

**SARALAND BOARD OF EDUCATION**

**FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2016**

**Saraland Board of Education  
Financial Statements  
September 30, 2016**

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## **FINANCIAL SECTION**

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**INDEPENDENT AUDITORS' REPORT**

Members of the Board  
Saraland Board of Education  
Saraland, Alabama

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Saraland Board of Education, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Saraland Board of Education's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management 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.

**Auditors' 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. 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 Saraland Board of 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.

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**Other Matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-13, budgetary comparison information on pages 42-44, schedule of proportionate share of the net pension liability and schedule of Board contributions on pages 45-46, respectively, to 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.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Saraland Board of Education's basic financial statements. The Schedule of Expenditures of Federal Awards and Schedule of Findings and Questioned Costs, 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), are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relate 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 supplementary information 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 January 18, 2017, on our consideration of Saraland Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Saraland Board of Education's internal control over financial reporting and compliance.

*Hartmann, Blackmon & Kibore, P.C.*

Certified Public Accountants

January 18, 2017  
Brewton, Alabama

**Saraland Board of Education  
Management Discussion and Analysis  
For The Year Ended September 30, 2016**

The Saraland Board of Education's (the "Board") discussion and analysis presents the overall financial position and operating results of the fiscal year that ended September 30, 2016. Readers are encouraged to read it in conjunction with the Board's financial statements, which follow this analysis. The Management's Discussion and Analysis (MD&A) reflects 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*.

**Financial Highlights**

The Board's Net Position decreased by \$1,170,287 in FY 2016. The activities revenues overall were \$28,370,100 in FY 2016 and \$27,222,177 in FY 2015, resulting in an increase of \$1,147,923 or 4.22% over the prior year. The Board's continual rise of student enrollment has resulted in annual increases in state allocations for our system. Local ad valorem tax increased by 24.15%, and local sales tax decreased by 4.49%. Also, Miscellaneous Revenue decreased by 45.63% largely due to the receipt of our BP Oil Spill Settlement in the prior year. Overall, there was a decrease in Net Position for the year. Refer to Table 2 for specific details of each category.

The General Fund expenditures and other financing uses exceeded revenues and other financing sources by \$150,406. Overall, the Board's expenditures and other financing uses exceeded revenues and other financing sources by \$8,576,616 largely due to the proceeds of the Series 2015-A Capital Outlay Warrants used for refunding prior warrant issuances and for funding two capital projects being recognized in FY 2015 and the expenditures for capital outlay primarily being recognized in FY 2016.

**Overview of the Financial Statement and Use of This Report**

The following graphic is provided for your review and understanding of the financial statements and this report as a whole. This annual financial report consists of four parts:

- Independent Auditors' Report
- Required Supplementary Information (RSI), including the MD&A
- Basic Financial Statements (Governmental-Wide and Fund Financial Statements)
- Supplemental Information

**Required Components of Annual Financial Report  
Figure 1**

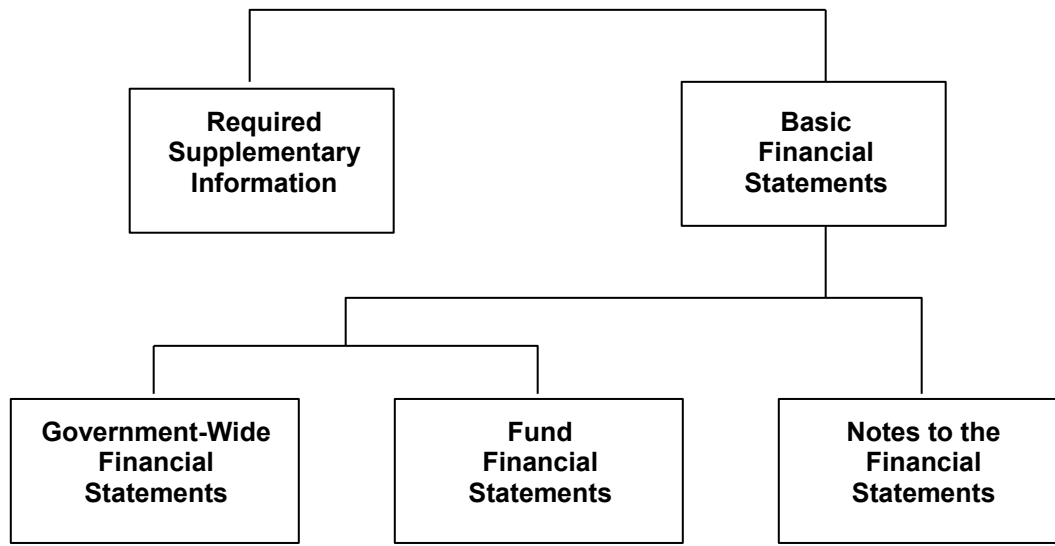


Figure 1 depicts the major features of the Board's financial statements. The focus of the financial statements is on the Board as a whole and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Board's accountability.

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

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. The focus of the *Statement of Net Position* is designed to be similar to bottom line results for the Board and its activities.

The *Statement of Net Position* presents information on all of the Board's assets less liabilities 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 full accrual basis of accounting. 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).

## **Fund Financial Statements**

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. All of the funds of the Board can be classified into one category: governmental funds.

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

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

## **Notes to the Financial Statements**

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 and are an integral part of the basic financial statements.

## **Required Supplementary Information**

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



## Financial Analysis of the Board as a Whole

As indicated earlier, net position may serve over time as a useful indicator of a government's financial position. Refer to Table 1 when reading the following analysis of net position. The Board's total assets exceeded liabilities by \$1,665,200 at September 30, 2016.

- ◆ Of this figure, \$13,496,870 reflects the Board's Net Investment in Capital Assets. Since these capital assets represent investment in land, buildings, school buses, furniture and equipment, this portion of net position is not available for future spending or funding of operations.
- ◆ Restricted net position is reported separately to show the external legal constraints from debt covenants and enabling legislation that limit the Board's ability to use this net position for day-to-day operations. \$1,447,211 is restricted for education and \$6,376,945 is restricted for construction.
- ◆ The balance of unrestricted net position is \$(19,655,826).

The following table reflects a Summary of Net Position compared to the prior year. For more detailed information see the Statement of Net Position.

<b>Table 1</b> <b>Summary of Net Position</b> <b>September 30, 2016</b>			
	<b>FY 2016</b>	<b>FY 2015</b>	<b>Variance</b>
<b><u>Assets</u></b>			
Current and Other Assets	\$12,338,768	\$19,979,617	<b>-38.24%</b>
Capital Assets, Net of Depreciation	80,568,964	72,048,621	11.83%
<b>Total Assets</b>	<b>92,907,732</b>	<b>92,028,238</b>	<b>0.96%</b>
Deferred Outflows of Resources	6,093,454	3,758,754	<b>62.11%</b>
<b><u>Liabilities</u></b>			
Current and Other Liabilities	2,627,357	1,844,183	<b>42.47%</b>
Long-Term Liabilities	94,605,629	89,921,322	5.21%
<b>Total Liabilities</b>	<b>97,232,986</b>	<b>91,765,505</b>	<b>5.96%</b>
Deferred Inflows of Resources	103,000	1,186,000	<b>-91.32%</b>
<b><u>Net Position</u></b>			
Net Investment in Capital Assets	13,496,870	14,030,392	-3.80%
Restricted for:			
Education	1,447,211	1,104,038	<b>31.08%</b>
Construction	6,376,945	15,233,752	<b>-58.14%</b>
Unrestricted	(19,655,826)	(27,532,695)	<b>28.61%</b>
<b>Total Net Position</b>	<b>\$ 1,665,200</b>	<b>\$ 2,835,487</b>	<b>-41.27%</b>

Factors attributing to the significant variances in Current and Other Assets and Net Position Restricted for Construction resulted from proceeds from the Series 2015-A Warrants being expended primarily in FY 2016. The significant variances in Total Net Position, Deferred Outflow, and Inflows of Resources are due to the implementation of GASB Statement No. 68. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions.

The following table reflects the Changes in Net Position compared to the prior year. For more detailed information see the Statement of Activities.

