

Report on the

Colbert County Board of Education

Colbert County, Alabama

October 1, 2017 through September 30, 2018

Filed: June 21, 2019



Department of Examiners of Public Accounts

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Rachel Laurie Riddle, Chief Examiner



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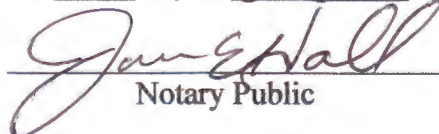
Rachel Laurie Riddle
Chief Examiner

Honorable Rachel Laurie Riddle
Chief Examiner of Public Accounts
Montgomery, Alabama 36130

Dear Madam:

Under the authority of the *Code of Alabama 1975*, Section 41-5A-19, as added by Act Number 2018-129, I submit this report on the results of the audit of the Colbert County Board of Education, Colbert County, Alabama, for the period October 1, 2017 through September 30, 2018.

Sworn to and subscribed before me this
the 5th day of June, 2019.


Notary Public

rb

Respectfully submitted,



Denise H. Olive
Examiner of Public Accounts

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Department of
Examiners of Public Accounts

SUMMARY

**Colbert County Board of Education
October 1, 2017 through September 30, 2018**

The Colbert County Board of Education (the “Board”) is governed by a six-member body elected by the citizens of Colbert County. The members and administrative personnel in charge of governance of the Board are listed in Exhibit 15. The Board is the governmental agency that provides general administration and supervision for Colbert County public schools, preschool through high school, with the exception of schools administered by the Tusculum City Board of Education, Muscle Shoals City Board of Education and Sheffield City Board of Education.

This report presents the results of an audit the objectives of which were to determine whether the financial statements present fairly the financial position and results of financial operations and whether the Board complied with applicable laws and regulations, including those applicable to its major federal financial assistance programs. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States as well as the requirements of the Department of Examiners of Public Accounts under the authority of the *Code of Alabama 1975*, Section 41-5A-12, as added by Act Number 2018-129.

An unmodified opinion was issued on the financial statements, which means that the Board’s financial statements present fairly, in all material respects, its financial position and the results of its operations for the fiscal year ended September 30, 2018.

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

Board members and administrative personnel, as reflected on Exhibit 15, were invited to discuss the results of this report at an exit conference. Individuals in attendance were: Dr. Gale D. Satchel, Superintendent; James Brumley, Chief School Financial Officer; and Board Members: Thomas Barnes, Thomas Burgess, Sandra James, Carrie Mitchell, Mary Moore and Ricky Saint. Also in attendance were representatives of the Department of Examiners of Public Accounts: Robin V. Lakey, Audit Manager and Denise H. Olive, Examiner.

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Independent Auditor's Report

Independent Auditor's Report

Members of the Colbert County Board of Education,
Superintendent and Chief School Financial Officer
Tuscumbia, Alabama

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Colbert County Board of Education, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Colbert County Board of Education's basic financial statements, as listed in the table of contents as Exhibits 1 through 7.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Colbert County Board of Education, as of September 30, 2018, 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.

Emphasis of Matter

As discussed in Note 11 to the financial statements, during the fiscal year ended September 30, 2018, the Colbert County Board of Education adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement Number 75, ***Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions***, as amended by GASB Statement Number 85, ***Omnibus 2017***. Our opinion on the basic financial statements is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying Management's Discussion and Analysis (MD&A), the Schedule of the Employer's Proportionate Share of the Collective Net Pension Liability, the Schedule of the Employer's Contributions – Pension, the Schedule of the Employer's Proportionate Share of the Collective Net Other Postemployment Benefits (OPEB) Liability, the Schedule of the Employer's Contributions – Other Postemployment Benefits (OPEB), and the Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual, (Exhibits 8 through 13), be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

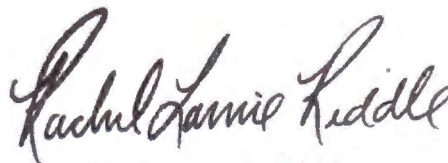
Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Colbert County Board of Education's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 14), as required by Title 2 U. S. *Code of Federal Regulations* Part 200, ***Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)***, is presented for the purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with ***Government Auditing Standards***, we have also issued our report dated May 17, 2019, on our consideration of the Colbert County Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Colbert County Board of Education's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with ***Government Auditing Standards*** in considering the Colbert County Board of Education's internal control over financial reporting and compliance.



Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

May 17, 2019

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

Colbert County Board of Education
Management's Discussion and Analysis (MD&A)
September 30, 2018

Our discussion and analysis of the Colbert County Board of Education's (the "Board's") financial performance provides an overview of the Board's financial activities for the fiscal year ended September 30, 2018. Please read it in conjunction with the Board's financial statements and notes to the financial statements, which immediately follow this analysis.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement Number 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999. Certain comparative information between the current year and prior year is required to be presented in the MD&A. This report includes this comparative information.

Financial Highlights: Significant Items to Note

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

- ◆ The liabilities and deferred inflows of resources of the Board exceeded its assets and deferred outflows of resources at the close of the 2018 fiscal year by \$30,277,603.13. Of this amount, \$11,779,116.58 represented the Board's net investment in capital assets. The Board maintains reserves of \$1,259,496.02 for payment of current and future capital projects, debt service or other purposes.
- ◆ The Board held an unrestricted balance of (\$43,316,215.73) due to the booking of its pension liability per GASB Statement Number 68 and its Other Postemployment Benefits (OPEB) liability per GASB 75.

Using the Financial Statements – An Overview for the User

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

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

Colbert County Board of Education
Management's Discussion and Analysis (MD&A)
September 30, 2018

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

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

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

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

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

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

Interest and fiscal charges include interest, but not principal payments, on long-term debt issues and other expenses related to the issuance and continuance of debt issues.

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

Government-wide financial statements report the capitalization of capital assets and depreciation of all exhaustible capital assets and the outstanding balances of long-term debt and other obligations. These statements report all assets, deferred outflows of resources, liabilities and deferred inflows of resources perpetuated by these activities using the accrual basis of accounting. The accrual basis takes into account all of the Board's current year revenues and expenses regardless of when received or paid. This approach moves the financial reporting method for governmental entities closer to the financial reporting methods used in the private sector. The following *government-wide financial statements* report on all of the governmental activities of the Board as a whole.

