total Cost of Governmental Activities		
	Prior Year	Current Year
Instruction	\$52,211,814.91	\$54,287,707.11
Instruction Support	\$15,053,455.90	\$15,590,702.30
Operations and Maintenance	\$8,268,305.08	\$8,175,908.93
Transportation	\$5,581,953.93	\$6,175,954.13
Food Service	\$6,087,832.49	\$6,081,427.76
General Administration and Central Support	\$2,355,762.57	\$2,582,537.71
Other	\$2,178,105.25	\$2,441,675.09
Interest	\$935,062.59	\$524,220.00
TOTAL	\$92,672,292.72	\$95,860,133.03

CULLMAN COUNTY BOARD OF EDUCATION Net Cost of Governmental Activities		
	Prior Year	Current Year
Instruction	(\$8,183,549.04)	(\$9,411,741.66)
Instruction Support	(2,833,969.25)	(3,432,281.41)
Operations and Maintenance	(4,215,118.41)	(4,480,420.97)
Transportation	(481,593.84)	(1,007,064.22)
Food Service	(1,523,387.62)	(1,155,891.14)
General Administration and Central Support	(1,400,582.87)	(1,534,446.52)
Other	(1,047,832.63)	(1,167,298.83)
Interest	(935,062.59)	(524,220.00)
TOTAL	(\$20,621,096.25)	(\$22,713,564.75)

The total cost of services was \$95.8 million. Program revenues in the amount of \$73.1 million offset the net cost of services. The net cost of governmental activities was a negative \$22.7 million. The local funds portion of revenue of \$20.8 million was used to pay for the amount not covered from various program revenues. In fiscal year 2015 the net cost of services was a negative \$20.6 million. The total cost of services increased by \$2.09 million in fiscal year 2016.

PERFORMANCE OF SCHOOL BOARD FUNDS

Governmental 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 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 balance of \$9.3 million. The General Fund portion of the fund balance is \$1.3 million which represents a decrease of \$3.5 million.

General Fund – The general fund is the chief operating fund of the Board in providing educational services to students from kindergarten through grade 12, including pupil transportation. The General Fund balance decreased by approximately \$3.5 million dollars this year.

General Fund Revenues			
	FY 2015	FY 2016	Variance
State	\$54,813,494	\$55,847,542	\$1,034,048
Federal	\$344,159	\$319,439	(\$24,720)
Local	\$17,745,100	\$17,234,669	(\$510,431)
Other	\$409,989	\$256,671	(\$153,318)
Total	\$73,312,742	\$73,658,323	\$345,579

Special Revenue Fund – The Special Revenue Fund is comprised of several different funding sources, which includes Title I, IDEA, Child Nutrition, and Local School Public Funds.

BUDGETARY HIGHLIGHTS OF THE GENERAL FUND

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 State Department of Education required such budget to be submitted by September 15, 2015. One major amendment was made in 2016 that encompassed all federal program application amendments, miscellaneous grant applications, and general fund amendments.

The Amendment was necessary to amend the beginning balances to reflect the actual ending fund balances from fiscal year 2015, budget carryover federal funds, and to budget revised state allocations. All other changes were minor.

The comparison of the General Fund original budget to the final amended budget is in Exhibit #10. The differences between the original budget and the budget amendment were relatively minor.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – The Board's investment in capital assets for its governmental activities for the year ended September 30, 2016 amounted to \$87.05 million, net of accumulated depreciation. The capital asset activity for the year is detailed in the *Notes to the Financial Statements, Note 5 – Capital Assets*. Increases during the year represent additions to those categories, while decreases represent retirements of assets during the year and depreciation of depreciable assets for the year.

Net capital assets remained the same in the 2016 fiscal year. The Board expended available resources to acquire \$3.7 million in capital asset construction, equipment, and land during the year. These additions are reduced by the current year's depreciation expense of \$3.8 million.

Long-Term Debt – At year-end, the Board had \$103.4 million in warrants payable, capital leases, and other long-term liabilities. The amount of debt due in one year is \$2.9 million. Long-term debt increased by \$8.3 million due to the recording of the pension liability and the QZAB loan. More information with regard to the Board's long-term debt is presented in the *Notes to the Financial Statements, Note 9 – Long-Term Debt*.

FACTORS BEARING ON THE BOARD'S FUTURE

10 Mill Required Local Effort – Act 95-314, Section 16-13-231 of the *Code of Alabama* requires that local support for schools must be funded at an amount equivalent to 10 mills of district ad valorem tax. The State Department of Education reduces the Board's appropriation by this required local support. The Cullman County Board of Education has 3 mills of District Tax, 4 mills of Countywide Tax, and 3 mills of additional District Tax created by Constitutional Amendment 778. These ad valorem taxes are used to meet the 10-mill required local effort.

Student Enrollment – The latest student enrollment figure as of the 20-day past Labor Day report in the 2016-2017 school year of 9,643.75 students represents an increase in enrollment of approximately 85.75 students for the 2016 fiscal year.

Medical and retirement Costs – Employee health insurance is provided through the Public Education Employees' Health Insurance Program (PEEHIP). PEEHIP health insurance employer costs for fiscal year 2016 was \$780.00 per month (\$9,360) per year. Employer contributions to the Teachers Retirement System (TRS) increased in FY 2016 11.94 percent for Tier I employees, and 10.84 percent for all tier II employees. All new employees hired after January 1, 2013, will have a lower rate of matching retirement than employees hired before January 1, 2013. The Board must use local funds to pay the salary-related benefit costs not paid by state and federal funds.

Improving Economy – The improving economy, especially in Cullman County, has resulted in an increase in sales tax revenue. The increase has been an average of 3% per year over the past two years. Property assessments continue to show smaller but steady growth.

New Sales Tax – The voters of Cullman County approved a one-half cent sales tax for education. This tax generated approximately \$3.6 million dollars for FY16. These funds were used to supplement instructional programs, technology, facility improvements and support for local schools.

Section 16 Land – The voters of Cullman County approved a Constitutional Amendment giving the Cullman County Board of Education control over the 16th Section Land in Cullman County. One parcel of Section 16 Land has over 25,000 feet of shoreline on Smith Lake. This has the potential to provide additional revenue to the school systems of Cullman County for many years to come. A committee of local business and lay leaders has been formed and they are researching possible options to obtain the most benefits from this property.

CONTACTING THE SCHOOL BOARD'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Board's finances and to show the Board's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Ed Roberson, Chief School Financial Officer, P.O. Box 1590, Cullman, Alabama 35056, or by calling (256) 736-2410.