<b>Table 2</b> <b>Changes in Net Position</b> <b>For the Year Ended September 30, 2016</b>			
	<b>FY 2016</b>	<b>FY 2015</b>	<b>Variance</b>
<b><u>Revenues</u></b>			
Program Revenues:			
Charges for Services	\$2,854,322	\$2,695,462	5.89%
Operating Grants and Contributions	15,773,330	15,104,984	4.42%
Capital Grants and Contributions	953,034	1,234,346	<b>-22.79%</b>
General Revenues:			
Property Taxes for General Purposes	2,521,356	2,549,084	-1.09%
Property Taxes for Specific Purposes	2,903,495	1,820,372	<b>59.50%</b>
Sales Tax	2,674,310	2,800,129	-4.49%
Alcohol Beverage Tax	117,788	114,432	2.93%
Other Taxes	84,240	80,206	5.03%
Grants and Contributions Not Restricted for Specific Programs	700	680	2.94%
Investment Earnings	80,860	74,529	8.49%
Miscellaneous	406,665	747,953	<b>-45.63%</b>
Total Revenues	<u>28,370,100</u>	<u>27,222,177</u>	<u>4.22%</u>
<b><u>Expenditures</u></b>			
Governmental Activities:			
Instructional	14,404,061	13,485,651	6.81%
Instructional Support	4,362,904	3,705,568	17.74%
Operation and Maintenance	2,346,220	2,126,657	10.32%
Student Transportation	1,432,736	1,242,951	15.27%
Food Service	1,639,124	1,568,234	4.52%
General Administrative	1,726,199	1,752,033	-1.47%
Interest and Fiscal Charges	3,314,760	2,386,058	<b>38.92%</b>
Other Expenses	314,383	274,065	14.71%
Total Expenditures	<u>29,540,387</u>	<u>26,541,217</u>	<u>11.30%</u>
<b>Changes in Net Position</b>	<b>(1,170,287)</b>	<b>680,960</b>	<b>-271.86%</b>
Net Position - Beginning of Year	2,835,487	2,154,527	
Net Position - End of Year	<u>\$1,665,200</u>	<u>\$2,835,487</u>	<u>-41.27%</u>

The significant variances reflected on Table 2 are described below:

### **Revenues**

- ◆ Capital Grants and Contributions – Decrease due to a significant donation in FY 2015 of land for the site of our Saraland Early Education Center.
- ◆ Property Taxes for Specific Purposes – Increase due to the initial collections of a new 7.5 mill tax.
- ◆ Miscellaneous – As mentioned in Financial Highlights, decrease due to the receipt of our BP Oil Spill Settlement in FY 2015.

### **Expenditures**

- ◆ Interest and Fiscal Charges – Increase due to the increased debt service requirements from the Series 2015-A and Series 2016-A Capital Outlay Warrants.

A one-time appropriation for the BP Oil Spill Settlement in FY 2015 and the recording of an increase to our proportionate share of the state's retirement pension plan as prescribed by GASB Statement No. 68 are major contributions towards to decrease in Net Position.

### **Net Cost of Services**

Total cost of services was \$29,540,387. As shown in Table 3, the net cost of governmental activities was a negative \$9,959,701. This means that the local funds portion of revenue was used to fund the amount not covered from various program revenues.

<b>Table 3</b> <b>Net Cost of Services</b> <b>For the Year Ended September 30, 2016</b>				
	<b>FY 2016</b>		<b>FY 2015</b>	
	<b><u>Total Cost of Services</u></b>	<b><u>Net Cost of Services</u></b>	<b><u>Total Cost of Services</u></b>	<b><u>Net Cost of Services</u></b>
Governmental Activities:				
Instructional	\$14,404,061	\$(2,480,185)	\$ 13,485,651	\$(1,618,720)
Instructional Support	4,362,904	(941,599)	3,705,568	(623,124)
Operation and Maintenance	2,346,220	(1,816,847)	2,126,657	(1,470,021)
Student Transportation	1,432,736	(412,514)	1,242,951	(250,951)
Food Service	1,639,124	(19,895)	1,568,234	(145,089)
General Administrative	1,726,199	(876,473)	1,752,033	(951,251)
Interest and Fiscal Charges	3,314,760	(3,314,760)	2,386,058	(2,386,058)
Other Expenses	314,383	(97,428)	274,065	(61,211)
	<b><u>\$29,540,387</u></b>	<b><u>\$(9,959,701)</u></b>	<b><u>\$ 26,541,217</u></b>	<b><u>\$(7,506,425)</u></b>

### Financial Analysis of the Board's Funds

The analysis of governmental funds serves the purpose of looking at what resources came into the funds, how they were spent, and what is available for future expenditures. Did the Board generate enough revenue to pay for current obligations? What is available for spending at the end of the year? The financial performance of the Board as a whole is reflected in its governmental funds as well. At the end of the fiscal year, the Board's governmental funds reported combined ending fund balances of \$9,424,561. Of the combined ending fund balances, \$1,600,405 of this amount constitutes unassigned fund balance of the school system that is available as of the end of the fiscal year for spending on future operations. The remaining combined fund balances are classified as nonspendable, restricted, and assigned for various purposes as constituted by GASB No. 54.

- ◆ **General Fund** – The General Fund is the primary operating fund of the Board in providing educational services to students from kindergarten through 12th grade including pupil transportation.

Table 4 reflects a summary of General Fund Revenues for the most recent two-year period:

<b>Table 4</b> <b>General Fund Revenues</b> <b>For the Year Ended September 30, 2016</b>			
	<b>FY 2016</b>	<b>FY 2015</b>	<b>Variance</b>
State	\$14,507,531	\$13,819,481	4.98%
Federal	63,291	85,202	<b>-25.72%</b>
Local	5,421,714	5,417,204	0.08%
Other	229,350	569,809	<b>-59.75%</b>
<b>Total Revenues</b>	<b>\$20,221,886</b>	<b>\$19,891,696</b>	<b>1.66%</b>

The significant decrease in other revenues was due to largely due to the receipt of our BP Oil Spill Settlement in FY 2015.

It should be noted that each school system is required to provide a minimum equivalent of ten mills of ad valorem tax to participate in the Foundation Program. The ten mill equivalent match for Saraland was \$1,598,960 in fiscal year 2016.

Table 5 reflects a summary of General Fund Expenditures for the most recent two-year period:

<b>Table 5</b> <b>General Fund Expenditures</b> <b>For the Year Ended September 30, 2016</b>			
	<b>FY 2016</b>	<b>FY 2015</b>	<b>Variance</b>
Current:			
Instructional	\$11,623,574	\$10,947,116	6.18%
Instructional Support	3,338,026	2,967,874	12.47%
Operation and Maintenance	2,218,241	2,064,065	7.47%
Auxiliary Services:			
Student Transportation	1,185,000	1,027,344	15.35%
General Administrative	1,482,666	1,256,995	17.95%
Other	104,193	94,252	10.55%
Capital Outlay	145,447	481,330	-69.78%
<b>Total Expenditures</b>	<b>\$20,097,147</b>	<b>\$18,838,976</b>	<b>6.68%</b>

The significant decrease in capital outlay was due to the school board's approval of purchasing five new school buses in the previous fiscal year.

- ♦ ***Special Revenue Fund*** – The Special Revenue Fund accounts for all of the federal programs that flow through the State Department of Education which includes the Child Nutrition Program. In addition, this fund includes Public Local School source of funds. The beginning fund balance was \$1,104,038. Recognizing an excess of \$343,173 for the fiscal year, the ending fund balance for FY 2016 was \$1,447,211.
- ♦ ***Capital Projects Fund*** – The Capital Projects Fund accounts for all financial resources to be used for the acquisition or construction of major capital facilities. The beginning fund balance was \$15,233,752. Recognizing a deficiency of \$8,856,807 for the fiscal year, the ending fund balance for FY 2016 was \$6,376,945.

Overall, the Board's governmental funds reflected an excess of Expenditures/Other Financing Uses over Revenues/Other Financing Sources.

## Budgetary Highlights

The FY 2016 Budget, adopted on September 1, 2015, was based on known sources at the time of adoption. The budget reflected only guaranteed revenues and necessary expenditures as some of the state-funded programs had not been authorized at this point. The Board complied with State Department of Education requirements for budget amendments. The Board submitted Amendment #1 on June 2, 2016, to make final budgetary adjustments to all funds and programs.

The comparisons of the General Fund and Special Revenue Fund original budgets to the final amended budgets are reflected in the required supplemental information in the report. The two budgets were amended to correct beginning fund balances and account for changes in state, federal and local sources.

## Capital Assets and Debt Administration

- ♦ **Capital Assets** – As of September 30, 2016, the Board had \$80,568,964 invested in capital assets including land and land improvements, construction in progress, buildings and building improvements, equipment and furniture and vehicles costing \$5,000 or more. This amount is net of accumulated depreciation, as of September 30, 2016. (Additional information on the Board's Capital Assets is presented in the notes to the financial statements.)