Colbert County Board of Education
Management's Discussion and Analysis (MD&A)
September 30, 2018

The *Statement of Net Position* (Exhibit #1) is most closely related to a balance sheet. It presents information on all the Board's assets (what it owns) deferred outflows of resources and liabilities and deferred inflows of resources (what it owes), with the difference reported as net position. The net position reported in this statement represents the accumulation of changes in net position for the current fiscal year and all fiscal years in the past combined. Over time, the increases or decreases in net position reported in this statement may serve as a useful indicator of whether the financial position of the school board is improving or deteriorating.

The *Statement of Activities* (Exhibit #2) is most closely related to an income statement. It presents information showing how the Board's net position changed during the current fiscal year only. All of the current year's revenues and expenses are accounted for in the *Statement of Activities* regardless of when the cash is received or paid. This statement shows gross expenses and offsetting program revenues to arrive at net cost information for each major expense function or activity of the Board. By showing the change in net position for the year, the reader may be able to determine whether the Board's financial position has improved or deteriorated over the course of the current fiscal year. The change in net position may be financial or non-financial in nature. Non-financial factors which may have an impact on the Board's financial condition include: age and condition of facilities, mandated educational programs for which little or no funding is provided, and increases or decreases in funding from state and federal governments, to name a few.

Fund financial statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Board uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. This reporting model requires the Board to present financial statements on a fund basis, but with some modifications. All of the funds of the Board are classified as governmental funds.

Governmental Funds – Governmental fund financial statements begin on Exhibit #3. These statements account for basically the same governmental activities reported in the *government-wide financial statements*. Until 2003, fund information had been reported in the aggregate by type of fund. As required under the Statement Number 34 reporting model, the fund financial statements presented herein display information on each of the Board's most important governmental funds or major funds. This is required in order to better assess the Board's accountability for significant governmental programs or certain dedicated revenue. The Board's major funds are the General Fund, Special Revenue Fund and the Capital Projects Fund.

Colbert County Board of Education
Management's Discussion and Analysis (MD&A)
September 30, 2018

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

Fiduciary Fund – The Board is the trustee, or fiduciary, for its Educational Foundation funds that are under the control and administration of the foundation. The Board's fiduciary activities are reported in a separate *Statement of Fiduciary Net Position*. These funds are not available to the Board to finance its operations; and therefore, are not included in the *government-wide financial statements*. The Board is responsible for ensuring that the assets reported by these funds are used for their intended purpose.

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

After the presentation of the basic financial statements and accompanying notes to the basic financial statements, this reporting model requires additional *Required Supplementary Information* to be presented following the *Notes to the Basic Financial Statements*. The *Required Supplementary Information* provides a comparison of the original adopted budgets to the final amended budgets of the Board's General Fund and Special Revenue Fund which are then further compared to the actual operating results for the fiscal year. The comparison of this data allows users to assess management's ability to project and plan for its operations throughout the year.

**Colbert County Board of Education
Management's Discussion and Analysis (MD&A)
September 30, 2018**

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 liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$30,277,603.13 at September 30, 2018.

- ◆ The Board's net investment in capital assets is represented by \$11,779,116.58 of this amount. 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 those net positions for day-to-day operations. \$649,664.30 is restricted for capital projects, \$1,277.46 for debt service and \$608,554.26 for other purposes.
- ◆ The balance of unrestricted net position is (\$43,316,215.73) due to the implementation of GASB Statement Number 68 and GASB Statement Number 75.

Table 1: Summary of Net Position
As of September 30, 2017 and 2018

	2017 Governmental Activities	2018 Governmental Activities
Current and Other Assets	\$ 14,269,539.99	\$ 15,134,900.91
Capital Assets	13,500,798.03	21,327,804.83
Total Assets	<u>27,770,338.02</u>	<u>36,462,705.74</u>
Deferred Outflows of Resources	<u>4,287,862.83</u>	<u>4,526,978.97</u>
Current Liabilities	3,271,190.05	3,271,336.54
Noncurrent Liabilities	28,282,111.69	57,590,975.20
Total Liabilities	<u>31,553,301.74</u>	<u>60,862,311.74</u>
Deferred Inflows of Resources	<u>5,545,903.73</u>	<u>10,404,976.10</u>
Net Position:		
Net Investment in Capital Assets	12,319,686.34	11,779,116.58
Restricted for Debt Service		1,277.46
Restricted for Capital Projects	414,829.88	649,664.30
Restricted for Other Purposes	295,099.55	608,554.26
Unrestricted	<u>(18,070,620.39)</u>	<u>(43,316,215.73)</u>
Total Net Position	<u>\$ (5,041,004.62)</u>	<u>\$(30,277,603.13)</u>

**Colbert County Board of Education
Management's Discussion and Analysis (MD&A)
September 30, 2018**

Table 2
Summary of Changes in Net Position from Operating Results
Fiscal Year Ended September 30, 2017 and 2018

	2017 Governmental Activities	2018 Governmental Activities
Revenues:		
Program Revenues		
Charges for Services	\$ 3,207,929.83	\$ 3,142,536.91
Operating Grants and Contributions	17,764,792.28	17,598,195.36
Capital Grants and Contributions	747,506.00	762,137.00
General Revenues:		
Taxes		
Property Taxes for General Purposes	4,357,197.86	4,996,196.28
Grants and Contributions Not Restricted for Specific Purpose	10,758.00	4,456.94
Sales and Use Tax for General Purposes	3,636,475.27	3,576,510.24
Miscellaneous Taxes	78,583.85	76,364.59
Interest	124,309.45	113,257.90
Gain on Disposition of Capital Assets		26,272.36
Miscellaneous	1,320,488.66	1,254,392.21
Total Revenues:	31,248,041.20	31,550,319.79
Expenses:		
Governmental Activities		
Instruction	15,989,509.96	15,704,092.40
Instructional Support	5,547,269.32	5,583,027.53
Operation and Maintenance	2,755,206.07	2,819,845.92
Auxiliary Services:		
Auxiliary Services – Food Service	2,537,881.01	2,247,268.70
Auxiliary Services – Transportation	2,529,171.08	2,483,985.40
General Administration and Central Support	1,101,008.92	1,174,230.24
Other	1,608,333.73	1,688,047.01
Interest on Long-Term Debt	44,446.59	340,001.10
Total Expenses	32,112,826.68	32,040,498.30
Increase (Decrease) in Net Position	(864,785.48)	(490,178.51)
Net Position – Beginning of Year, as Restated	(4,176,219.14)	(29,787,424.62)
Net Position - End of Year	\$ (5,041,004.62)	\$(30,277,603.13)

**Colbert County Board of Education
Management's Discussion and Analysis (MD&A)
September 30, 2018**

Governmental Activities – As shown in *Exhibit #2*, the cost of services rendered from the Board's governmental activities for the year ended September 30, 2018, was \$32,040,498.30. It is important to note that not all of these costs were borne by the taxpayers of Colbert County.