Basic Financial Statements

Statement of Net Position ***September 30, 2016***

	Governmental Activities
<u>Assets</u>	
Cash and Cash Equivalents	\$ 12,557,387.60
Cash with Fiscal Agent	922,585.59
Investments	286,574.28
Ad Valorem Property Taxes Receivable	5,300,000.00
Receivables (Note 4)	2,997,249.37
Inventories	588,094.92
Other Assets	44,656.82
Capital Assets (Note 5):	
Nondepreciable	8,299,669.36
Depreciable, Net	78,754,866.05
Total Assets	<u>109,751,083.99</u>
<u>Deferred Outflows of Resources</u>	
Loss on Refunding of Debt	226,495.49
Employer Pension Contribution	5,590,989.51
Proportionate Share of Collective Deferred Outflows Related to Net Pension Liability	<u>6,520,000.00</u>
Total Deferred Outflows of Resources	<u>12,337,485.00</u>
<u>Liabilities</u>	
Unearned Revenue	106,778.74
Salaries and Benefits Payable	7,983,688.41
Accrued Interest Payable	188,690.17
Long-Term Liabilities:	
Portion Due or Payable Within One Year:	
Capital Leases Contracts Payable	871,826.91
Warrants Payable	1,730,347.32
Unamortized Premium	124,229.93
Compensated Absences	198,224.88
Notes Payable	5,761.17
Portion Due or Payable After One Year:	
Capital Leases Contracts Payable	4,094,488.11
Warrants Payable	17,366,652.96
Unamortized Premium	666,076.89
Net Pension Liability	78,411,000.00
Total Liabilities	<u>\$ 111,747,765.49</u>

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

	Governmental Activities
<hr/>	
<u>Deferred Inflows of Resources</u>	
Unavailable Revenue - Property Taxes	\$ 5,300,000.00
Proportionate Share of Collective Deferred Inflows Related to Net Pension Liability	425,000.00
Total Deferred Inflows of Resources	<u>5,725,000.00</u>
 <u>Net Position</u>	
Net Investment in Capital Assets	62,421,647.61
Restricted for:	
Capital Projects	2,124,922.84
Other Purposes	2,088,124.90
Unrestricted	<u>(62,018,891.85)</u>
Total Net Position	<u>\$ 4,615,803.50</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	\$ 54,287,707.11	\$ 1,452,809.57	\$ 41,025,941.88
Instructional Support	15,590,702.30	859,782.46	11,298,638.43
Operation and Maintenance	8,175,908.93	523,010.11	3,138,028.85
Auxiliary Services:			
Student Transportation	6,175,954.13	130,476.99	4,368,063.92
Food Service	6,081,427.76	4,577,991.23	347,545.39
General Administration and Central Support	2,582,537.71	265.06	1,040,928.13
Interest and Fiscal Charges	524,220.00		
Other Expenses	2,441,675.09	899,409.90	374,966.36
Total Governmental Activities	\$ 95,860,133.03	\$ 8,443,745.32	\$ 61,594,112.96

General Revenues:

Taxes:

Property Taxes for General Purposes

Property Taxes for Specific Purposes

Sales Tax

Other Taxes

Investment Earnings

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	
\$	2,397,214.00	\$	(9,411,741.66)
			(3,432,281.41)
	34,449.00		(4,480,420.97)
	670,149.00		(1,007,264.22)
			(1,155,891.14)
	6,898.00		(1,534,446.52)
			(524,220.00)
			(1,167,298.83)
\$	3,108,710.00		(22,713,564.75)

6,636,774.39
574,409.00
9,725,713.65
168,692.55
45,131.61
3,721,836.99
20,872,558.19
(1,841,006.56)
6,456,810.06
\$ 4,615,803.50

Balance Sheet
Governmental Funds
September 30, 2016

	General Fund	Special Revenue Fund
<u>Assets</u>		
Cash and Cash Equivalents	\$ 6,990,384.96	\$ 4,228,545.03
Cash with Fiscal Agent		
Investments		286,574.28
Ad Valorem Property Taxes Receivable	5,300,000.00	
Receivables (Note 4)	1,906,117.24	1,091,132.13
Inventories	144,985.19	443,109.73
Other Assets	44,656.82	
Total Assets	<u>14,386,144.21</u>	<u>6,049,361.17</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>		
<u>Liabilities</u>		
Unearned Revenue		106,778.74
Salaries and Benefits Payable	7,730,325.19	253,363.22
Total Liabilities	<u>7,730,325.19</u>	<u>360,141.96</u>
<u>Deferred Inflows of Resources</u>		
Unavailable Revenue - Property Taxes	5,300,000.00	
Total Deferred Inflows of Resources	<u>5,300,000.00</u>	
<u>Fund Balances</u>		
Nonspendable:		
Inventories		443,109.73
Restricted for:		
Other Purposes		1,645,015.17
Debt Service		
Capital Projects		
Assigned		3,601,094.31
Unassigned	1,355,819.02	
Total Fund Balances	<u>1,355,819.02</u>	<u>5,689,219.21</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 14,386,144.21</u>	<u>\$ 6,049,361.17</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 1,338,457.61	\$ 12,557,387.60
922,585.59	922,585.59
	286,574.28
	5,300,000.00
	2,997,249.37
	588,094.92
	44,656.82
2,261,043.20	22,696,548.58
	106,778.74
	7,983,688.41
	8,090,467.15
	5,300,000.00
	5,300,000.00
	443,109.73
	1,645,015.17
136,120.36	136,120.36
2,124,922.84	2,124,922.84
	3,601,094.31
	1,355,819.02
2,261,043.20	9,306,081.43
\$ 2,261,043.20	\$ 22,696,548.58

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

Total Fund Balances - Governmental Funds (Exhibit 3) \$ 9,306,081.43

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	\$ 143,725,202.59	
Accumulated Depreciation is	<u>(56,670,667.18)</u>	
		87,054,535.41

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. 226,495.49

Deferred outflows and inflows of resources related to pensions are applicable to future
periods and, therefore, are not reported in the governmental funds. 11,685,989.51

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 Liabilities	Noncurrent Liabilities	
Capital Leases Contracts Payable	\$ 871,826.91	4,094,488.11	
Warrants Payable	1,730,347.32	17,366,652.96	
Unamortized Premium	124,229.93	666,076.89	
Compensated Absences	198,224.88		
Notes Payable	5,761.17		
Net Pension Liability		78,411,000.00	
Total Long-Term Liabilities	\$ 2,930,390.21	\$ 100,538,217.96	
			(103,468,608.17)

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

Accrued Interest Payable	<u>(188,690.17)</u>
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Total Net Position - Governmental Activities (Exhibit 1)	<u><u>\$ 4,615,803.50</u></u>
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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	\$ 55,847,542.98	\$
Federal	319,439.51	8,198,024.55
Local	17,234,669.62	6,858,015.86
Other	256,671.01	596,854.10
Total Revenues	73,658,323.12	15,652,894.51
<u>Expenditures</u>		
Current:		
Instruction	46,105,747.83	5,496,404.23
Instructional Support	12,854,941.95	2,396,372.41
Operation and Maintenance	7,306,410.91	745,931.67
Auxiliary Services:		
Student Transportation	5,268,940.44	79,502.30
Food Service		6,091,254.83
General Administration and Central Support	2,165,429.52	326,613.25
Other	500,597.11	1,458,431.09
Capital Outlay	2,367,384.07	166,314.33
Debt Service:		
Principal Retirement		823.08
Interest and Fiscal Charges		
Total Expenditures	76,569,451.83	16,761,647.19
Excess (Deficiency) of Revenues Over Expenditures	(2,911,128.71)	(1,108,752.68)
<u>Other Financing Sources (Uses)</u>		
Indirect Cost	375,992.19	
Long-Term Debt Issued		6,584.25
Premiums on Long-Term Debt Issued		
Transfers In	362,060.57	2,084,511.36
Other Financing Sources	1,031,265.29	
Sale of Capital Assets		2,500.00
Transfers Out	(2,435,711.42)	(362,060.57)
Payments to Refunding Escrow Agent		
Total Other Financing Sources (Uses)	(666,393.37)	1,731,535.04
Net Changes in Fund Balances	(3,577,522.08)	622,782.36
Fund Balances - Beginning of Year	4,933,341.10	5,066,436.85
Fund Balances - End of Year	\$ 1,355,819.02	\$ 5,689,219.21