Table 6 below reflects a summary of Capital Assets, Net of Depreciation for the most recent two-year period:

<b>Table 6</b> <b>Capital Assets, Net of Depreciation</b> <b>September 30, 2016</b>			
	<b>FY 2016</b>	<b>FY 2015</b>	<b>Variance</b>
Land and Land Improvements	\$3,877,090	\$3,877,090	0.00%
Construction in Progress	10,651,009	835,942	<b>1174.13%</b>
Buildings	60,104,243	61,307,535	-1.96%
Building Improvements	4,339,915	4,397,866	-1.32%
Equipment and Furniture	331,628	284,787	16.45%
Vehicles	1,265,079	1,345,401	-5.97%
<b>Total Capital Assets, Net of Depreciation</b>	<b>\$80,568,964</b>	<b>\$72,048,621</b>	<b>11.83%</b>

The significant increase in construction in progress is due to the new construction of Saraland Early Education Center and additions made to Saraland High School.

- ◆ **Long-Term Debt** – As of September 30, 2016, the Board had \$94,605,629 in General Long-Term Debt outstanding. The Board made debt service payments as reflected on Table 7. (Additional information on the Board’s long-term debt is presented in the notes to the financial statements.)

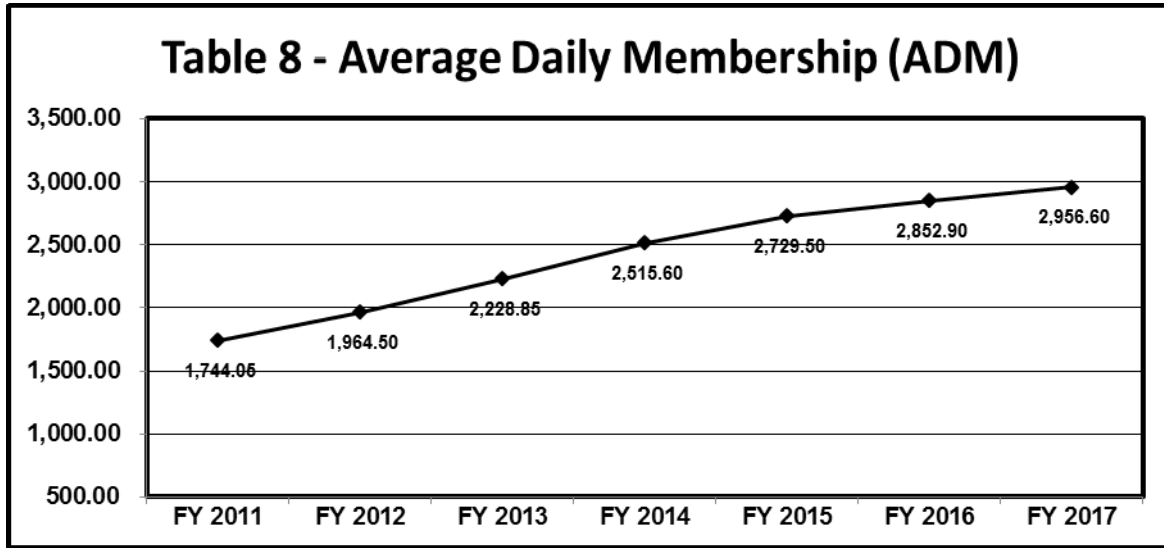
<p align="center"><b>Table 7</b>  <b>Summary of Long-Term Debt</b>  <b>September 30, 2016</b></p>					
	<b>Debt Outstanding 10/1/2015</b>	<b>Issued/ Increased</b>	<b>Repaid/ Decreased</b>	<b>Debt Outstanding 9/30/2016</b>	<b>Amounts Due within One Year</b>
<u>Governmental Activities:</u>					
Capital Leases Payable	\$47,263,115	\$ -	\$(6,482,675)	\$40,780,440	\$ 811,078
Warrants Payable	26,841,207	7,944,840	(61,858)	34,724,189	41,152
Net Pension Liability	15,817,000	3,284,000	-	19,101,000	-
<b>Governmental Activities Long-Term Debt</b>	<b>\$89,921,322</b>	<b>\$11,228,840</b>	<b>\$(6,544,533)</b>	<b>\$94,605,629</b>	<b>\$ 852,230</b>

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

The following are currently known Saraland economic factors considered going into the 2016-2017 fiscal year:

- ◆ A reduction of federal funds for the 2016-2017 fiscal year is foreseeable.
- ◆ The funding formula to appropriate state funds to each public school system requires the equivalent of ten mills of ad valorem tax to be provided locally to participate in the Foundation Program. The match will decrease from \$1,598,960 in FY 2016 to \$1,409,070 for FY 2017. The match for FY 2017 is 8.77% of the total State Foundation Program funds earned by the system.
- ◆ Employee health insurance is provided through the Public Education Employees’ Health Insurance Program (PEEHIP). PEEHIP employer costs will increase to \$800 for FY 2017 per employee per month. In addition, the employer contribution to the Teachers’ Retirement System (TRS) for employees hired prior to January 1, 2013, will be 12.01% for FY 2017. Employer contribution for employees hired on or after January 1, 2013, will be 10.82% for FY 2017. The Board uses local funds to pay the salary-related benefits costs not paid by state and federal funds.
- ◆ State Funding for Alabama school systems is based on average daily membership (ADM) for the first 20 days after Labor Day of the preceding school year. For every year since inception, average daily membership for the school system has increased. This increase places an additional financial burden on the Board’s local funds. Funding for earned teacher units is based on prior year ADM, rather than current year ADM. In a growing system, funding for salaries and benefits will always be a year behind and will not catch up until enrollment levels off or starts to decline.

Table 8 summarizes ADM by year since FY 2011:



### Financial Contact

The Board's financial statements are designed to present users (citizens, taxpayers, investors and creditors) with a general overview of the Board's finances and to demonstrate the Board's accountability for public funds received. If you have questions about the report or need additional financial information, contact Dr. Aaron Milner, Superintendent, 943 Hwy 43 South Saraland, Alabama 36571, or by calling (251) 375-5420.



14  
**Saraland Board of Education**  
**Statement of Net Position**  
**September 30, 2016**

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and Cash Equivalents	\$ 10,060,029
Investments	1,430,712
Receivables, Net	489,354
Inventories	56,175
Unearned Charges	286,850
Other Assets	15,648
Capital Assets:	
Nondepreciable	14,528,099
Depreciable, Net	66,040,865
<b>Total Assets</b>	<b>92,907,732</b>
<b>Deferred Outflows of Resources</b>	
Loss on Refunding of Debt	1,479,926
Employer Pension Contribution	1,413,528
Proportionate Share of Collective Deferred Outflows Related to Net Pension Liability	3,200,000
<b>Total Deferred Outflows of Resources</b>	<b>6,093,454</b>
<b>Liabilities</b>	
Accounts Payable	323,953
Unearned Revenue	30,832
Salaries and Benefits Payable	1,983,758
Accrued Interest Payable	288,814
Long-Term Liabilities:	
Portion Due or Payable Within One Year	852,230
Portion Due or Payable After One Year	93,753,399
<b>Total Liabilities</b>	<b>97,232,986</b>
<b>Deferred Inflows of Resources</b>	
Proportionate Share of Collective Deferred Inflows Related to Net Pension Liability	103,000
<b>Total Deferred Inflows of Resources</b>	<b>103,000</b>
<b>Net Position</b>	
Net Investment in Capital Assets	13,496,870
Restricted for:	
Education	1,447,211
Construction	6,376,945
Unrestricted	(19,655,826)
<b>Total Net Position</b>	<b>\$ 1,665,200</b>

The accompanying notes are an integral part of these financial statements.

15  
**Saraland Board of Education**  
**Statement of Activities**  
**For the Year Ended September 30, 2016**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>			<b>Net (Expenses) Revenues and Changes in Net Position</b>	
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Governmental Activities</b>	
Instructional	\$ 14,404,061	\$ 345,985	\$ 10,705,100	\$ 872,791	\$	(2,480,185)
Instructional Support	4,362,904	559,215	2,862,090	-		(941,599)
Operation and Maintenance	2,346,220	127,934	391,402	10,037		(1,816,847)
Student Transportation	1,432,736	71,321	878,695	70,206		(412,514)
Food Service	1,639,124	1,529,493	89,736	-		(19,895)
General Administrative	1,726,199	51,596	798,130	-		(876,473)
Interest and Fiscal Charges	3,314,760	-	-	-		(3,314,760)
Other Expenses	314,383	168,778	48,177	-		(97,428)
Total Governmental Activities	<u>\$ 29,540,387</u>	<u>\$ 2,854,322</u>	<u>\$ 15,773,330</u>	<u>\$ 953,034</u>		<u>(9,959,701)</u>

General revenues:

Taxes:

Property Taxes for General Purposes	2,521,356
Property Taxes for Specific Purposes	2,903,495
Sales Tax	2,674,310
Alcohol Beverage Tax	117,788
Other Taxes	84,240
Grants and Contributions Not Restricted for Specific Programs	700
Investment Earnings	80,860
Miscellaneous	406,665
Total General Revenues	<u>8,789,414</u>
Changes in Net Position	(1,170,287)
Net Position - Beginning of Year, as Previously Stated	<u>2,835,487</u>
Net Position - End of Year	<u>\$ 1,665,200</u>

The accompanying notes are an integral part of these financial statements.