- ◆ Some of the cost, \$3,142,536.91, was paid by users who benefited from services provided during the year, such as school lunches and participation in school extra-curricular activities.
- ◆ State and federal government subsidized certain programs with grants and contributions totaling \$17,598,195.36.
- ◆ Other program revenue sources, such as capital grants, provided another \$762,137.00 in revenues.

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

Table 3
Net Cost of Governmental Activities

	Total Cost	Net Cost
Instructional Services	\$15,704,092.40	\$ (4,641,521.30)
Instructional Support Services	5,583,027.53	(2,279,167.93)
Operation and Maintenance	2,819,845.92	(1,599,136.94)
Auxiliary Services:		
Food Service	2,247,268.70	(172,357.78)
Transportation	2,483,985.40	(272,095.39)
General Administration and Central Support	1,174,230.24	(978,559.52)
Other	1,688,047.01	(254,789.07)
Interest on Long-Term Debt	340,001.10	(340,001.10)
Total Expenses	\$32,040,498.30	\$(10,537,629.03)

**Colbert County Board of Education
Management's Discussion and Analysis (MD&A)
September 30, 2018**

Financial Analysis of School Board Funds

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

Governmental Funds – The focus of the Board's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Board's financial requirements (Note that the relationship between the fund financial statements and the government-wide financial statements are reconciled on Exhibits #4 and #6). The financial performance of the Board as a whole is reflected in its governmental funds as well. At the end of the fiscal year, the Board's governmental funds reported combined ending fund balances of \$7,768,502.54.

- ◆ \$3,489,106.89 of this total is found in the fund balance of the General Fund.
- ◆ \$1,314,532.00 represents the fund balance of the Special Revenue Fund.
- ◆ \$2,852,214.92 represents the fund balance of the Capital Projects Fund.
- ◆ \$112,648.73 represents the fund balance of the Debt Service Fund.

General Fund – The General Fund is the primary operating fund of the Board. The Board incurred an increase in fund balance in the amount of \$284,813.04. The General Fund receives proceeds from State, Federal and Local Sources for General Education Purposes.

Special Revenue Fund – The special revenue fund is comprised of all Federal funds restricted for approved program purposes; Child Nutrition Program funds; and Public funds in the Local Schools.

Capital Projects Fund – The capital projects fund is used to account for and report financial resources that are restricted, committed or assigned to expenditures for capital outlay.

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

**Colbert County Board of Education
Management's Discussion and Analysis (MD&A)
September 30, 2018**

Budgetary Highlights of Major Funds

On or before October 1st of each year, the Board is mandated by state law to prepare and submit to the State Superintendent of Education the annual budget adopted by the Board. The original fiscal year 2018 budget was adopted by the Board in a meeting held on September 14, 2017. Over the course of the year, the Board revised the annual budget as needed.

Capital Asset and Debt Administration

Capital Assets

As of September 30, 2018, the Board had invested \$21,327,804.83 in a broad range of capital assets, including land, buildings, school furniture, school buses, instructional equipment, computer hardware, maintenance vehicles, custodial equipment, and athletic equipment. The table below provides additional information on these assets.

Table 4
Capital Assets

Land	\$ 299,456.00
Land Improvements	294,000.71
Buildings and Improvements	21,039,715.75
Construction in Progress	8,466,692.93
Equipment and Furniture	5,494,469.90
Assets Under Capital Lease	1,090,050.00
Less: Accumulated Depreciation	<u>(15,356,580.46)</u>
Total Capital Assets	<u>\$ 21,327,804.83</u>

Long-Term Debt

At year-end, the Board had \$157,793.65 in long-term debt payable through the Board's leveraged portion of the Public School Fund Annual Allocation from State Funds.

The Board also had Tax Warrants Series 2017 outstanding in the amount of \$9,105,000.00. The proceeds were used for various energy efficiency improvements throughout the district.

**Colbert County Board of Education
Management's Discussion and Analysis (MD&A)
September 30, 2018**

Table 5: Long-Term Debt
Fiscal Year Ended September 30, 2018
Fiscal Year 2018 Schedule of Debt

Original Amount	Year Borrowed	Final Year	Principal Paid	Interest Paid	Balance 09/30/2018	Fund Source
\$9,105,000.00	2017	2038	\$	\$118,772.51	\$9,105,000.00	6110
\$2,165,620.00	1999	2019	\$149,017.48	\$ 15,340.56	\$ 157,793.65	2120

Capital Lease Obligation

The Board is obligated under a certain lease for buses accounted for as a capital lease. If the Board completes the lease payments according to the schedule below, which is the stated intent of the Board, ownership of the leased equipment will pass to the Board. The following is a schedule of future minimum lease payments under capital lease, together with the net present value of the minimum lease payments as of September 30, 2018.

Fiscal Year Ending	Governmental Activities
September 30, 2019	\$120,340.37
2020	120,340.37
2021	120,340.38
2022	120,340.38
2023	120,340.37
2024-2025	240,680.75
Total Minimum Lease Payments	842,382.62
Less: Amount Representing Interest	71,560.97
Present Value of Net Minimum Lease Payments	<u>\$770,821.65</u>

Pension Liability and OPEB Liability

Due to the adoption of GASB Statement Number 68, a pension liability of \$24,865,000.00 had to be booked.

Due to the adoption of GASB Statement Number 75, an OPEB liability of \$22,691,241.00 had to be booked.

These liabilities have of course caused the Board to have a negative net position.

**Colbert County Board of Education
Management's Discussion and Analysis (MD&A)
September 30, 2018**

Economic Factors and Next Year's Budget

The following are currently known Colbert County economic factors considered as we move into the 2018-2019 fiscal year.