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

Other Governmental Funds	Total Governmental Funds
\$ 3,101,812.00	\$ 58,949,354.98
	8,517,464.06
574,831.55	24,667,517.03
	853,525.11
3,676,643.55	92,987,861.18
	51,602,152.06
	15,251,314.36
34,449.00	8,086,791.58
33.00	5,348,475.74
	6,091,254.83
102,777.13	2,594,819.90
	1,959,028.20
1,205,847.35	3,739,545.75
2,527,033.32	2,527,856.40
977,732.98	977,732.98
4,847,872.78	98,178,971.80
(1,171,229.23)	(5,191,110.62)
	375,992.19
6,925,000.00	6,931,584.25
835,204.75	835,204.75
351,200.06	2,797,771.99
	1,031,265.29
	2,500.00
	(2,797,771.99)
(7,657,427.62)	(7,657,427.62)
453,977.19	1,519,118.86
(717,252.04)	(3,671,991.76)
2,978,295.24	12,978,073.19
\$ 2,261,043.20	\$ 9,306,081.43

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) \$ (3,671,991.76)

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

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

Capital Outlays	\$ 3,739,545.75	
Depreciation Expense	<u>(3,886,895.52)</u>	(147,349.77)

Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities. 2,527,856.40

Payments to refunding escrow agent are recorded as expenditures or other financing uses in the governmental funds, but reduce long-term liabilities in the Statement of Net Position and do not affect the Statement of Activities. 7,657,427.62

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. (6,931,584.25)

Premiums on debt issuance are reported as other financing sources in the governmental funds, but are amortized in the Statement of Activities. (835,204.75)

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	\$ (2,500.00)	
Loss on Disposition of Capital Assets	<u>(34,214.30)</u>	(36,714.30)

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

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

Net Decrease in Accrued Interest Payable	\$	124,764.45	
Current Year Increase in Compensated Absences		(15,719.20)	
Amortization of Premiums/Loss on Refunding		328,748.53	
Pension Expense		<u>(841,239.53)</u>	
			<u>(403,445.75)</u>
Change in Net Position of Governmental Activities (Exhibit 2)			<u>\$ (1,841,006.56)</u>

Statement of Fiduciary Net Position
September 30, 2016

	Agency Funds
<hr/>	
<u>Assets</u>	
Cash and Cash Equivalents	\$ 1,030,695.58
Total Assets	<u>1,030,695.58</u>
<u>Liabilities</u>	
Salaries and Benefits Payable	1,030,245.58
Due to External Organizations	450.00
Total Liabilities	<u>\$ 1,030,695.58</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 Cullman County Commission on Education (the “Commission”) 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 Commission is governed by a separately elected board composed of seven members elected by the qualified electors of the County. The Commission is responsible for the general administration and supervision of the public schools for the educational interests of the County (with the exception of cities having a city board of education).

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

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 Commission. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Commission'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 Commission 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.

Notes to the Financial Statements

For the Year Ended September 30, 2016

Fund Financial Statements

The fund financial statements provide information about the Commission'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. The remaining governmental funds are aggregated and reported as non-major funds in the Other Governmental Funds' column.

The Commission reports the following major governmental funds:

- ◆ **General Fund** – The General Fund is the primary operating fund of the Commission. It is used to account for all financial resources except those required to be accounted for in another fund. The Commission primarily receives revenues from the Education Trust Fund (ETF) and local taxes. Amounts appropriated from the ETF were allocated to the Commission 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 or capital projects. Various federal, state and local funding sources are included in this fund. Some of the significant federal funding sources include the federal funds that are received from Special Education, Title I, and the Child Nutrition Program, in addition to various smaller grants, which are required to be spent for the purposes of the applicable federal grants. Also included in this fund are the public and non-public funds received by the local schools which are generally not considered restricted or committed.

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

Governmental Fund Types

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

The Commission reports the following fiduciary fund type:

Fiduciary Fund Type

- ◆ **Agency Funds** – These funds are used to report assets held by the Commission in a purely custodial capacity. The Commission collects these assets and transfers them to the proper individual, private organizations, or other government.

Notes to the Financial Statements

For the Year Ended September 30, 2016

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 Commission 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 Commission considers revenues to be available if they are collected within sixty (60) days of the end of the current fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. General long-term debt issued and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the Commission 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 Commission'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.

All the Commission's investments were in certificates of deposit and are reported at cost. These certificates of deposit are classified as "Deposits" in order to determine insurance and collateralization. However, they are classified as "Investments" on the financial statements.

Notes to the Financial Statements

For the Year Ended September 30, 2016

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.

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 with fiscal agents 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 funding sources are used to report proceeds that are restricted for use in various construction projects and the purchase of school buses.

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.

Notes to the Financial Statements

For the Year Ended September 30, 2016

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	15 - 20 years

6. Deferred Outflows of Resources

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

7. Long-Term Obligations

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

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

Notes to the Financial Statements

For the Year Ended September 30, 2016

8. Compensated Absences

The Commission's vacation leave policy consists of the following: All full-time personnel (those working a minimum of six hours per day) employed on a twelve-month basis shall be entitled to annual leave with pay for a period not to exceed ten work days. The scheduling of annual leave shall be approved by the superintendent. Unused annual leave shall not be cumulative from academic year to academic year; however, a maximum of four annual leave days may be extended beyond the end of the academic year (June 30) but must be taken within six weeks of the end of the academic year. The Commission will pay for a maximum of five days of annual leave upon resignation or retirement.

9. Deferred Inflows of Resources

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

10. Pensions

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

Notes to the Financial Statements

For the Year Ended September 30, 2016

11. Net Position/Fund Balances

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

- ◆ **Net Investment in Capital Assets** – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets plus or minus any deferred outflows of resources and deferred inflows of resources that are attributable to those assets or related debt. Any significant unspent related debt proceeds and any deferred outflows or inflows at year-end related to capital assets are not included in this calculation.
- ◆ **Restricted** – Constraints imposed on net position by external creditors, grantors, contributors, laws or regulations of other governments, or law through constitutional provision or enabling legislation.
- ◆ **Unrestricted** – 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 Commission, 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 Commission for specific purposes. The Commission 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, it shall be the policy of the Commission to consider the restricted amounts to have been reduced first. When an expenditure is incurred for the purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the Commission that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

The Commission has established a minimum fund balance policy which recognizes that the establishment and maintenance of adequate fund reserves is necessary to avoid disruption in the educational programs in the schools. The Superintendent or Chief School Financial Officer will inform the Commission, before the Commission votes on a budget or budget amendment, if the approval of the budget or budget amendment will prevent the establishment or maintenance of a one-month's operating balance. A one-month's operating balance shall be determined by dividing the General Fund expenditures and fund transfers out by 12. In determining the General Fund expenditures and fund transfers out, the current or proposed budget amendment shall be used.

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, 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 adopts project-length budgets.

Notes to the Financial Statements

For the Year Ended September 30, 2016

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

Note 3 – Deposits and Investments

A. Deposits

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Commission 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 Commission'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 Commission'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.

B. Cash with Fiscal Agent

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

Notes to the Financial Statements

For the Year Ended September 30, 2016

As of September 30, 2016, the Commission had the following investments in Cash with Fiscal Agents:

Investments	Maturities	Fair Value	Rating (*)
Fidelity Treasury Only - Class I	Less than 1 year	\$292,285.68	AAAm
Cash and Cash Equivalents		630,299.91	N/A
Total Investments		<u>\$922,585.59</u>	
(*) Rating is Standard and Poor's			

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

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. GASB Statement 40 requires that governments provide information about the credit risk associated with their investments by disclosing the credit quality ratings of investment in debt securities as described by nationally recognized statistical rating organizations such as Standard & Poor's, Moody's Investors service, and Fitch Ratings, rating agencies, as of the date of the financial statements. The Commission has funds invested in a money market mutual fund, which has a credit risk rating of AAAm by Standard & Poor's. The Commission has no formal policy regarding credit risk.

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

Concentrations of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Commission does not have a formal policy that limits the amount the Commission may invest in any one issuer.