16  
**Saraland Board of Education**  
**Balance Sheet**  
**Governmental Funds**  
**September 30, 2016**

	(11) - General Fund	(12) - Special Revenue Fund	(14) - Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and Cash Equivalents	\$ 1,951,495	\$ 1,421,357	\$ 6,599,745	\$ 87,432	\$ 10,060,029
Investments	1,430,712	-	-	-	1,430,712
Receivables, Net	288,914	108,302	92,138	-	489,354
Due from Other Funds	25,696	-	-	-	25,696
Inventories	-	56,175	-	-	56,175
Other Assets	15,648	-	-	-	15,648
Total Assets	<u>\$ 3,712,465</u>	<u>\$ 1,585,834</u>	<u>\$ 6,691,883</u>	<u>\$ 87,432</u>	<u>\$ 12,077,614</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities:</b>					
Accounts Payable	\$ 285,723	\$ 12,106	\$ 314,938	\$ -	\$ 612,767
Due to Other Funds	-	25,696	-	-	25,696
Unearned Revenues	-	30,832	-	-	30,832
Salaries and Benefits Payable	1,913,769	69,989	-	-	1,983,758
Total Liabilities	<u>2,199,492</u>	<u>138,623</u>	<u>314,938</u>	<u>-</u>	<u>2,653,053</u>
<b>Fund Balances</b>					
Nonspendable	-	56,175	-	-	56,175
Restricted for:					
Education	-	1,391,036	-	-	1,391,036
Construction	-	-	6,376,945	-	6,376,945
Unassigned	1,512,973	-	-	87,432	1,600,405
Total Fund Balances	<u>1,512,973</u>	<u>1,447,211</u>	<u>6,376,945</u>	<u>87,432</u>	<u>9,424,561</u>
Total Liabilities and Fund Balances	<u>\$ 3,712,465</u>	<u>\$ 1,585,834</u>	<u>\$ 6,691,883</u>	<u>\$ 87,432</u>	<u>\$ 12,077,614</u>

The accompanying notes are an integral part of these financial statements.

17  
**Saraland Board of Education**  
**Reconciliation of Governmental Fund Balances to Net Position of Governmental Activities**  
**September 30, 2016**

Total Fund Balances - Governmental Funds		\$	9,424,561
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.			
The Cost of Capital Assets is		\$	89,064,661
Accumulated Depreciation is			<u>(8,495,697)</u>
			80,568,964
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred on the Statement of Net Position.			
			286,850
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.			
			1,479,926
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.			
			4,510,528
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.			
Current Portion of Long-Term Liabilities			852,230
Noncurrent Portion of Long-Term Liabilities			<u>93,753,399</u>
			<u>(94,605,629)</u>
Total Net Position - Governmental Activities		\$	<u><u>1,665,200</u></u>

The accompanying notes are an integral part of these financial statements.

18  
**Saraland Board of Education**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**September 30, 2016**

	(11) - General Fund	(12) - Special Revenue Fund	(14) - Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
State	\$ 14,507,531	\$ 150,000	\$ 800,891	\$ -	\$ 15,458,422
Federal	63,291	2,070,550	-	-	2,133,841
Local	5,421,714	1,854,206	2,911,144	302,752	10,489,816
Other	229,350	57,953	-	-	287,303
Total Revenues	20,221,886	4,132,709	3,712,035	302,752	28,369,382
<b>Expenditures</b>					
Current:					
Instructional	11,623,574	1,129,060	-	-	12,752,634
Instructional Support	3,338,026	844,453	-	-	4,182,479
Operation and Maintenance	2,218,241	32,585	50,607	-	2,301,433
Auxiliary Services:					
Student Transportation	1,185,000	46,583	-	-	1,231,583
Food Service	-	1,649,357	-	-	1,649,357
General Administrative	1,482,666	177,091	-	-	1,659,757
Other	104,193	206,528	-	-	310,721
Capital Outlay	145,447	112,638	9,914,383	-	10,172,468
Debt Service:					
Principal Retirement	-	-	585,472	292,500	877,972
Interest and Fiscal Charges	-	-	3,048,896	10,256	3,059,152
Debt Issuance Costs/Other Debt Service	-	-	342,803	-	342,803
Total Expenditures	20,097,147	4,198,295	13,942,161	302,756	38,540,359
Excess (Deficiency) of Revenues					
Over Expenditures	124,739	(65,586)	(10,230,126)	(4)	(10,170,977)
<b>Other Financing Sources (Uses)</b>					
Indirect Cost	132,896	-	-	-	132,896
Long-Term Debt Issued	-	-	8,010,000	-	8,010,000
Transfers In	-	408,759	-	87,428	496,187
Other Financing Sources	718	-	-	-	718
Transfers Out	(408,759)	-	(87,428)	-	(496,187)
Discounts on Long-term Debt Issued	-	-	(65,160)	-	(65,160)
Payments to Refunding Escrow Agent	-	-	(6,484,093)	-	(6,484,093)
Total Other Financing Sources (Uses)	(275,145)	408,759	1,373,319	87,428	1,594,361
Net Changes in Fund Balances	(150,406)	343,173	(8,856,807)	87,424	(8,576,616)
Fund Balances - Beginning of Year	1,663,379	1,104,038	15,233,752	8	18,001,177
Fund Balances - End of Year	\$ 1,512,973	\$ 1,447,211	\$ 6,376,945	\$ 87,432	\$ 9,424,561

The accompanying notes are an integral part of these financial statements.

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

Net Changes in Fund Balances - Total Governmental Funds \$ (8,576,616)

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

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

Capital Outlays	\$10,172,468	
Depreciation Expense	<u>(1,652,125)</u>	8,520,343

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.		877,972
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Discounts and issuance costs (prepaid insurance) on debt issuance are recorded as financing uses/expenditures in the governmental funds, but are deferred and amortized in the Statement of Activities.		225,907
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Payments to refunding escrow agent are recorded as expenditures or other financing uses in the governmental funds, but reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.		6,484,093
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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.		(8,010,000)
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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.

Amortization of Bond Discounts, Loss on Refunding, and Issuance Costs (Prepaid Insurance)	81,706	
Pension Expense, Current Year Increase/Decrease	<u>610,280</u>	(691,986)

Change in Net Position of Governmental Activities		<u><u>\$ (1,170,287)</u></u>
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**Saraland Board of Education**  
**Statement of Fiduciary Net Position**  
**September 30, 2016**

	<u>Agency Funds</u>
<b>Assets</b>	
Cash and Cash Equivalents	\$ 186,270
Total Assets	<u>\$ 186,270</u>
<b>Liabilities</b>	
Accounts Payable	\$ 500
Due to External Organizations	<u>185,770</u>
Total Liabilities	<u>\$ 186,270</u>

The accompanying notes are an integral part of these financial statements.

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**Saraland Board of Education**  
**Notes to the Financial Statements**  
**September 30, 2016**

**NOTE 1            SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. REPORTING ENTITY**

The financial statements of the Saraland Board of Education (the Board) have been prepared in conformity with the accounting principles generally accepted in the United States of America as specified by the Governmental Accounting Standards Board (GASB).

For financial reporting purposes and in conformance with the criteria set forth by GASB Statement No. 61, the Board includes those funds, account groups, agencies, boards, commissions and authorities for which the Board has the ability to exercise its oversight responsibility and provides financial and managerial assistance.

**B. BASIS OF PRESENTATION—GOVERNMENT-WIDE AND FUND LEVEL**

Government-wide

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 the related cash flows. Nonexchange transactions, in which the Board gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from grants entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

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

Fund Level

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



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**Saraland Board of Education**  
**Notes to the Financial Statements**  
**September 30, 2016**

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

to explain adjustments necessary to reconcile fund level statements to the government-wide presentation.

The accounts of the Board are organized on the basis of funds which are each considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped into broad fund categories as follows:

Governmental Funds:

**General Fund**—The General Fund is used to account for all revenues and expenditures applicable to the general operations of the Board which are not properly accounted for in another fund. All general operating revenues which are not restricted or designated as to use by outside sources are recorded in the General Fund.

**Special Revenue Fund**—Special revenue funds are operating funds for which the use of revenues is restricted or designated by outside sources.

**Capital Project Fund**—Capital project funds are used to account for the financial resources used to construct or acquire major capital items.

Fiduciary Fund:

**Agency Fund**—This fund is used to report assets held by the Board in a purely custodial capacity. The Board collects these assets and transfers them to the proper individual, private organizations, or other governments.

**C. CAPITAL ASSETS**

The accounting treatment over capital assets depends on whether the assets are used by fund level or government-wide reporting.