- ◆ With local funding heavily dependent on Sales Tax revenue, we are very susceptible to revenue shortfalls due to changes in the local economy.
- ◆ Ad Valorem Property Taxes and Sales Taxes that are received from the collections in the County are pledged to meet the State's 10-mill requirement for participation in the Foundation Program. Here is a brief history of the Board's 10 mill match:

Fiscal Year	10 Mill Match
2012	\$2,803,480
2013	\$3,300,863
2014	\$4,009,839
2015	\$2,781,080
2016	\$3,001,960
2017	\$3,271,940
2018	\$3,280,630
2019	\$3,175,200

- ◆ An increase in ADM from fiscal year 2018 of 71.30 resulted in an actual increase of 6.32 State Funded units.
- ◆ We are anticipating no additional State Revenue in the coming years, and must plan accordingly. The increase in the cost of benefits will be a factor to consider when budgeting for the future. An anticipated loss of students in coming years will result in the loss of State-Funded Teacher units which will create a hardship from the classroom to the boardroom. Continuous lack of adequate funding for our educators will hamper any efforts to recruit the best teachers for our students.

**Colbert County Board of Education
Management's Discussion and Analysis (MD&A)
September 30, 2018**

Enrollment History – ADM = Average Daily Membership of enrolled students:

- FY 2018-2019 ADM 2,565.10 **gain** of 71.3
- FY 2017-2018 ADM 2,493.80 loss of 41.3
- FY 2016-2017 ADM 2,535.10 loss of 95.7
- FY 2015-2016 ADM 2,630.80 loss of 30.45
- FY 2014-2015 ADM 2,661.25 loss of 34.25
- FY 2013-2014 ADM 2,695.50 loss of 62.15
- FY 2012-2013 ADM 2,757.65 loss of 73.85
- FY 2011-2012 ADM 2,831.50 loss of 25.0
- FY 2010-2011 ADM 2,856.50 loss of 76.75
- FY 2009-2010 ADM 2,933.25 loss of 44.0
- FY 2008-2009 ADM 2,977.25 loss of 42.4
- FY 2007-2008 ADM 3,019.65 loss of 95.5
- FY 2006-2007 ADM 3,115.15 loss of 83.35
- FY 2005-2006 ADM 3,198.50 loss of 69.99
- FY 2004-2005 ADM 3,268.49 loss of 5.36
- FY 2003-2004 ADM 3,273.85 loss of 69.7
- FY 2002-2003 ADM 3,343.55 **gain** of 6.85
- FY 2001-2002 ADM 3,336.70 loss of 19.22
- FY 2000-2001 ADM 3,355.92 loss of 103.12
- FY 1999-2000 ADM 3,459.04

This loss over nineteen years of 893.94 students represents a loss of 49.85 state funded units from 221.94 in 1999-2000, to 172.09 in fiscal year 2019.

- ◆ Our locally funded teacher units for the 2018-2019 School Year total over nineteen (19). The need for Locally Funded Teacher Units continues to increase. We must be able to support a larger number of local teacher units with our local funds to effectively provide education opportunities to our students. If not, locally funded teacher units will have to be reduced.
- ◆ State Funding continues to be unreliable when planning for our future, with State Budget woes causing further funding divisor increases, program cutbacks and other cost-cutting measures.

Contacting the School Board's Financial Management

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Board's finances and to show the Board's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact James Brumley, Chief School Finance Officer, Colbert County Board of Education, P.O. Box 538, Tuscumbia, AL 35674, Phone (256) 386-8565, email jbrumley@colbert.k12.a1.us.

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Basic Financial Statements

Statement of Net Position
September 30, 2018

	Governmental Activities
<u>Assets</u>	
Cash and Cash Equivalents	\$ 9,340,480.09
Cash with Fiscal Agent	112,648.73
Ad Valorem Property Taxes Receivable	4,206,433.10
Due From Other Governments	1,409,610.25
Inventories	65,728.74
Capital Assets (Note 4):	
Nondepreciable	8,766,148.93
Depreciable, Net	12,561,655.90
Total Assets	<u>36,462,705.74</u>
<u>Deferred Outflows of Resources</u>	
Employer Pension Contribution	2,042,884.97
Proportionate Share of Collective Deferred Outflows Related to Net Pension Liability	1,702,000.00
Employer Other Postemployment Benefits (OPEB) Contribution	782,094.00
Total Deferred Outflows of Resources	<u>4,526,978.97</u>
<u>Liabilities</u>	
Due to Other Governments	376,704.91
Salaries and Benefits Payable	2,783,260.36
Accrued Interest Payable	111,371.27
Long-Term Liabilities:	
Portion Due or Payable Within One Year:	
Note Payable	1,094.64
Capital Lease Payable	102,842.72
Bonds Payable	157,793.65
Portion Due or Payable After One Year:	
Note Payable	24.26
Capital Lease Payable	667,978.93
Warrants Payable	9,105,000.00
Net Pension Liability	24,865,000.00
Net Other Postemployment Benefits Liability	22,691,241.00
Total Liabilities	<u>\$ 60,862,311.74</u>

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

	Governmental Activities
<u>Deferred Inflows of Resources</u>	
Unavailable Revenue - Property Taxes	\$ 4,206,433.10
Proportionate Share of Collective Deferred Inflows Related to Net Pension Liability	2,925,000.00
Proportionate Share of Collective Deferred Inflows Related to Net OPEB Liability	3,273,543.00
Total Deferred Inflows of Resources	<u>10,404,976.10</u>
<u>Net Position</u>	
Net Investment in Capital Assets	11,779,116.58
Restricted for:	
Debt Service	1,277.46
Capital Projects	649,664.30
Other Purposes	608,554.26
Unrestricted	<u>(43,316,215.73)</u>
Total Net Position	<u>\$ (30,277,603.13)</u>

Statement of Activities
For the Year Ended September 30, 2018

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<u>Governmental Activities</u>			
Instruction	\$ 15,704,092.40	\$ 546,595.51	\$ 10,328,370.06
Instructional Support	5,583,027.53	216,028.68	2,983,208.86
Operation and Maintenance	2,819,845.92	182,657.16	891,759.62
Auxiliary Services:			
Student Transportation	2,483,985.40	73,003.22	1,851,685.53
Food Service	2,247,268.70	1,834,386.52	240,524.40
General Administration and Central Support	1,174,230.24	1,856.17	157,398.60
Interest and Fiscal Charges	340,001.10		
Other Expenses	1,688,047.01	288,009.65	1,145,248.29
Total Governmental Activities	<u>\$ 32,040,498.30</u>	<u>\$ 3,142,536.91</u>	<u>\$ 17,598,195.36</u>