Notes to the Financial Statements

For the Year Ended September 30, 2016

Note 4 – Receivables

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

	General Fund	Special Revenue Fund	Total
<u>Receivables:</u>			
Accounts Receivable	\$ 84,171.75	\$ 19,463.26	\$ 103,635.01
Intergovernmental		1,071,562.87	1,071,562.87
Sales Tax	1,821,945.49		1,821,945.49
Other Receivable		106.00	106.00
Total Receivables	<u>\$1,906,117.24</u>	<u>\$1,091,132.13</u>	<u>\$2,997,249.37</u>

Note 5 – Capital Assets

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

	Balance 10/01/2015	Additions (*)	Retirements (*)	Balance 09/30/2016
<u>Governmental Activities:</u>				
Capital Assets, not Being Depreciated:				
Land	\$ 4,981,255.99	\$	\$	\$ 4,981,255.99
Construction in Progress	211,849.54	3,215,877.06	(109,313.23)	3,318,413.37
Total Capital Assets, not Being Depreciated	<u>5,193,105.53</u>	<u>3,215,877.06</u>	<u>(109,313.23)</u>	<u>8,299,669.36</u>
Capital Assets Being Depreciated:				
Land Improvements	572,344.51	101,422.83		673,767.34
Buildings	94,628,429.08		(6,500.00)	94,621,929.08
Buildings Improvements	10,367,532.25	109,313.23		10,476,845.48
Equipment and Furniture	5,254,553.11	236,888.82	(241,118.86)	5,250,323.07
Vehicles	5,341,820.55	185,357.04	(335,354.17)	5,191,823.42
Assets Under Capital Leases	19,210,844.84			19,210,844.84
Total Capital Assets Being Depreciated	<u>135,375,524.34</u>	<u>632,981.92</u>	<u>(582,973.03)</u>	<u>135,425,533.23</u>
Less Accumulated Depreciation for:				
Land Improvements	(268,186.57)	(26,893.58)		(295,080.15)
Buildings	(40,127,314.75)	(2,160,778.37)	4,062.50	(42,284,030.62)
Buildings Improvements	(2,195,071.85)	(260,554.73)		(2,455,626.58)
Equipment and Furniture	(3,028,169.39)	(296,607.55)	220,842.06	(3,103,934.88)
Vehicles	(4,454,267.54)	(270,564.78)	321,354.17	(4,403,478.15)
Equipment Under Capital Lease	(3,257,020.29)	(871,496.51)		(4,128,516.80)
Total Accumulated Depreciation	<u>(53,330,030.39)</u>	<u>(3,886,895.52)</u>	<u>546,258.73</u>	<u>(56,670,667.18)</u>
Total Capital Assets, Being Depreciated, Net	<u>82,045,493.95</u>	<u>(3,253,913.60)</u>	<u>(36,714.30)</u>	<u>78,754,866.05</u>
Total Governmental Activities Capital Assets, Net	<u>\$ 87,238,599.48</u>	<u>\$ (38,036.54)</u>	<u>\$(146,027.53)</u>	<u>\$ 87,054,535.41</u>
(*) Additions and Retirements columns include \$109,313.23 in reclassifications from Construction in Progress to Building Improvements.				
Note: Assets under Capital Leases includes an Energy Retrofit in the amount of \$13,855,838.00 that was originally financed as a capital lease. During FY 2016, it was partially refunded by the 2016 Public School Warrants. It was not reclassified since part of the lease is still in place and the remaining amounts is funded by outstanding debt.				

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
Governmental Activities:	
Instruction	\$2,098,627.74
Instructional Support	184,936.32
Operation and Maintenance	66,273.58
Auxiliary Services:	
Student Transportation	789,036.43
Food Service	273,952.69
General Administration and Central Support	9,231.03
Other	464,837.73
Total Depreciation Expense - Governmental Activities	<u>\$3,886,895.52</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, 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.

B. Benefits Provided

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

Notes to the Financial Statements

For the Year Ended September 30, 2016

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

C. Contributions

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

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

Participating employers' contractually required contribution rate for the year ended September 30, 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 Commission were \$5,590,989.51 for the year ended September 30, 2016.

Notes to the Financial Statements

For the Year Ended September 30, 2016

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

At September 30, 2016, the Commission reported a liability of \$78,411,000.00 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 Commission'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 Commission's proportion was .749222%, which was an increase of .008336% from its proportion measured as of September 30, 2014.

For the year ended September 30, 2016, the Commission recognized pension expense of \$6,439,000.00. At September 30, 2016, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$	\$425,000.00
Net difference between projected and actual earnings on pension plan investments	5,134,000.00	
Changes in proportion and differences between Employer contributions and proportionate share of contributions	1,386,000.00	
Employer contributions subsequent to the measurement date	5,590,989.51	
Total	\$12,110,989.51	\$425,000.00

\$5,590,989.51 reported as deferred outflows of resources related to pensions resulting from Commission 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:

Year Ending	
September 30, 2017	\$1,240,000.00
2018	\$1,240,000.00
2019	\$1,240,000.00
2020	\$2,362,000.00
2021	\$ 13,000.00
Thereafter	\$

Notes to the Financial Statements

For the Year Ended September 30, 2016

E. Actuarial Assumptions

The total pension liability was determined 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.

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%		

Notes to the Financial Statements

For the Year Ended September 30, 2016

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.

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

The following table presents the Commission's proportionate share of the net pension liability calculated using the discount rate of 8%, as well as what the Commission'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%)
Commission's proportionate share of collective net pension liability	\$103,732	\$78,411	\$56,935
(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 and 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 Commission 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
Individual Coverage - Medicare Eligible	\$ 10.00
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
Family Coverage - Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - No Spouse	\$ 250.00
Family Coverage - Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - 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 Commission is required to contribute at a rate specified by the State for each active employee. The Commission's share of premiums for retired Commission 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 Commission 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%	\$2,945,013.91	100%
2015	\$780.00	\$180.76	23.17%	\$2,613,180.97	100%
2014	\$714.00	\$220.09	30.83%	\$3,167,668.58	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

Capital Leases

The Commission is obligated under certain leases accounted for as capital leases. Assets under capital leases totaled \$19,210,844.84 at September 30, 2016. If the Commission completes the lease payments according to the schedule below, which is the stated intent of the Commission, ownership of the leased equipment will pass to the Commission. Until that time, the leased equipment will be identified separately on the balance sheet. The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of September 30, 2016.

Fiscal Year Ending	Governmental Activities
September 30, 2017	\$1,035,164.18
2018	1,266,007.56
2019	578,785.87
2020	577,785.89
2021	577,785.88
2022-2025	1,451,116.71
Total Minimum Lease Payments	5,486,646.09
Less: Amount Representing Interest	(520,331.07)
Present Value of Net Minimum Lease Payments	<u>\$4,966,315.02</u>

Note 9 – Long-Term Debt

Qualified Zone Academy Bonds (QZAB's)

A Trustee issued Certificates of Participation in QZAB's which were to be sold to one or more commercial banks. The ratable portion of the proceeds of the sale of the Certificates of Participation allocable to the Cullman County Commission on Education was deposited in a separate account and available only to Cullman County Commission on Education and its QZAB projects. The Alabama School Finance Cooperative and the Trustee (with written endorsement of each Board of Education) entered into a guaranteed investment contract that will provide for the investments of moneys sufficient to pay each Board's payment at the maturity date of the QZAB's. The Cullman County Commission on Education will make level annual installment payments sufficient to make the payment at the maturity dates, whereupon the Commission's obligation will be satisfied. None of the base payment represents the payment of interest. Deposits made into the escrow fund shall remain the property of the Commission pledged to the payment of the base payments to the Alabama School Finance Cooperative on the base payment due dates.