In government-wide reporting, all capital assets are reported as capital assets for both governmental-type and business-type activities. The Board has established a minimum capitalization threshold of \$5,000 for personal property and \$50,000 for real property. Depreciation is provided on all capital assets at the government-wide level.

In fund level reporting, capital assets are reported as expenditures by governmental funds. Depreciation is not provided at the fund level.

Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at estimated fair value on the date donated.

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Saraland Board of Education  
Notes to the Financial Statements  
September 30, 2016

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Depreciation is allocated as an expense in the Statement of Activities (government-wide level) and accumulated depreciation is reflected in the Statement of Net Position (government-wide level). Depreciation has been provided over the estimated useful lives using the straight-line rates as follows:

Buildings	25-50 years
Vehicles and equipment	5-20 years

**D. BASIS OF ACCOUNTING**

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized when they become susceptible to accrual, that is when they become both “measurable” and “available” to finance expenditures of the current period. Ad valorem and other taxes collected by an intermediary are considered “measurable” when in the hand of the intermediary collecting governments and may be recognized as revenue at that time. Expenditures, generally, are recorded at the time liabilities are incurred. Revenues susceptible to accrual are: property taxes and federal financial assistance programs, which are measurable and available to finance expenditures of the current period.

**E. IMPACT OF RECENTLY ISSUED ACCOUNTING PRINCIPLES**

*Recently Issued and Adopted Accounting Principles*

On October 1, 2012, the Board adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB Statement No. 62 incorporates into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure. The adoption of GASB Statement No. 62 did not have any impact on the Board’s financial statements.

On October 1, 2012, the Board implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The Balance Sheet

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Saraland Board of Education  
Notes to the Financial Statements  
September 30, 2016

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

is renamed the Statement of Net Position and includes four components: assets, deferred outflows of resources, liabilities and deferred inflows of resources.

As of October 1, 2014, the Board implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 requires certain items that were previously reported as assets and liabilities to be reclassified as deferred outflows of resources, deferred inflows of resources, or current-period outflows (expenses) and inflows (revenues). These determinations are based on the following definitions of those elements in Concepts Statement No. 4 *Elements of Financial Statements*:

*Deferred outflows of resources* are consumptions of net position by the Board that are applicable to a future reporting period.

*Deferred inflows of resources* are acquisitions of net position by the Board that are applicable to a future reporting period.

*Outflows of resources* are consumptions of net position by the Board that are applicable to the reporting period.

*Inflows of resources* are acquisitions of net position by the Board that are applicable to the reporting period.

During the year ended September 30, 2015, the Board implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements create disclosure and reporting requirements that may or may not be consistent with the basis used for funding the plan. As a result, a net pension liability equal to the difference between the actuarial present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service, less the amount of the pension plan's fiduciary net position was recognized. Additionally, pension expense and deferred outflows of resources and deferred inflows of resources were recognized from changes in the components of the net pension liability. See Note 8 for more information.

During the year ended September 30, 2016, the Board implemented GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement No. 68* which was issued to establish requirements for assets that are not within the scope of GASB Statement No. 68. The requirements of GASB Statement No. 73 are effective for fiscal year 2016. The adoption of GASB Statement No. 73 did not have any impact on the Board's consolidated financial statements for the year ended September 30, 2016.

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Saraland Board of Education  
Notes to the Financial Statements  
September 30, 2016

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

During the year ended September 30, 2016, the Board implemented GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, was issued to identify the hierarchy of generally accepted accounting principles. The requirements of GASB Statement No. 76 were applied retroactively resulting in no significant impact to the financial statements.

*Recently Issued Accounting Principles*

GASB Statement No. 82, *Pension Issues- an amendment of GASB Statements No. 67, No. 68, and No. 73*, was issued to address pension issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of GASB Statement No. 82 are effective for fiscal year 2017. The Board is currently evaluating the impact that this statement may have on its financial statements.

**F. CASH AND INVESTMENTS**

Cash includes amounts in demand deposits as well as short-term investments. The State Attorney General has issued a legal opinion that boards of education may not put public funds at risk by investing in companies not insured by the federal government.

**G. INVENTORIES**

Inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. Inventories consist of food products purchased to be sold in the cafeteria facilities. The costs of governmental fund inventories are recorded as expenditures when purchased, except commodities donated by the federal government, which are expensed when consumed.

**H. USE OF ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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Saraland Board of Education  
Notes to the Financial Statements  
September 30, 2016

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**I. NET ASSET AND EQUITY CLASSIFICATIONS**

Government-wide Financial Statements

The Board adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which superseded GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Government*. Equity is classified as net position and displayed in three components:

- Net investment in capital assets—Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at year-end, the portion of the debt or deferred inflows of resources attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of the related debt. Rather, that portion of the debt or deferred inflows of resources is included in the same net position as the unspent proceeds.
- Restricted net position—Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.
- Unrestricted net position—The net amount of the 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 component of net position.

Fund Financial Statements

The fund equity of the governmental fund financial statements is classified as fund balance. In March 2009, GASB adopted a standard that establishes a hierarchy based on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds.

Fund balance is classified into one of the following five components:

- Nonspendable fund balance—Consists of amounts that are not in a spendable form or are required to be maintained intact.

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**Saraland Board of Education**  
**Notes to the Financial Statements**  
**September 30, 2016**

**NOTE 1            SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

- Restricted fund balance—Consists of fund balances with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) the Board's own laws through its enabling legislation and other provisions of its laws and regulations.
- Committed fund balance—Consists of fund balances that are subject to a purpose constraint imposed by formal action or resolution of the Board, which is the highest level of decision-making authority, before the end of the fiscal year and that require the same level of formal action to remove or modify the constraint.
- Assigned fund balance—Consists of fund balances that are intended to be used by the school system for specific purposes. The Board authorized the Superintendent or Chief School Finance Officer to make a determination of the assigned amounts of fund balance. Such assignments may not exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. Assigned fund balances require the same level of authority to remove the constraint.
- Unassigned fund balance—All other fund balances that do not meet the definition of "restricted, committed or assigned fund balances." This portion of the total fund balance in the general fund is available to finance operating expenditures.

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

**J. ENCUMBRANCES**

Encumbrances represent commitments related to underperformed contracts for goods or services. Encumbrances accounting—under which purchase orders, contracts and other commitments for the expenditure or resources are recorded to reserve that portion of the applicable appropriation—is utilized in the governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

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**Saraland Board of Education**  
**Notes to the Financial Statements**  
**September 30, 2016**

**NOTE 1            SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**K. DEFERRED OUTFLOWS OF RESOURCES**

Represent deferred losses associated with the issuance of long-term debt and is amortized on the straight-line method over the term of the debt. It also represents the pension plan contributions made between the measurement date of the pension plan and the end of the Board's fiscal year end and is amortized over twelve months.

**L. DEFERRED INFLOWS OF RESOURCES**

Represent deferred losses on the net difference between projected and actual earnings on the pension plan investments which is amortized on the straight-line method over a five year period.

**M. PENSIONS**

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.

**N. SUBSEQUENT EVENTS**

The Board has evaluated subsequent events through January 18, 2017, the date which the financial statements were available to be issued. There were no material subsequent events which require disclosure at September 30, 2016.

**NOTE 2            DEPOSITS AND INVESTMENTS**

**Interest Rate Risk**

The Board does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk**

State statutes authorize the Board's investments. The Board is authorized to invest in U.S. Government obligations and its agencies or instrumentalities. The Board has no investment policy that further limits investment choices.

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**Saraland Board of Education**  
**Notes to the Financial Statements**  
**September 30, 2016**

**NOTE 2            DEPOSITS AND INVESTMENTS (continued)**

**Custodial Credit Risk**

The Board is a participant in the Security for Alabama Funds Enhancement (SAFE) Program, a multiple financial institution collateral pool, administered by the State of Alabama. The program, by law, provides administration of pledged collateral coverage for all governments and agencies in the state and requires qualified financial institutions to provide collateral to the administrator adequate to secure all deposits of public funds in that financial institution. The State guarantees deposits identified as “public funds” will be adequately secured by insurance or collateral. Any collateral shortages of one financial institution are assessed to other member financial institutions.

**NOTE 3            COMPENSATED ABSENCES**

For vacation leave and other compensated absences with similar characteristics, GASB Statement No. 16 requires the accrual of liabilities as the benefits are earned by the employees if both of these conditions are met:

- 1) The employees’ right to receive compensation is attributable to services already rendered.
- 2) It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

An accrual for earned sick leave should be made only to the extent it is probable that the benefits will result in termination payments, rather than be taken as absences due to illness or other contingencies, such as medical appointments and funerals.