General Revenues:

Taxes:
 Property Taxes for General Purposes
 Sales Tax
 Alcohol Beverage Tax
 Other Taxes
Grants and Contributions Not Restricted
 for Specific Programs
Investment Earnings
Gain on Disposition of Capital Assets
TVA in Lieu of Taxes
Miscellaneous
 Total General Revenues

Changes in Net Position

Net Position - Beginning of Year, as Restated (Note 11)

Net Position - End of Year

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

		Net (Expenses) Revenues and Changes in Net Position	
Capital Grants and Contributions		Total Governmental Activities	
\$	187,605.53	\$	(4,641,521.30)
	104,622.06		(2,279,167.93)
	146,292.20		(1,599,136.94)
	287,201.26		(272,095.39)
			(172,357.78)
	36,415.95		(978,559.52)
			(340,001.10)
			(254,789.07)
\$	762,137.00		(10,537,629.03)

4,996,196.28
3,576,510.24
20,095.47
56,269.12
4,456.94
113,257.90
26,272.36
578,816.00
675,576.21
<u>10,047,450.52</u>
(490,178.51)
<u>(29,787,424.62)</u>
\$ (30,277,603.13)

Balance Sheet
Governmental Funds
September 30, 2018

	General Fund	Special Revenue Fund
<u>Assets</u>		
Cash and Cash Equivalents	\$ 5,332,854.45	\$ 1,159,614.93
Cash with Fiscal Agent		
Ad Valorem Property Taxes Receivable	4,206,433.10	
Due from Other Governments	1,165,178.42	242,227.62
Interfund Receivables	30,687.15	414.58
Inventories		65,728.74
Total Assets	<u>10,735,153.12</u>	<u>1,467,985.87</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>		
<u>Liabilities</u>		
Due to Other Governments	372,389.05	4,315.86
Interfund Payables	414.58	32,687.15
Salaries and Benefits Payable	2,666,809.50	116,450.86
Total Liabilities	<u>3,039,613.13</u>	<u>153,453.87</u>
<u>Deferred Inflows of Resources</u>		
Unavailable Revenue - Property Taxes	4,206,433.10	
Total Deferred Inflows of Resources	<u>4,206,433.10</u>	
<u>Fund Balances</u>		
Nonspendable:		
Inventories		65,728.74
Restricted:		
Child Nutrition		515,325.52
Capital Projects		
Fleet Renewal		
Other Purposes		27,500.00
Debt Service		
Assigned to:		
Capital Projects		
Local Schools		705,977.74
Unassigned	3,489,106.89	
Total Fund Balances	<u>3,489,106.89</u>	<u>1,314,532.00</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 10,735,153.12</u>	<u>\$ 1,467,985.87</u>

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

Capital Projects Fund	Other Governmental Fund	Total Governmental Funds
\$ 2,848,010.71	\$	\$ 9,340,480.09
	112,648.73	112,648.73
		4,206,433.10
2,204.21		1,409,610.25
2,000.00		33,101.73
		65,728.74
<u>2,852,214.92</u>	<u>112,648.73</u>	<u>15,168,002.64</u>
		376,704.91
		33,101.73
		<u>2,783,260.36</u>
		<u>3,193,067.00</u>
		4,206,433.10
		<u>4,206,433.10</u>
		65,728.74
		515,325.52
859,273.61		859,273.61
276,436.64		276,436.64
		27,500.00
	112,648.73	112,648.73
1,716,504.67		1,716,504.67
		705,977.74
		<u>3,489,106.89</u>
<u>2,852,214.92</u>	<u>112,648.73</u>	<u>7,768,502.54</u>
<u>\$ 2,852,214.92</u>	<u>\$ 112,648.73</u>	<u>\$ 15,168,002.64</u>

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***Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
September 30, 2018***

Total Fund Balances - Governmental Funds (Exhibit 3) \$ 7,768,502.54

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

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

Land	\$ 299,456.00	
Construction in Progress	8,466,692.93	
Land Improvements	294,000.71	
Buildings and Improvements	21,039,715.75	
Equipment and Furniture	5,494,469.90	
Assets Under Capital Lease	1,090,050.00	
Less: Accumulated Depreciation	<u>(15,356,580.46)</u>	
Total Capital Assets		21,327,804.83

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds. 819,884.97

Deferred outflows and inflows of resources related to other postemployment benefit obligations (OPEB) are applicable to future periods and, therefore, are not reported in the governmental funds. (2,491,449.00)

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

	<u>Amounts Due or Payable Within One Year</u>	<u>Amounts Due or Payable After One Year</u>	
Note Payable	\$ 1,094.64	\$ 24.26	
Capital Lease Payable	102,842.72	667,978.93	
Accrued Interest Payable	111,371.27		
Bonds Payable	157,793.65		
Warrants Payable		9,105,000.00	
Net Pension Liability		24,865,000.00	
Net OPEB Liability		<u>22,691,241.00</u>	
Total Liabilities	<u>\$ 373,102.28</u>	<u>\$ 57,329,244.19</u>	<u>(57,702,346.47)</u>

Total Net Position - Governmental Activities (Exhibit 1) \$ (30,277,603.13)

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

Statement of Revenues, Expenditures and Changes in Fund BalanceS
Governmental Funds
For the Year Ended September 30, 2018

	General Fund	Special Revenue Fund
<u>Revenues</u>		
State	\$ 15,037,490.92	\$
Federal	186,432.77	3,620,189.21
Local	9,196,419.25	2,265,458.74
Other	25,902.00	50,350.82
Total Revenues	24,446,244.94	5,935,998.77
<u>Expenditures</u>		
Current:		
Instruction	13,208,352.04	1,845,501.01
Instructional Support	4,447,349.59	878,259.59
Operation and Maintenance	2,265,693.89	223,733.91
Auxiliary Services:		
Student Transportation	1,861,838.60	185,342.87
Food Service		2,332,382.62
General Administration and Central Support	871,654.05	124,539.27
Other	1,037,280.59	626,489.83
Capital Outlay	10,000.00	125,634.00
Debt Service:		
Principal Retirement		1,800.00
Interest and Fiscal Charges		
Total Expenditures	23,702,168.76	6,343,683.10
Excess (Deficiency) of Revenues Over Expenditures	744,076.18	(407,684.33)
<u>Other Financing Sources (Uses)</u>		
Indirect Cost	179,587.46	
Long-Term Debt Issued		
Transfers In	58,899.07	755,233.95
Other Financing Sources	30,021.92	2,760.00
Sale of Capital Assets	26,272.36	
Transfers Out	(754,043.95)	(60,899.07)
Discounts on Long-Term Debt Issued		
Total Other Financing Sources (Uses)	(459,263.14)	697,094.88
Net Changes in Fund Balances	284,813.04	289,410.55
Fund Balances - Beginning of Year	3,204,293.85	1,025,121.45
Fund Balances - End of Year	\$ 3,489,106.89	\$ 1,314,532.00