Notes to the Financial Statements

For the Year Ended September 30, 2016

In September 2015, the Commission issued \$1,360,000.00 QZAB Series 2015 Warrants pursuant to the provision of the laws of Alabama, including particularly Article 14 of Chapter 13 of Title 16 of the *Code of Alabama 1975*, for the purpose of providing various capital improvements at the designated Qualified Zone Academy locations. Payments are made with the proceeds of a 1 cent sales tax.

On August 5, 2016, the Commission issued Public School Warrants, Series 2016, for \$6,925,000.00 in order to partially refund its 2008 Energy Lease and refund its Special School Tax Warrants, Series 2015.

In May 2014, the Commission, as part of a pooled bond issuance with other school systems within the State of Alabama, issued Capital Improvement Pool Warrants, Series 2014-A, in anticipation of their Public School Fund allocations, which are received from the Alabama State Department of Education. The proceeds of these warrants were used to refund on an advance basis Series 2005 Capital Improvement Pool Bonds.

In July 2012, the Commission issued \$5,535,000.00 of Special Tax School Warrants, Series 2012, to acquire public school equipment and machinery heretofore leased by the Commission and to provide various miscellaneous capital improvements. Payments are made with the proceeds of a 1 cent sales tax.

In March 2012, the Commission, as part of a pooled bond issuance with other school systems within the State of Alabama, issued Capital Improvement Pool Warrants, Series 2012-A, in anticipation of their Public School Fund allocations, which are received from the Alabama State Department of Education. The proceeds of these warrants were used to refund on a current basis Series 2003 Capital Improvement Pool Bonds.

During fiscal year 2010, the Commission, as part of a pooled bond issuance with other school systems within the State of Alabama, issued Capital Outlay Pool Warrants, Series 2009-B, which was used to refund and retire on a current basis the Capital Improvement Pool Bonds Series 1999-D.

During fiscal year 2016, the Commission refinanced the contract with Chevron Energy Solutions Company for an energy retrofit, HVAC, lighting and plumbing at all older elementary schools and Vinemont High School. The Commission entered into a long-term capital lease to finance this contract. The contract is divided into two phases, the first which was finalized during the 2008 fiscal year. The second phase was finalized during the 2009 fiscal year. Payments are to be made from the savings realized from the energy conserving measures and the more efficient equipment. The savings are guaranteed by Chevron Energy Solutions for a minimum of four years. The leases are to be paid over a period of 20 years. The length of the original agreement was not extended when refinanced.

Notes to the Financial Statements

For the Year Ended September 30, 2016

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

	Debt Outstanding 10/01/2015	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 09/30/2016	Amount Due Within One Year
Governmental Activities:					
Warrants Payable:					
Public School Warrants, Series 2016	\$	\$ 6,925,000.00	\$	\$ 6,925,000.00	\$ 100,000.00
QZAB, Series 2015	1,360,000.00			1,360,000.00	
Special Tax School Warrants					
Series 2012	4,425,000.00		(420,000.00)	4,005,000.00	350,000.00
Series 2015	1,175,479.11		(1,175,479.11)		
Capital Outlay Pool Warrants:					
Series 2009-B	3,243,092.82		(750,406.30)	2,492,686.52	788,180.25
Series 2012A	2,560,115.96		(290,419.75)	2,269,696.21	302,936.10
Series 2014A	2,228,418.65		(183,801.10)	2,044,617.55	189,230.97
Unamortized Premium (2009B)	161,670.11		(40,417.53)	121,252.58	40,417.53
Unamortized Premium (2012)	6,470.52		(476.36)	5,994.16	476.36
Unamortized Premium (2012A)	431,209.06		(50,730.48)	380,478.58	50,730.48
Unamortized Premium (2014A)	315,187.06		(32,605.56)	282,581.50	32,605.56
Total Warrants Payable	15,906,643.29	6,925,000.00	(2,944,336.19)	19,887,307.10	1,854,577.25
Other Liabilities:					
Notes Payable		6,584.25	(823.08)	5,761.17	5,761.17
Pensions	67,306,000.00	11,105,000.00		78,411,000.00	
Capital Leases	11,743,205.65		(6,776,890.63)	4,966,315.02	871,826.91
Compensated Absences	182,505.68	15,719.20		198,224.88	198,224.88
Total Long-Term Liabilities	\$95,138,354.62	\$18,052,303.45	(\$9,722,049.90)	\$103,468,608.17	\$2,930,390.21

Payments on the Capital Outlay Pool Warrants are made from Public School Funds withheld from the Commission's allocation from the Alabama Department of Education. Payments on the Special School Tax Warrants, Series 2012, and the Public School Warrants, Series 2016, are made from proceeds of the one cent sales tax. The obligations under capital leases are paid by the fleet renewal funds, the school reform funds and local schools funds. The compensated absences liability will be liquidated by the General Fund.

Notes to the Financial Statements

For the Year Ended September 30, 2016

Deferred Inflows/Outflows on Refunding, Discounts and Premiums

The Commission has deferred loss on refunding and a premium in connection with the issuance of its Series 2009-B PSCA Capital Outlay Warrants, which are being amortized using the straight-line method over a period of ten years. The Commission has a premium in connection with the issuance of its Series 2012 Special Tax School Warrants, which is being amortized using the straight-line method over a period of seventeen years. The Commission has deferred loss on refunding and a premium in connection with the issuance of its Series 2012-A PSCA Capital Outlay Warrants, which are being amortized using the straight-line method over a period of twelve years. The Commission has deferred loss on refunding and a premium in connection with the issuance of its Series 2014-A Capital Improvement Pool Refunding Warrants, which are being amortized using the straight-line method over a period of eleven years.

	Deferred Loss on Refunding	Premiums
Total Cost	\$ 457,307.80	\$1,379,581.15
Amount Amortized Prior Years	(187,590.21)	(465,044.40)
Balance	269,717.59	914,536.75
Current Amount Amortized	(43,222.10)	(124,229.93)
Total	<u>\$ 226,495.49</u>	<u>\$ 790,306.82</u>

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

Fiscal Year Ending	Bonds/Warrants Payable		Notes Payable	Capital Leases		Total Principal and Interest to Maturity
	Principal	Interest	Principal	Principal	Interest	
September 30, 2017	\$ 1,730,347.32	\$ 561,819.66	\$5,761.17	\$ 871,826.91	\$163,337.27	\$ 3,333,092.33
2018	1,717,257.01	567,455.54		1,134,961.35	131,046.21	3,550,720.11
2019	2,025,705.24	494,223.47		507,983.63	70,802.24	3,098,714.58
2020	1,420,335.35	411,601.15		520,730.11	57,055.78	2,409,722.39
2021	1,463,802.68	365,522.85		533,796.43	43,989.45	2,407,111.41
2022-2026	7,649,552.68	1,162,814.50		1,397,016.59	54,100.12	10,263,483.89
2027-2029	3,090,000.00	226,150.00				3,316,150.00
Totals	<u>\$19,097,000.28</u>	<u>\$3,789,587.17</u>	<u>\$5,761.17</u>	<u>\$4,966,315.02</u>	<u>\$520,331.07</u>	<u>\$28,378,994.71</u>

Notes to the Financial Statements

For the Year Ended September 30, 2016

Pledged Revenues

The Commission issued QZAB 2015 Warrant to provide funds for various capital improvements at the designated Qualified Zone Academy locations. The Commission pledged to repay the QZAB warrant from the proceeds of a 1 cent sales tax that was authorized pursuant to Act Number 66, Acts of Alabama 1963. Future revenues in the amount of \$1,360,000.00 are pledged to repay the principal on this warrant at September 30, 2016.