All personnel who are employed full-time on a 12-month basis are entitled to 15 days vacation leave per year. No more than 25 days can be carried over to the next year. Due to the intensity of summer work, the Superintendent may carry over days and must use all carry-over vacation according to the terms of his/her negotiated contract. Any vacation taken during the school year must be approved by the Superintendent.

Vacation days shall be earned by the month and accountable by the year, July 1 through June 30. One point two five (1.25) vacation days will be earned for each month employment up to 15 days, unless the employee is under a contract with specific terms for vacation.

All vacation days must be used prior to effective resignation date. The Board shall not make cash payments for unused vacation days, unless specified in a negotiated contract and approved by the Board. Because employees do not receive compensation for unused vacation leave at termination, no liability is recorded on the financial statements.

Professional and support employees earn non-vesting sick leave at the rate of one day per month worked. Employees may accumulate an unlimited number of sick leave days.



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**Saraland Board of Education**  
**Notes to the Financial Statements**  
**September 30, 2016**

**NOTE 3            COMPENSATED ABSENCES (continued)**

Employees may use their accrued sick leave as membership service in determining the total years of creditable service in the Teachers' Retirement System, with no additional cost to the Board. Because employees do not receive compensation for unused sick leave at termination, no liability is recorded on the financial statements.

**NOTE 4            RISK MANAGEMENT**

Rather than finance various risks through self-insurance, the Board has elected to carry traditional insurance coverage.

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and natural disasters. The Board has insurance for its building and contents through an insurance company. The insurance company provides coverage up to \$95,336,284. Errors and omissions insurance is purchased from the premiums and purchases commercial insurance for the amount of coverage requested by pool participants. The Board purchases commercial insurance for fidelity bonds and vehicle fleet. Settled claims in the past three years have not exceeded the amounts of commercial insurance coverage.

Employee health insurance is provided through the Public Education Employees' Health Insurance Fund (PEEHIF), a public entity risk pool, administered by the Public Education Employees' Health Insurance Board. 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 set annually by the Alabama Legislature based on the amounts necessary to fund coverage. The Board contributes the specified monthly amount to the PEEHIF for each employee.

The State Board of Adjustments is a state agency with which people can file against the Board to collect reimbursement for damages when all other means have been exhausted. The Board does not have insurance coverage for job-related injuries. Employees may, however, file claims for job-related injuries with the State Board of Adjustments. The Board of Adjustments determines if a claim is valid and determines the proper amount of compensation. Payments are made from state appropriated funds at no cost to the Board.

**NOTE 5            PAYMENTS OR SERVICES FURNISHED BY OTHER AGENCIES**

Certain payments or services are furnished by the State of Alabama and the City of Saraland, Alabama, on behalf of the Board. Included in these items are payments from bond issue proceeds and payments on City bond issues for school purpose. These payments or services are reflected as revenues and expenditures on the Board's financial statements in the applicable funds for which they apply.

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**Saraland Board of Education**  
**Notes to the Financial Statements**  
**September 30, 2016**

**NOTE 6            CONTINGENT LIABILITIES**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditure which may be disallowed by the grantor cannot be determined at this time although the Board expects such amounts, if any, to be immaterial.

**NOTE 7            INTERFUND TRANSACTIONS**

During the course of normal operations, the Board has numerous transactions between funds to provide services, construct assets, etc. These transactions are generally reflected as operating transfers or receivables and liabilities. Transactions reimbursing a fund for expenditures are recorded as expenditures in the disbursing fund and as revenues in the receiving fund. Remaining fund balances in discontinued funds and non-recurring, non-routine transfers are accounted for as residual equity transfers. The Board typically used transfers to fund ongoing operating subsidies and to recoup certain expenditures paid on-behalf of the local schools.

Interfund Receivables and Payables

	Interfund Receivables		
	General Fund		
<hr/>			
Interfund Payables			
Special Revenue Fund	\$	25,696	
Totals	\$	25,696	
<hr/>			
	Transfers Out		
	<hr/>		
	General Fund	Capital Projects Fund	Totals
<hr/>			
Transfers In			
Special Revenue Fund	\$	408,759	\$ 408,759
Debt Service Fund		87,428	87,428
Totals	\$	408,759	\$ 496,187

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**Saraland Board of Education**  
**Notes to the Financial Statements**  
**September 30, 2016**

**NOTE 8            DEFINED BENEFIT PENSION PLAN**

Plan Description

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

Benefits Provided

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

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

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**Saraland Board of Education**  
**Notes to the Financial Statements**  
**September 30, 2016**

**NOTE 8            DEFINED BENEFIT PENSION PLAN (continued)**

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 are required by statute to contribute 8.50% of earnable compensation.

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

Participating employers' contractually required contribution rate for the year ended September 30, 2015 was 11.94% of annual pay for Tier 1 members and 10.84% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the Board were \$1,413,528 for the fiscal year ended September 30, 2016.

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

At September 30, 2016, the System reported a liability of \$19,101,000 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, 2013. The Board's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2015, the Board's proportion was 0.182506%, which was an increase of 0.008402% from its proportion measured as of September 30, 2014.

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**Saraland Board of Education**  
**Notes to the Financial Statements**  
**September 30, 2016**

**NOTE 8            DEFINED BENEFIT PENSION PLAN (continued)**

For the year ended September 30, 2016, the Board recognized pension expense of \$1,413,528. At September 30, 2016, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$            -	\$    103,000
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	1,251,000	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	1,949,000	-
Employer contributions subsequent to the measurement date	1,413,528	-
	<hr/>	<hr/>
Total	<u>\$ 4,613,528</u>	<u>\$    103,000</u>

\$1,413,528 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:		
2017	\$	757,000
2018		757,000
2019		757,000
2020		798,000
2021		28,000

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**Saraland Board of Education**  
**Notes to the Financial Statements**  
**September 30, 2016**

**NOTE 8            DEFINED BENEFIT PENSION PLAN (continued)**

Actuarial Assumptions

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

Inflation	3.00%
Investment rate of return*	8.00%
Projected salary increases	3.5%-8.25%

\*Net of pension plan investment expense

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

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

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%

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Saraland Board of Education  
Notes to the Financial Statements  
September 30, 2016

**NOTE 8      DEFINED BENEFIT PENSION PLAN (continued)**

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.

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

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

	1% Decrease (7.00%)	Current Rate (8.00%)	1% Increase (9.00%)
Board's proportionate share of collective net pension liability	\$ 25,269,000	\$ 19,101,000	\$ 13,869,000

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 No. 67 Report for the TRS prepared as of September 30, 2015. The auditor's report dated January 15, 2016, on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense for the sum of all participating entities as of September 30, 2015, along with supporting schedules is also available. The additional financial actuarial information is available at [www.rsa-al.gov](http://www.rsa-al.gov).

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**Saraland Board of Education**  
**Notes to the Financial Statements**  
**September 30, 2016**

**NOTE 9 CAPITAL ASSETS**

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

	Beginning Balance	Additions	Retirements/ reclassifications	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land and Land Improvements	\$ 3,877,090	\$ -	\$ -	\$ 3,877,090
Construction in Progress	835,942	9,815,067	-	10,651,009
Total Capital Assets, Not Being Depreciated	4,713,032	9,815,067	-	14,528,099
Capital Assets Being Depreciated:				
Buildings	66,849,657	-	-	66,849,657
Building Improvements	4,866,695	133,274	-	4,999,969
Equipment and Furniture	677,297	117,837	-	795,134
Vehicles	1,785,512	106,290	-	1,891,802
Total Capital Assets Being Depreciated	74,179,161	357,401	-	74,536,562
Less Accumulated Depreciation for:				
Buildings	5,542,120	1,203,294	-	6,745,414
Building Improvements	468,831	191,223	-	660,054
Equipment and Furniture	392,510	70,996	-	463,506
Vehicles	440,111	186,612	-	626,723
Total Accumulated Depreciation	6,843,572	1,652,125	-	8,495,697
Total Capital Assets Being Depreciated, Net	67,335,589	(1,294,724)	-	66,040,865
Total Governmental Activities Capital Assets, Net	\$ 72,048,621	\$ 8,520,343	\$ -	\$ 80,568,964

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

Instructional	\$ 1,228,306
Instructional Support	81,912
Operation and Maintenance	40,607
Student Transportation	176,754
Food Service	80,408
General Administrative	44,138
Total Depreciation Expense - Governmental Activities	<u>\$ 1,652,125</u>



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**Saraland Board of Education**  
**Notes to the Financial Statements**  
**September 30, 2016**