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

Capital Projects Fund	Other Governmental Fund	Total Governmental Funds
\$ 760,267.00	\$	\$ 15,797,757.92
		3,806,621.98
335,083.17	13,671.63	11,810,632.79
		76,252.82
<u>1,095,350.17</u>	<u>13,671.63</u>	<u>31,491,265.51</u>
34,653.07		15,088,506.12
169,536.66		5,495,145.84
257,491.16		2,746,918.96
33,650.39		2,080,831.86
		2,332,382.62
179,250.44		1,175,443.76
		1,663,770.42
8,571,210.02		8,706,844.02
249,577.49		251,377.49
35,120.92	118,772.51	153,893.43
<u>9,530,490.15</u>	<u>118,772.51</u>	<u>39,695,114.52</u>
<u>(8,435,139.98)</u>	<u>(105,100.88)</u>	<u>(8,203,849.01)</u>
		179,587.46
9,105,000.00		9,105,000.00
2,000.00	217,749.61	1,033,882.63
		32,781.92
		26,272.36
(218,939.61)		(1,033,882.63)
(74,736.40)		(74,736.40)
<u>8,813,323.99</u>	<u>217,749.61</u>	<u>9,268,905.34</u>
378,184.01	112,648.73	1,065,056.33
2,474,030.91		6,703,446.21
<u>\$ 2,852,214.92</u>	<u>\$ 112,648.73</u>	<u>\$ 7,768,502.54</u>

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended September 30, 2018

Net Changes in Fund Balances - Total Governmental Funds (Exhibit 5)	\$ 1,065,056.33
Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) are different because:	
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay (\$8,706,844.02) exceeds depreciation expense (\$879,837.22) in the period.	7,827,006.80
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.	251,377.49
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.	(9,105,000.00)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Net Increase in Accrued Interest Payable	\$ (111,371.27)
Net Decrease in Pension Expense	19,022.14
Net Increase in Other Postemployment Benefits (OPEB) Expense	(436,270.00)
	<u>(528,619.13)</u>
Change in Net Position of Governmental Activities (Exhibit 2)	<u>\$ (490,178.51)</u>

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

Statement of Fiduciary Net Position
September 30, 2018

	Agency Funds
<u>Assets</u>	
Cash and Cash Equivalents	\$ 33,260.36
Total Assets	<u>33,260.36</u>
<u>Liabilities</u>	
Accounts Payable	4,500.00
Due to External Organizations	28,760.36
Total Liabilities	<u>\$ 33,260.36</u>

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

Notes to the Financial Statements

For the Year Ended September 30, 2018

Note 1 – Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

Notes to the Financial Statements

For the Year Ended September 30, 2018

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

Fund Financial Statements

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

The Board reports the following major governmental funds:

- ◆ **General Fund** – The General Fund is the primary operating fund of the Board. It is used to account for all financial resources except those required to be accounted for in another fund. The Board primarily receives revenues from the Education Trust Fund (ETF) and local taxes. Amounts appropriated from the ETF were allocated to the school board on a formula basis.
- ◆ **Special Revenue Fund** – This fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Various federal and local funding sources are included in this fund. Some of the significant federal funding sources include the federal funds that are received for Special Education, Title I and the Child Nutrition program in addition to various smaller grants, which are required to be spent for the purposes of the applicable federal grants. Also included in this fund are the public and non-public funds received by the local schools which are generally not considered restricted or committed.
- ◆ **Capital Projects Fund** – This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlay, including the acquisition or construction of capital facilities and other capital assets.

Notes to the Financial Statements

For the Year Ended September 30, 2018

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

Governmental Fund Type

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

The Board reports the following fiduciary fund type:

Fiduciary Fund Type

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

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

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

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

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

Notes to the Financial Statements
For the Year Ended September 30, 2018

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

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

1. Deposits and Cash with Fiscal Agent

Cash and cash equivalents includes cash on hand and demand deposits. Statutes authorized the Board to invest in obligations of the U. S. Treasury, obligations of any state of the United States, general obligations of any Alabama county or city board of education secured by the pledge of the three-mill school tax and certificates of deposit.

2. Receivables

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

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

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

3. Inventories

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

Notes to the Financial Statements

For the Year Ended September 30, 2018

4. Restricted Assets

Certain funds received from the State Department of Education and sales taxes for capital projects and improvements, as well as certain resources set aside for repayment of debt, included in cash and cash with fiscal agent on the balance sheet are considered restricted assets because they are maintained separately and their use is limited. The Public School Capital Projects, Sales Tax and Fleet Renewal funding sources are used to report proceeds that are restricted for use in various construction projects and the purchase of school buses. The Debt Service Fund is used to report resources set aside to pay the principal and interest on debt as it becomes due.