The Commission issued Series 2012 Special Tax School Warrants to provide funds for the acquisition of public school equipment and machinery heretofore leased by the Commission and to provide various miscellaneous capital improvements. The Commission pledged to repay the Series 2012 warrants from the proceeds of a 1 cent sales tax that was authorized pursuant to Act Number 66, Acts of Alabama 1963. Future revenues of \$4,735,865.00 are pledged to repay the principal and interest on the warrants at September 30, 2016. Pledged funds in the amount of \$524,850.00 were used to pay principal and interest on the warrants during the fiscal year ended September 30, 2016. The Series 2012 warrants will mature in fiscal year 2029.

The Commission issued Series 2009-B, Series 2012-A and Series 2014-A Capital Outlay Pool Warrants in anticipation of their Public School Fund allocations. The Commission's future revenue from the Public School Fund is pledged to secure the payment of principal and interest on the bonds/warrants. The proceeds from these issuances were used for the acquisition, construction and renovation of school facilities. The Series 2009-B, 2012-A and 2014-A warrants will mature in fiscal years 2019, 2024 and 2026, respectively.

Future Public School Fund revenues in the amount of \$7,923,484.95 are pledged to repay the principal and interest on the warrants at September 30, 2016. Pledged funds in the amount of \$1,601,207.00 were used to pay principal and interest on the bonds/warrants during the fiscal year ended September 30, 2016.

The Commission issued Public School Warrants, Series 2016 which are pledged to be repaid from the proceeds of a 1 cent sales tax that was authorized pursuant to Act Number 66, Acts of Alabama 1963. Future revenues in the amount of \$8,867,237.50 are pledged to repay the principal and interest on the warrants at September 30, 2016. The Series 2016 Public School Warrants will mature in 2029.

Defeased Debt

On August 5, 2016, the Commission issued Public School Warrants, Series 2016 in the amount of \$6,925,000.00. The proceeds were used to partially refund the Commission's Energy Lease, dated May 15, 2008, in the amount of \$6,522,667.27 and the Commission's Series 2015 Special School Tax Warrants, dated March 26, 2015, in the amount of \$1,134,760.35.

Notes to the Financial Statements

For the Year Ended September 30, 2016

As a result of partially refunding the Commission's Energy Lease, dated May 15, 2008, the Commission decreased its total debt service requirements by \$607,174.43, and the refunding resulted in an economic gain (the difference between the present value of the debt service payments on the old and new debt) of \$631,538.27.

As a result of refunding the Commission's Series 2015 Special Tax Warrants, dated March 26, 2015, the Commission increased its total debt service requirements by \$160,345.64, and the refunding resulted in an economic loss (the difference between the present value of the debt service payments on the old and new debt) of \$165,722.29.

Note 10 – Risk Management

The Commission 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 Commission 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 Commission 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 is purchased through a private carrier. Errors and omissions insurance is purchased from the Alabama Trust for Boards of Education (ATBE), a public entity risk pool. The ATBE collects the premiums and purchases excess insurance for any amount of coverage requested by pool participants in excess of the coverage provided by the pool. Employee health insurance is provided through the Public Education Employees' Health Insurance Fund (PEEHIF), administered by the Public Education Employees' Health Insurance Board (PEEHIB). The Fund was established to provide a uniform plan of health insurance for current and retired employees of state educational institutions and is self-sustaining. Monthly premiums for employee and dependent coverage are determined annually by the plan's actuary and are based on anticipated claims in the upcoming year, considering any remaining fund balance on hand available for claims. The Commission contributes a specified amount monthly to the PEEHIF for each employee of state educational institutions. The Commission'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 Commission does not have insurance coverage of job-related injuries. Commission 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 Transfers

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

	Transfers In			
	General Fund	Special Revenue Fund	Other Governmental Funds	Total
Transfers Out:				
General Fund	\$	\$2,084,511.36	\$351,200.06	\$2,435,711.42
Special Revenue Fund	362,060.57			362,060.57
Totals	<u>\$362,060.57</u>	<u>\$2,084,511.36</u>	<u>\$351,200.06</u>	<u>\$2,797,771.99</u>

Note 12 – Subsequent Event

In October 2016, the Commission issued a QZAB warrant for capital improvements at the designated Qualified Zone Academy locations in the amount of \$5.53 million dollars.

In August 2017, the Commission approved the lease-purchase financing for 20 new school buses in the principal amount of \$1,517,354.40. The term of the financing is 10 years with an interest rate of 2.45%.

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Required Supplementary Information

***Schedule of the Employer's Proportionate Share of the
Net Pension Liability
For the Year Ended September 30, 2016
(Dollar amounts in thousands)***

	2016	2015
Employer's proportion of the collective net pension liability	74.9222%	74.0886%
Employer's proportionate share of the collective net pension liability	\$ 78,411	\$ 67,306
Employer's covered-employee payroll during the measurement period (*)	\$ 47,383	\$ 48,809
Employer's proportionate share of the collective net pension liability as a percentage of its covered-employee payroll	165.48%	137.90%
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 through 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
(Dollar amounts in thousands)

	2016	2015
Contractually required contribution	\$ 5,591	\$ 5,522
Contributions in relation to the contractually required contribution	<u>\$ 5,591</u>	<u>\$ 5,522</u>
Contribution deficiency (excess)	\$	\$
Employer's covered-employee payroll	\$ 47,212	\$ 47,383
Contributions as a percentage of covered-employee payroll	11.84%	11.65%

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	\$ 55,189,416.00	\$ 55,456,142.00	\$ 55,847,542.98
Federal			319,439.51
Local	16,572,129.00	16,607,129.00	16,342,431.90
Other	209,316.00	209,316.00	256,671.01
Total Revenues	71,970,861.00	72,272,587.00	72,766,085.40
<u>Expenditures</u>			
Current:			
Instruction	45,188,408.00	45,477,634.00	45,217,450.05
Instructional Support	11,887,563.00	11,925,063.00	12,734,831.20
Operation and Maintenance	7,201,542.00	7,201,542.00	7,297,968.62
Auxiliary Services:			
Student Transportation	4,817,615.00	4,817,615.00	4,540,207.50
General Administration and Central Support	1,337,452.00	1,388,452.00	2,165,429.52
Other	471,180.00	471,180.00	495,972.40
Capital Outlay		2,096,603.00	2,367,384.07
Total Expenditures	70,903,760.00	73,378,089.00	74,819,243.36
Excess (Deficiency) of Revenues Over Expenditures	1,067,101.00	(1,105,502.00)	(2,053,157.96)
<u>Other Financing Sources (Uses)</u>			
Indirect Cost	357,687.70	362,373.97	375,992.19
Transfers In	316,989.00	316,989.00	362,060.57
Other Financing Sources		1,300,000.00	1,031,265.29
Transfers Out	(2,519,228.00)	(2,005,094.00)	(2,435,711.42)
Total Other Financing Sources (Uses)	(1,844,551.30)	(25,731.03)	(666,393.37)
Net Change in Fund Balances	(777,450.30)	(1,131,233.03)	(2,719,551.33)
Fund Balances - Beginning of Year	7,266,400.00	7,654,344.93	8,197,550.32
Fund Balances - End of Year	\$ 6,488,949.70	\$ 6,523,111.90	\$ 5,477,998.99

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	\$	\$ 55,847,542.98
		319,439.51
(1)	892,237.72	17,234,669.62
		256,671.01
	<u>892,237.72</u>	<u>73,658,323.12</u>
(2)	(888,297.78)	46,105,747.83
(2)	(120,110.75)	12,854,941.95
(2)	(8,442.29)	7,306,410.91
(2)	(728,732.94)	5,268,940.44
		2,165,429.52
(2)	(4,624.71)	500,597.11
		2,367,384.07
	<u>(1,750,208.47)</u>	<u>76,569,451.83</u>
	(857,970.75)	(2,911,128.71)
		375,992.19
		362,060.57
		1,031,265.29
		<u>(2,435,711.42)</u>
		<u>(666,393.37)</u>
	(857,970.75)	(3,577,522.08)
(3)	<u>(3,264,209.22)</u>	<u>4,933,341.10</u>
	<u>\$ (4,122,179.97)</u>	<u>\$ 1,355,819.02</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 Commission budgets on the modified accrual basis of accounting with the following exceptions:

- (1) The Commission budgets for sales tax revenues as it is received, rather than on the modified accrual basis (GAAP).
- (2) The Commission recognizes salaries and benefits only to the extent actually paid rather than when actually earned by employees.