**NOTE 10      LONG TERM LIABILITIES**

The following is a summary of changes in long-term liabilities for the year ended September 30, 2016:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Amounts Due Within One Year</b>
Governmental Activities:					
Bonds and Warrants Payable	\$ 27,645,455	\$ 8,010,000	\$ 90,297	\$ 35,565,158	\$ 71,072
Warrant Anticipation Notes					
Unamortized Discount	(804,248)	(65,160)	(28,439)	(840,969)	(29,920)
Total Bonds and Notes Payable	<u>26,841,207</u>	<u>7,944,840</u>	<u>61,858</u>	<u>34,724,189</u>	<u>41,152</u>
Other Liabilities:					
Capital Leases	47,263,115	-	6,482,675	40,780,440	811,078
Net Pension Liability	15,817,000	3,284,000	-	19,101,000	-
Total Other Liabilities	<u>63,080,115</u>	<u>3,284,000</u>	<u>6,482,675</u>	<u>59,881,440</u>	<u>811,078</u>
Governmental Activities Long-Term Liabilities	<u>\$ 89,921,322</u>	<u>\$ 11,228,840</u>	<u>\$ 6,544,533</u>	<u>\$ 94,605,629</u>	<u>\$ 852,230</u>

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**Saraland Board of Education**  
**Notes to the Financial Statements**  
**September 30, 2016**

**NOTE 10      LONG TERM LIABILITIES (CONTINUED)**

Bonds and Warrants Payable at September 30, 2016, were comprised of the following:

Note payable for capital outlay purposes dated September 6, 2013, due in 120 monthly installments of \$2,647, including interest at 2.98%	\$      200,158
Series 2015-A Warrants payable in annual installments of \$325,000 to \$3,365,000 through August 1, 2045, with interest at 2.50 to 4.00% payable on February 1 and August 1.	27,420,000
Series 2016-A Warrants payable in annual installments of \$65,000 to \$560,000 through June 1, 2038, with interest at 1.75% to 3.25% payable on June 1 and December 1.	<u>7,945,000</u>
Total Bonds and Warrants Payable	<u><u>\$ 35,565,158</u></u>

Annual debt service requirements to maturity for general obligation bonds and warrants are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2017	\$      71,072	\$    1,286,135
2018	71,870	1,068,509
2019	72,694	1,067,686
2020	78,542	1,280,915
2021	79,417	1,279,041
2020-2026	2,996,563	6,234,965
2027-2031	4,040,000	5,776,871
2032-2036	4,705,000	5,093,550
2037-2041	10,750,000	3,893,719
2042-2046	<u>12,700,000</u>	<u>1,295,000</u>
	<u><u>\$ 35,565,158</u></u>	<u><u>\$ 28,276,391</u></u>

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**Saraland Board of Education**  
**Notes to the Financial Statements**  
**September 30, 2016**

**NOTE 10      LONG TERM LIABILITIES (CONTINUED)**

**Capital Leases**

The Board has entered into several lease agreements as lessee for financing the construction and renovation of school facilities and to purchase equipment. The leases qualify as capital leases for accounting purposes since there are bargain purchase elements at the end of the initial lease terms and the present value of the minimum lease payments are greater than 90 percent of asset purchase prices. Each asset has, therefore, been recorded at the present value of the future minimum lease payments as of the inception date in the capital assets.

The capital assets acquired through capital lease obligations are as follows:

	Governmental Activities
Land	\$ 874,147
Buildings & building improvements, net of \$3,843,829 accumulated depreciation	47,429,837
Vehicles, net of \$237,537 accumulated depreciation	712,611
Total	<u>\$ 49,016,596</u>

The future minimum lease obligation and the net present value of the minimum lease payments as of September 30, 2016, were as follows:

	Governmental Activities
Year ending September 30,	
2017	\$ 2,403,972
2018	2,407,704
2019	2,413,350
2020	2,414,312
2021	2,420,519
2022-2026	13,933,321
2027-2031	14,231,792
2032-2036	14,631,989
2037-2041	9,141,118
Total minimum lease payments	63,998,077
Less amount representing interest	<u>(23,217,637)</u>
Present value of minimum lease payments	<u>\$ 40,780,440</u>

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**Saraland Board of Education**  
**Notes to the Financial Statements**  
**September 30, 2016**

**NOTE 11      LINE OF CREDIT**

The Board has two open line of credits with \$3,000,000 and \$1,000,000 in available credit at an interest rate of 3.40% and 3.25%, respectively, and maturing on October 1, 2035 and September 30, 2016. There have been no draws on either line of credit as of September 30, 2016.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**Saraland Board of Education**  
**Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual**  
**(11) – General Fund**  
**For the Year Ended September 30, 2016**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>	<b>Budget to GAAP</b>	<b>Actual Amounts</b>
	<b>Original</b>	<b>Final</b>	<b>(Budgetary Basis)</b>	<b>Final Budget</b>	<b>Differences Over (Under)</b>	<b>GAAP Basis</b>
<b>Revenues</b>						
State	\$ 14,147,652	\$ 14,500,996	\$ 14,507,531	\$ 6,535	\$ -	\$ 14,507,531
Federal	600	600	63,291	62,691	-	63,291
Local	4,699,479	4,691,585	5,421,714	730,129	-	5,421,714
Other	140,638	140,638	229,350	88,712	-	229,350
Total Revenues	18,988,369	19,333,819	20,221,886	888,067	-	20,221,886
<b>Expenditures</b>						
Current:						
Instructional	11,294,654	11,294,654	11,365,134	(70,480)	263,639	11,623,574
Instructional Support	2,860,960	2,960,960	3,262,171	(301,211)	75,855	3,338,026
Operation and Maintenance	1,804,391	1,804,391	2,221,236	(416,845)	(2,995)	2,218,241
Auxiliary Services:			-			
Student Transportation	1,203,932	1,203,932	1,270,975	(67,043)	20,315	1,185,000
General Administrative	1,430,467	1,491,688	1,476,298	15,390	6,368	1,482,666
Other	92,012	92,012	102,353	(10,341)	1,840	104,193
Capital Outlay	-	-	33,958	(33,958)	-	145,447
Debt Service:						
Interest and Fiscal Charges	-	-	-	-	-	-
Total Expenditures	18,686,416	18,847,637	19,732,125	(884,488)	365,022	20,097,147
Excess (Deficiency) of Revenues Over Expenditures	301,953	486,182	489,761	3,579	(365,022)	124,739
<b>Other Financing Sources (Uses):</b>						
Indirect Cost	137,800	137,800	132,896	(4,904)	-	132,896
Transfers In	4,799	4,799	-	(4,799)	-	-
Other Financing Sources	-	-	718	718	-	718
Transfers Out	(408,759)	(408,759)	(408,759)	-	-	(408,759)
Total Other Financing Sources (Uses)	(266,160)	(266,160)	(275,145)	(8,985)	-	(275,145)
Net Change in Fund Balances	35,793	220,022	214,616	(5,406)	(365,022)	(150,406)
Fund Balances - Beginning of Year	2,306,033	3,212,126	3,212,126	-	(1,548,747)	1,663,379
Fund Balances - End of Year	\$ 2,341,826	\$ 3,432,148	\$ 3,426,742	\$ (5,406)	\$ (1,913,769)	\$ 1,512,973

See notes to required supplementary information

**Saraland Board of Education**  
**Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual**  
**(12) – Special Revenue Fund**  
**For the Year Ended September 30, 2016**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>	<b>Budget to GAAP</b>	<b>Actual Amounts</b>
	<b>Original</b>	<b>Final</b>	<b>(Budgetary Basis)</b>	<b>Final Budget--</b>	<b>Differences Over (Under)</b>	<b>GAAP Basis</b>
<b>Revenues</b>						
State	\$ -	\$ 150,000	\$ 150,000	\$ -	\$ -	\$ 150,000
Federal	1,934,445	1,977,488	2,070,550	93,062	-	2,070,550
Local	1,198,970	1,198,970	1,854,206	655,236	-	1,854,206
Other	30,000	30,000	57,953	27,953	-	57,953
Total Revenues	3,163,415	3,356,458	4,132,709	776,251	-	4,132,709
<b>Expenditures</b>						
Current:						
Instructional	966,113	1,120,267	1,227,005	(106,738)	-	1,129,060
Instructional Support	574,934	612,823	844,453	(231,630)	-	844,453
Operation and Maintenance	1,050	1,050	32,585	(31,535)	-	32,585
Auxiliary Services:						
Student Transportation	73,339	73,339	46,583	26,756	-	46,583
Food service	1,563,492	4,563,492	1,652,952	2,910,540	11,098	1,649,357
General Administrative	177,907	177,907	177,091	816	-	177,091
Other	101,554	102,554	206,528	(103,974)	-	206,528
Capital Outlay	-	-	-	-	-	112,638
Total Expenditures	3,458,389	6,651,432	4,187,197	2,464,235	11,098	4,198,295
Excess (Deficiency) of Revenues Over Expenditures	(294,974)	(3,294,974)	(54,488)	3,240,486	(11,098)	(65,586)
<b>Other Financing Sources (Uses):</b>						
Transfers In	420,759	420,759	518,006	97,247	-	518,006
Transfers Out	(16,799)	(16,799)	(109,247)	(92,448)	-	(109,247)
Total Other Financing Sources (Uses)	403,960	403,960	408,759	4,799	-	408,759
Net Change in Fund Balances	108,986	(2,891,014)	354,271	3,245,285	(11,098)	343,173
Fund Balances - Beginning of Year	478,938	1,162,929	1,162,929	-	(58,891)	1,104,038
Fund Balances - End of Year	\$ 587,924	\$ (1,728,085)	\$ 1,517,200	\$ 3,245,285	\$ (69,989)	\$ 1,447,211

See notes to required supplementary information

**Saraland Board of Education**  
**Notes to Required Supplementary Information**  
**For the Year Ended September 30, 2016**

**NOTE 1            BUDGETS AND BUDGETARY ACCOUNTING**

On or before October 1 of each year, the Board is required to prepare and submit to the state superintendent of education the annual budget to be adopted by the Board. Neither the superintendent of education nor the Board can approve any budget for operations of the school system for a fiscal year which shows expenditures in excess of income estimated to be available plus any balances on hand. The superintendent, with the approval of the Board, has the authority to make changes within the approved budget provided that a deficit is not incurred by such changes.