5. Capital Assets

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

Depreciation on all assets is provided on the straight-line basis over the assets' estimated useful life. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets reported in the government-wide statements are as follows:

	Capitalization Threshold	Estimated Useful Life
Land Improvements (Exhaustible)	\$50,000	20 years
Buildings	\$50,000	25 – 50 years
Building Improvements	\$50,000	5 – 30 years
Equipment and Furniture	\$ 5,000	5 – 20 years
Vehicles	\$ 5,000	8 – 15 years

6. Deferred Outflows of Resources

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

Notes to the Financial Statements

For the Year Ended September 30, 2018

7. Long-Term Obligations

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

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

8. Deferred Inflows of Resources

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

9. Net Position/Fund Balances

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

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

Notes to the Financial Statements

For the Year Ended September 30, 2018

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

- A. Nonspendable fund balances include amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Examples of nonspendable fund balance reserves for which fund balance shall not be available for financing general operating expenditures include: inventories, prepaid items and long-term receivables.
- B. Restricted fund balances consist of amounts that are subject to externally enforceable legal restrictions imposed by creditors, grantors, contributors or laws and regulations of other governments; or through constitutional provisions or enabling legislation.
- C. Committed fund balances consist of amounts that are subject to a purpose constraint imposed by formal action or resolution of the Board, which is the highest level of decision-making authority, before the end of the fiscal year and that require the same level of formal action to remove or modify the constraint.
- D. Assigned fund balances consist of amounts that are intended to be used by the Board for specific purposes. The Board authorizes the Superintendent or Chief School Financial Officer to make a determination of the assigned amounts of fund balance. Such assignments may not exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. Assigned fund balances require the same level of authority to remove the constraint.
- E. Unassigned fund balances include all spendable amounts not contained in the other classifications. This portion of the total fund balance in the General Fund is available to finance operating expenditures.

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

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

Notes to the Financial Statements

For the Year Ended September 30, 2018

E. Pensions

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

F. Other Postemployment Benefits (OPEB)

The Alabama Retired Education Employees' Health Care Trust (the "Trust") financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. This includes, for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Trust and additions to/deductions from the Trust's fiduciary net position. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due, pursuant to plan requirements. Benefits are recognized when due and payable in accordance with the terms of the Plan. Subsequent events were evaluated by management through the date the financial statements were issued.

Note 2 – Stewardship, Compliance, and Accountability

Budgets

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

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

Notes to the Financial Statements
For the Year Ended September 30, 2018

Note 3 – Deposits and Investments

A. Deposits

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Board will not be able to cover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Board's deposits at year-end were entirely covered by federal depository insurance or by the Security for Alabama Funds Enhancement Program (SAFE Program). The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the *Code of Alabama 1975*, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program, all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the

State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

B. Cash with Fiscal Agent

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

Fair Value Measurement

The Board categorizes its fair value measurements within the fair value hierarchy established by the Governmental Accounting Standards Board (GASB) Statement Number 72, *Fair Value Measurement and Application*. The hierarchy is based on the valuation inputs used to measure fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Notes to the Financial Statements
For the Year Ended September 30, 2018

As of September 30, 2018, the Board had the following amounts invested in Cash with Fiscal Agent:

Investment Type	Fair Market Value Hierarchies			
	Total	Level 1	Level 2	Level 3
First American Government Obligation Fund CI D	\$112,648.73	\$112,648.73	\$	\$

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

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Board’s investments are rated AAAM by Standard and Poor’s and Aaa-mf by Moody’s. The Board has no formal policy regarding credit risk.

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

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

Notes to the Financial Statements
For the Year Ended September 30, 2018

Note 4 – Capital Assets

Capital asset activity for the year ended September 30, 2018, was as follows:

	Balance 10/01/2017	Additions	Retirements	Balance 09/30/2018
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 299,456.00	\$	\$	\$ 299,456.00
Construction in Progress		8,466,692.93		8,466,692.93
Total Capital Assets, Not Being Depreciated	299,456.00	8,466,692.93		8,766,148.93
Capital Assets Being Depreciated:				
Land Improvements (Exhaustible)	294,000.71			294,000.71
Buildings and Improvements	20,952,999.66	86,716.09		21,039,715.75
Equipment and Furniture	5,667,800.68	153,435.00	326,765.78	5,494,469.90
Assets Under Capital Lease	1,090,050.00			1,090,050.00
Total Capital Assets Being Depreciated	28,004,851.05	240,151.09	326,765.78	27,918,236.36
Less Accumulated Depreciation for:				
Land Improvements	(53,169.76)	(10,392.88)		(63,562.64)
Buildings and Improvements	(10,906,689.16)	(432,180.00)		(11,338,869.16)
Equipment and Furniture	(3,680,142.60)	(328,259.34)	326,765.78	(3,681,636.16)
Assets Under Capital Lease	(163,507.50)	(109,005.00)		(272,512.50)
Total Accumulated Depreciation	(14,803,509.02)	(879,837.22)	326,765.78	(15,356,580.46)
Total Capital Assets, Being Depreciated, Net	13,201,342.03	(639,686.13)		12,561,655.90
Total Governmental Activities Capital Assets, Net	\$ 13,500,798.03	\$ 7,827,006.80	\$	\$ 21,327,804.83

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

	Current Year Depreciation Expense
Governmental Activities:	
Instruction	\$391,537.21
Instructional Support	29,142.23
Operation and Maintenance	46,278.82
Auxiliary Services:	
Food Service	51,318.62
Transportation	350,158.07
Other	11,402.27
Total Depreciation Expense – Governmental Activities	\$879,837.22

Notes to the Financial Statements

For the Year Ended September 30, 2018

Note 5 – Defined Benefit Pension Plan

A. Plan Description

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

B. Benefits Provided

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

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

Notes to the Financial Statements
For the Year Ended September 30, 2018

C. Contributions

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

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

Participating employers' contractually required contribution rate for the year ended September 30, 2018, was 12.24% of annual pay for Tier 1 members and 11.01% 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 \$2,042,884.97 for the year ended September 30, 2018.

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

At September 30, 2018, the Board reported a liability of \$24,865,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of September 30, 2016. 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, 2017, the Board's proportion was 0.252993%, which was an increase of 0.002661% from its proportion measured as of September 30, 2016.