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 Commission'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.

\$ 892,237.72

(1,750,208.47)

\$ (857,970.75)

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>			
State	\$ 19,056.00	\$ 19,056.00	\$
Federal	8,209,257.00	8,608,669.51	8,198,024.55
Local	5,875,335.00	1,529,032.00	6,858,015.86
Other	261,800.00	508,980.00	596,854.10
Total Revenues	14,365,448.00	10,665,737.51	15,652,894.51
<u>Expenditures</u>			
Current:			
Instruction	5,232,026.11	4,015,465.35	5,496,404.23
Instructional Support	1,826,419.62	1,382,117.63	2,396,372.41
Operation and Maintenance	878,396.00	476,349.00	745,931.67
Auxiliary Services:			
Student Transportation	67,485.00	8,493.00	79,502.30
Food Service	9,164,248.33	6,554,153.33	6,028,595.66
General Administration and Central Support	335,484.82	355,485.33	326,613.25
Other	1,086,384.45	59,405.45	1,458,431.09
Capital Outlay	213,561.00	125,561.00	166,314.33
Debt Service:			
Principal Retirement			823.08
Total Expenditures	18,804,005.33	12,977,030.09	16,698,988.02
Excess (Deficiency) of Revenues Over Expenditures	(4,438,557.33)	(2,311,292.58)	(1,046,093.51)
<u>Other Financing Sources (Uses)</u>			
Long-Term Debt Issued			6,584.25
Transfers In	2,519,228.00	2,005,094.00	2,084,511.36
Other Financing Sources	447.00	447.00	
Sale of Capital Assets			2,500.00
Transfers Out	(316,989.00)	(316,989.00)	(362,060.57)
Total Other Financing Sources (Uses)	2,202,686.00	1,688,552.00	1,731,535.04
Net Change in Fund Balances	(2,235,871.33)	(622,740.58)	685,441.53
Fund Balances - Beginning of Year	4,749,000.00	5,257,140.90	5,257,140.90
Fund Balances - End of Year	\$ 2,513,128.67	\$ 4,634,400.32	\$ 5,942,582.43

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	\$	\$
		8,198,024.55
		6,858,015.86
		596,854.10
		<u>15,652,894.51</u>
		5,496,404.23
		2,396,372.41
		745,931.67
		79,502.30
(1)	(62,659.17)	6,091,254.83
		326,613.25
		1,458,431.09
		166,314.33
		823.08
	(62,659.17)	<u>16,761,647.19</u>
	(62,659.17)	<u>(1,108,752.68)</u>
		6,584.25
		2,084,511.36
		2,500.00
		<u>(362,060.57)</u>
		<u>1,731,535.04</u>
	(62,659.17)	622,782.36
(2)	(190,704.05)	<u>5,066,436.85</u>
	\$ (253,363.22)	<u>\$ 5,689,219.21</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 Commission budgets on the modified accrual basis of accounting with the following exceptions:

- (1) The Commission recognizes salaries and benefits only to the extent actually paid rather than when actually earned by employees.

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 Commission'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.

\$ (62,659.17)

\$ (62,659.17)

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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	Pass-Through Grantor's Number
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U. S. Department of Education

Passed Through Alabama Department of Education

Career and Technical Education - Basic Grants to States	84.048	N/A
School Improvement Grants	84.377	N/A
Title I Grants to Local Educational Agencies (M)	84.010	N/A
Special Education Cluster:		
Special Education - Grants to States	84.027	N/A
Special Education - Preschool Grants	84.173	N/A
Sub-Total Special Education Cluster (M)		
Rural Education	84.358	N/A
Improving Teacher Quality State Grants	84.367	N/A
English Language Acquisition State Grants	84.365	N/A
Total U. S. Department of Education		

U. S. Department of Agriculture

Passed Through Alabama Department of Education

State Administrative Expenses for Child Nutrition	10.560	N/A
Child Nutrition Cluster:		
National School Lunch Program		
Cash Assistance	10.555	N/A
Non-Cash Assistance (Commodities)	10.555	N/A
Sub-Total National School Lunch Program		
School Breakfast Program - Cash Assistance	10.553	N/A
Sub-Total Child Nutrition Cluster		
Total U. S. Department of Agriculture		

Appalachian Regional Commission

Direct Program

Appalachian Area Development	23.002	N/A
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General Services Administration

Passed Through the Alabama Department of

Economic and Community Affairs

Donation of Federal Surplus Personal Property	39.003	N/A
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Social Security Administration

Passed Through Alabama Department of Education

Social Security - Disability Insurance	96.001	N/A
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Total Expenditures of Federal Awards

(M) = Major Program

N/A = Not Available or Not Applicable

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

Pass-Through to Subrecipient	Total Federal Expenditures
N/A	\$ 115,671.00
N/A	1,477.44
N/A	2,143,527.23
N/A	1,986,556.00
N/A	46,308.00
	<u>2,032,864.00</u>
N/A	30,515.81
N/A	439,085.40
N/A	58,898.53
	<u>4,822,039.41</u>
N/A	14,949.23
N/A	2,626,382.89
N/A	336,710.58
	<u>2,963,093.47</u>
N/A	597,422.35
	<u>3,560,515.82</u>
	<u>3,575,465.05</u>
N/A	100,000.00
N/A	17,744.55
N/A	4,047.00
	<u>\$ 8,519,296.01</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 Cullman County Commission on 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 Cullman County Commission on Education, it is not intended to and does not present the financial position or changes in net position of the Cullman County Commission on 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 Cullman County Commission on Education has not elected to use the 10-percent de minimus indirect cost rate as allowed in the *Uniform Guidance*.

Additional Information

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

Commission Members		Term Expires
Hon. Gene Sullins	President	2021
Hon. James Thompson	Vice-President	2017
Hon. Kenny Brockman	Member	2019
Hon. Chris Carter	Member	2019
Hon. Wendy Crider	Member	2017
Hon. Mike Graves	Member	2019
Hon. Jason Speegle	Member	2019
 <u>Administrative Personnel</u>		
Dr. Craig Ross	Superintendent	11/2015
Dr. Brandon Payne	Interim Superintendent	03/2016
Mr. Shane Barnette	Superintendent	07/2019
Mr. Ed Roberson	Chief School Financial Officer	Indefinite

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

Independent Auditor's Report

Members of the Cullman County Commission on Education,
Superintendent and Chief School Financial Officer
Cullman, Alabama

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standard*** 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 Cullman County Commission on Education, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Cullman County Commission on Education's basic financial statements, and have issued our report thereon dated August 30, 2017.

Internal Control Over Financial Reporting

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

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

***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***

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2015-004 and 2016-001 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cullman County Commission on Education's financial statements are free of 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*.