Budgeted amounts are as originally adopted by the Board on September 1, 2015. Final budgeted amounts were adopted by the Board on June 2, 2016.

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America other than the difference described below. Annual appropriated budgets are adopted for the general and special revenue funds. All annual appropriations lapse at fiscal year end. Project-length financial plans are adopted for all capital project funds.

**NOTE 2            EXPLANATION OF DIFFERENCE BETWEEN ACTUAL AMOUNTS ON  
BUDGETARY BASIS AND ACTUAL AMOUNTS GAAP BASIS:**

	<u>(11) - General Fund</u>	<u>(12) - Special Revenue Fund</u>
<b>Uses/outflows of resources</b>		
Actual amounts (budgetary basis) available for expenditures shown as		
Total Expenditures on the budgetary comparison schedule	\$ 19,732,125	\$ 4,187,197
 Difference--budget to GAAP		
Salaries of teachers and other personnel with contracts of less than 12 months are paid over a 12 month period. Expenditures for salaries (and related fringe benefits) are budgeted based on the amount that will be paid from budgeted revenues. However, salaries (and related benefits) earned but not paid are recorded as expenditures on the financial statements	 <u>365,022</u>	 <u>11,098</u>
 Total expenditures are reported on the statement of revenues, expenditures and changes in fund balances--governmental funds	 <u><u>\$ 20,097,147</u></u>	 <u><u>\$ 4,198,295</u></u>



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**Saraland Board of Education**  
**Schedule of the Proportionate Share of the Net Pension Liability**  
**Teacher's Retirement Plan of Alabama**  
**September 30, 2016**

	<u>2015</u>	<u>2016</u>
Board's proportion of the net pension liability	0.174104%	0.182506%
Board's proportionate share of the net pension liability	\$ 15,817,000	\$ 19,101,000
Board's covered-employee payroll*	\$ 11,061,610	\$ 12,021,600
Board's proportionate share of the net pension liability as a percentage of its covered-employee payroll	142.99%	158.89%
Plan fiduciary net position as a percentage of the total pension liability	71.01%	67.51%

<p>This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.</p>
---

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

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**Saraland Board of Education**  
**Schedule of Board Contributions**  
**Teacher's Retirement Plan of Alabama**  
**September 30, 2016**

	<u>2015</u>	<u>2016</u>
Contractually Required Contribution*	\$ 1,347,808	\$ 1,413,528
Contributions in relation to the contractually required contribution*	<u>1,347,808</u>	<u>1,413,528</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Board's covered employee-payroll**	\$ 11,061,610	\$ 12,021,600
Contributions as a percentage of covered-employee payroll	12.18%	11.76%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

\*Amount of employer contributions equal to the amount that would be recognized as additions from the employer's contributions in the pension plan's schedule of changes in fiduciary net position during the period that coincides with the employer's fiscal year. This does not include amounts paid for Pre-retirement Death Benefit, Term Life Insurance or Administrative Expenses. It does include the amounts paid for the Employer's portion of the Normal Cost and Accrued Liability

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

## **COMPLIANCE SECTION**

#### Shareholders

J. Earl Blackmon, Jr., CPA  
B. Vance Kilgore, CPA  
Dennis E. Sherrin, CPA

#### Principals

Rachel M. Godwin, CPA  
G. Allen Cave, Jr., CPA

#### Of Counsel

Xavier A. Hartmann, III, CPA  
Rucker T. Taylor, III, CPA  
Sally S. Wagner, CPA



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## **INDEPENDENT AUDITORS' 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***

Members of the Board  
Saraland Board of Education  
Saraland, 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 Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Saraland Board of Education as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise Saraland Board of Education's basic financial statements, and have issued our report thereon dated January 18, 2017.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Saraland Board of Education's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Saraland Board of Education's internal control. Accordingly, we do not express an opinion on the effectiveness of Saraland Board of Education's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control that we consider to be a significant deficiency and communicated it in writing to management and those charged with governance on January 18, 2017.

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**Segregation of Duties**

Our study and evaluation disclosed that because of the limited size of your accounting staff, your organization has limited segregation of duties. A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a transaction from inception to completion. While we recognize that your organization is not large enough to permit an adequate segregation of duties in all respects, it is important that you be aware of this condition.

**Compliance and Other Matters**

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

**Purpose of this Report**

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

*Hartmann, Blackmon & Kilgore, P.C.*

Certified Public Accountants

January 18, 2017  
Brewton, Alabama

#### Shareholders

J. Earl Blackmon, Jr., CPA  
B. Vance Kilgore, CPA  
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## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Members of the Board  
Saraland Board of Education  
Saraland, Alabama

### Report on Compliance for Each Major Federal Program

We have audited Saraland Board of Education's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Saraland Board of Education's major federal programs for the year ended September 30, 2016. Saraland Board of Education's major federal programs are identified in the summary of auditor'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.

### *Auditors' Responsibility*

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Saraland Board of Education's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Saraland Board of Education complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016.

**Report on Internal Control over Compliance**

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

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

Our consideration of 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.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of 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.

*Hartmann, Blackmon & Kilgore, P.C.*

Certified Public Accountants

January 18, 2017  
Brewton, Alabama

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**Saraland Board of Education**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended September 30, 2016**

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b><u>U.S. Department of Agriculture</u></b>		
<b>Passed Through Alabama Department of Education:</b>		
Child Nutrition Cluster:		
National School Breakfast Program--Cash Assistance	10.553	\$ 190,582
National School Lunch Program:		
Cash Assistance	10.555	684,742
Non-Cash Assistance (N)	10.555	89,736
National School Lunch Program Sub-Total		<u>774,478</u>
<b>Total U.S. Department of Agriculture</b>		<u><u>965,060</u></u>
<b><u>U.S. Department of Education</u></b>		
<b>Passed Through State Department of Education:</b>		
Special Education Cluster:		
Special Education-Grants to States	84.027	446,521
Special Education-Preschool Grants	84.173	4,875
Title I Grants to Local Education Agencies (M)	84.010	565,167
Career and Technical Education Basic Grants to States	84.048A	28,514
Improving Teacher Quality State Grants	84.367	123,003
<b>Total U.S. Department of Education</b>		<u><u>1,168,080</u></u>
<b>Total Expenditures of Federal Awards</b>		<u><u>\$ 2,133,140</u></u>

(M) = Major Program

(N) = Non-Cash Assistance



**Saraland Board of Education**  
**Note to the Schedule of Expenditures of Federal Awards**  
**September 30, 2016**

**NOTE 1            SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

The Schedule of Expenditures of Federal Awards is presented based on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A one-year availability period is used for revenue recognition for all governmental fund revenues. Expenditures are recorded when the related liability is incurred.

**Saraland Board of Education  
Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2016**

**SECTION 1-SUMMARY OF AUDITORS' 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**

Type of auditors' report issued on compliance of  
major programs:

Unmodified

Internal control over major programs:

Material weakness(es) identified?

Yes

X

No

Significant deficiency(ies) identified?

Yes

X

None reported

Any audit findings disclosed that are required to be  
reported in accordance with Section 510(a) of  
OMB Circular A-133?

Yes

X

No

Identification of major programs:

**CFDA Numbers**

**Name of Federal Program or Cluster**

84.010

Title I Grants to Local Education Agencies

Dollar threshold used to distinguish between Type A  
and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

X

Yes

No

**SECTION 2-FINANCIAL STATEMENT FINDINGS (GAGAS)**

No matters were reportable

**SECTION 3-FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

No matters were reportable.

See independent auditors' report and note to the Schedule of Expenditures of Federal Awards.