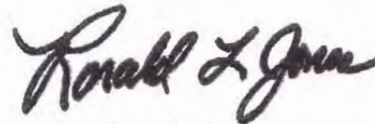
Cullman County Commission on Education's Response to Findings

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

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

Purpose of this Report

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



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

Montgomery, Alabama

August 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

Members of the Cullman County Commission on Education,
Superintendent and Chief School Financial Officer
Cullman, Alabama

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

Management is responsible for compliance with 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 each of the Cullman County Commission on Education's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States; and 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 the *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 Cullman County Commission on Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Cullman County Commission on 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 Cullman County Commission on 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

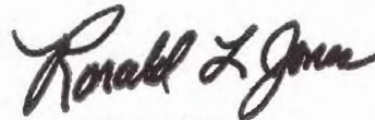
Management of the Cullman County Commission on Education is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Cullman County Commission on Education's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 Cullman County Commission on Education's internal control over compliance.

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

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

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

August 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? X Yes _____ 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 Numbers	Name of Federal Program or Cluster
84.027 and 84.173 84.010	Special Education Cluster 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? _____ Yes X 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
2016-001	Internal Control	<p><u>Finding:</u> An adequate system of internal controls requires bank accounts to be reconciled monthly. Also, all bank account reconciling items which require adjustments to the general ledger are to be made in a timely manner. The payroll bank account had not been reconciled since December 2015. Additionally, the Commission failed to make the necessary general ledger adjustments for General Fund bank account reconciling items dating back to June 2015.</p> <p><u>Recommendation:</u> Bank reconciliations should be performed monthly. All necessary adjustments should be made to correct the general ledger in a timely manner.</p> <p><u>Views of Responsible Officials:</u> The Cullman County Commission on Education agrees with this finding.</p>	

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
2015-004	Internal Control	<p><u>Finding:</u> The Commission has established policies and procedures for local schools to ensure adequate procedures for financial activities are followed. The following deficiencies were noted at some of the local schools selected for testing:</p> <ul style="list-style-type: none"> ◆ Teacher receipts were not always submitted to the school's bookkeeper for deposit in a timely manner. ◆ Established procedures were not followed regarding purchase orders. ◆ Checks were not written for some payments made by the local schools. ◆ Adequate documentation was not available for some expenditures selected for testing. <p><u>Recommendation:</u> The Commission should ensure local schools comply with approved policies and procedures for financial activities.</p> <p><u>Views of Responsible Officials:</u> The Cullman County Commission on Education agrees with this finding.</p>	

Section III – Federal Awards Findings and Questioned Costs

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

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Summary Schedule of Prior Audit Findings



Summary Schedule of Prior Audit Findings

For the Year Ended September 30, 2016

As required by the *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, 2 CFR 200.511, the Cullman County Commission on Education has prepared and hereby submits the following Summary Schedule of Prior Audit Findings as of September 30, 2016.

Finding Ref. No.	Status of Prior Audit Finding
2011-002	<p>An adequate system of internal controls requires account balances to be monitored to prevent deficit balances. Testing revealed three local schools had activity accounts with negative fund balances at year-end and one activity account included a non-public activity.</p> <p>The CSFO has met with the Principals at the schools where this issue has been ongoing. They along with the booster organizations have been instructed to develop a plan to help raise funds for the athletic activities that have negative fund balances. They have made significant progress over the last few years to reduce the amounts in these negative activities and realize the importance of getting these balances corrected. We have also informed them that if a non-public activity request a check that will place the activity into a negative balance the purchase should be denied until adequate funds are available for the purchase to be made.</p>
2015-003	<p>An adequate system of internal controls requires bank accounts to be reconciled monthly. All bank accounts were not properly reconciled to the general ledger during this audit period. Adjustments were made to the cash balance in the general ledger to correct reconciling errors.</p> <p>The finance department has now taken over the responsibility of reconciling all bank accounts including the CNP program account. We discovered during the audit period that the CNP account was being reconciled monthly to the revenue reports for the month and not being reconciled back to the general ledger. There was an adjusting entry made to cash which was approved the State CNP Director</p>



as well as the State Department, and the Examiners of Public Accounts prior to the adjustment being made. This should not be an issue going forward.

2015-004 The Board has established policies and procedures for local schools to ensure adequate procedures for financial activities are followed. The following deficiencies were noted:

Teacher receipts were not always submitted to the school's bookkeeper in a timely manner.

Adequate records were not always maintained for fundraisers to determine if money was remitted timely for deposit.

Adequate procedures were not utilized regarding purchase orders.

Invoices were not always paid in a timely manner resulting in late charges.

Checks were not written for all payments made.

Adequate documentation was not available for all expenditures.

Adequate records were not maintained for concession sales to determine profitability or timeliness of deposits.

During the audit period The Cullman County Commission on Education hired a new CSFO. There had not been a local school accountant in place to work with our local schools for five years. We transferred an employee to begin working with the local schools in May of 2015. We have since that time written a new policy and procedure manual for the local schools. We have also created several new forms that have been posted on the system website for each local school bookkeeper to download and use in their daily activities so each school is now consistent in the daily task. We now have monthly bookkeeper meetings to go over policies and procedures. We also have monthly Principal meetings where they have been instructed to cover with their staff the importance of turning in all funds received to the bookkeeper in a timely manner. The majority of our school bookkeepers are not twelve month employees so the amount of work that can be done in the Summer break is very limited this resulted in two late payments during the audit period. We have discussed the possibility of making more of them twelve month employees however this would cause a large increase in payroll cost for the system. With all of the new processes and forms we now have in place along with the monthly meetings I believe we should see a reduction in the number of deficiencies as we continue to work with all of our local schools.

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Auditee Response/Corrective Action Plan



Audit Corrective Action Plan For the Year Ended September 30, 2016

#2016-001 An adequate system of internal controls requires bank accounts to be reconciled monthly. Also all bank account reconciling items which require adjustments to the general ledger are to be made in a timely manner. The payroll bank account had not been reconciled since December 2015. Additionally, the Commission failed to make the necessary general ledger adjustments for General Fund bank account reconciling items dating back to June 2015.

Recommendation:

Bank reconciliations should be performed monthly. All necessary adjustments should be made to correct the general ledger in a timely manner.

Response: The Cullman County Board of Education converted to new accounting software in August of 2015, unfortunately we experienced numerous issues during this conversion process. One of these issues caused a monthly payroll to have to be recalled and the payroll bank reconciliation to fall behind. We are working hard to resolve this issue and are aware of the issue. We will look at all reconciling items and outstanding checks that go back for an extended amount of time and resolve the reconciling items.

2015-004 The Commission has established policies and procedures for local schools to ensure adequate procedures for financial activities are followed. The following deficiencies were noted at some of the local schools selected for testing:

Teacher receipts were not always submitted to the school's bookkeeper for deposit in a timely manner.

Established procedures were not followed regarding purchase orders.

Checks were not written for some payments made by local schools.

Adequate documentation was not available for some expenditures selected for testing.

Recommendation:


The Commission should ensure local schools comply with approved policies and procedures for financial activities.

Response:

The Superintendent and CSFO have implemented multiple new procedures for our local school bookkeepers, including a new procedure manual, standardized forms to be used at each school, and monthly bookkeeper meetings to discuss best practices and procedures. We also now have a local school accountant who performs internal audits at our local schools. During fiscal year 2016 we discovered some issues at one of the schools that was selected for testing, after multiple meetings with the bookkeeper and corrections being made this bookkeeper was ultimately relieved of her bookkeeping duties. The Superintendent and CSFO also conduct principal meetings and they have been asked to stress the importance to their teachers that all funds collected from students be turned into the bookkeeper on a daily basis.



Mr. Shane Barnette Superintendent



Mr. Ed Roberson CSFO