Notes to the Financial Statements
For the Year Ended September 30, 2018

For the year ended September 30, 2018, the Board recognized pension expense of \$2,021,000.00. At September 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$	\$1,066,000.00
Changes of assumptions	1,484,000.00	
Net difference between projected and actual earnings on pension plan investments		1,487,000.00
Changes in proportion and differences between employer contributions and proportionate share of contributions	218,000.00	372,000.00
Employer contributions subsequent to the measurement date	2,042,884.97	
Total	<u>\$3,744,884.97</u>	<u>\$2,925,000.00</u>

The \$2,042,884.97 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending	
September 30, 2019	\$(359,000.00)
2020	\$ 116,000.00
2021	\$(524,000.00)
2022	\$(440,000.00)
2023	\$ (16,000.00)
Thereafter	\$

E. Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of September 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Investment Rate of Return (*)	7.75%
Projected Salary Increases	3.25% - 5.00%
(*) Net of Pension Plan Investment Expense	

Notes to the Financial Statements
For the Year Ended September 30, 2018

Post retirement mortality rates for service retirements and dependent beneficiaries were based on the RP-2000 White Collar Mortality Table projected to 2020 using Scale BB and adjusted 115% for all ages for males and 112% for ages 78 and older for females age 78. The rates of disabled mortality were based on the RP-2000 Disabled Mortality Table projected to 2020 using Scale BB and adjusted 105% for males and 120% 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	17.00%	4.40%
U. S. Large Stocks	32.00%	8.00%
U. S. Mid Stocks	9.00%	10.00%
U. S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	12.00%	9.50%
International Emerging Market Stocks	3.00%	11.00%
Alternatives	10.00%	10.10%
Real Estate	10.00%	7.50%
Cash	3.00%	1.50%
Total	100.00%	

(*) Includes assumed rate of inflation of 2.50%

Notes to the Financial Statements
For the Year Ended September 30, 2018

F. Discount Rate

The discount rate used to measure the total pension liability was 7.75%. 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, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following table presents the Board's proportionate share of the collective net pension liability calculated using the discount rate of 7.75%, as well as what the Board's proportionate share of the collective net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.75%) or 1-percentage point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Rate (7.75%)	1% Increase (8.75%)
Board's proportionate share of collective net pension liability	\$34,297	\$24,865	\$16,887
(Dollar amounts in the thousands)			

H. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2017. The supporting actuarial information is included in the GASB Statement Number 67 Report for the TRS prepared as of September 30, 2017. The auditor's report dated August 20, 2018, 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, 2017, along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

Notes to the Financial Statements

For the Year Ended September 30, 2018

Note 6 – Other Postemployment Benefits (OPEB)

A. Plan Description

The Alabama Retired Education Employees' Health Care Trust (the "Trust") is a cost-sharing multiple-employer defined benefit postemployment healthcare plan that administers healthcare benefits to the retirees of participating state and local educational institutions. The Trust was established under the Alabama Retiree Health Care Funding Act of 2007 which authorized and directed the Public Education Employees' Health Insurance Board (PEEHIB) to create an irrevocable trust to fund postemployment healthcare benefits to retirees participating in the Public Education Employees' Health Insurance Plan (PEEHIP). Active and retiree health insurance benefits are paid through PEEHIP. In accordance with GASB, the Trust is considered a component unit of the State of Alabama (the "State") and is included in the State's Comprehensive Annual Financial Report.

The PEEHIP was established in 1983 pursuant to the provisions of the *Code of Alabama 1975*, Title 16, Chapter 25A (Act Number 83-455, Acts of Alabama), to provide a uniform plan of health insurance for active and retired employees of state and local educational institutions which provide instruction at any combination of grades K-14 (collectively, eligible employees), and to provide a method for funding the benefits related to the plan. The four-year universities participate in the plan with respect to their retired employees, and are eligible and may elect to participate in the plan with respect to their active employees. Responsibility for the establishment of the health insurance plan and its general administration and operations is vested in the PEEHIB. The PEEHIB is a corporate body for purposes of management of the health insurance plan. The *Code of Alabama 1975*, Section 16-25A-4, provides the PEEHIB with the authority to amend the benefit provisions in order to provide reasonable assurance of stability in future years for the plan. All assets of the PEEHIP are held in trust for the payment of health insurance benefits. The Teachers' Retirement System of Alabama (TRS) has been appointed as the administrator of the PEEHIP and, consequently, serves as the administrator of the Trust.

B. Benefits Provided

PEEHIP offers a basic hospital medical plan to active members and non-Medicare eligible retirees. Benefits include inpatient hospitalization for a maximum of 365 days without a dollar limit, inpatient rehabilitation, outpatient care, physician services, and prescription drugs.

Active employees and non-Medicare eligible retirees who do not have Medicare eligible dependents can enroll in a health maintenance organization (HMO) in lieu of the basic hospital medical plan. The HMO includes hospital medical benefits, dental benefits, vision benefits, and an extensive formulary. However, participants in the HMO are required to receive care from a participating physician in the HMO plan.

Notes to the Financial Statements

For the Year Ended September 30, 2018

The PEEHIP offers four optional plans (Hospital Indemnity, Cancer, Dental, and Vision) that may be selected in addition to or in lieu of the basic hospital medical plan or HMO. The Hospital Indemnity Plan provides a per-day benefit for hospital confinement, maternity, intensive care, cancer, and convalescent care. The Cancer Plan covers cancer disease only and benefits are provided regardless of other insurance. Coverage includes a per-day benefit for each hospital confinement related to cancer. The Dental Plan covers diagnostic and preventative services, as well as basic and major dental services. Diagnostic and preventative services include oral examinations, teeth cleaning, x-rays, and emergency office visits. Basic and major services include fillings, general aesthetics, oral surgery not covered under a Group Medical Program, periodontics, endodontics, dentures, bridgework, and crowns. Dental services are subject to a maximum of \$1,250 per year for individual coverage and \$1,000 per person per year for family coverage. The Vision Plan covers annual eye examinations, eye glasses, and contact lens prescriptions.

PEEHIP members may opt to elect the PEEHIP Supplemental Plan as their hospital medical coverage in lieu of the PEEHIP Hospital Medical Plan. The PEEHIP Supplemental Plan provides secondary benefits to the member's primary plan provided by another employer. Only active and non-Medicare retiree members and dependents are eligible for the PEEHIP Supplemental Plan. There is no premium required for this plan, and the plan covers most out-of-pocket expenses not covered by the primary plan. The plan cannot be used as a supplement to Medicare, the PEEHIP Hospital Medical Plan, or the State or Local Governmental Plans administered by the State Employees' Insurance Board (SEIB).

Effective January 1, 2017, Medicare eligible members and Medicare eligible dependents who are covered on a retiree contract were enrolled in the United Healthcare Group Medicare Advantage plan for PEEHIP retirees. The MAPDP plan is fully insured by United Healthcare and members are able to have all of their Medicare Part A, Part B, and Part D (prescription drug coverage) in one convenient plan. With the United Healthcare plan for PEEHIP, retirees can continue to see their same providers with no interruption and see any doctor who accepts Medicare on a national basis. Retirees have the same benefits in and out-of-network and there is no additional retiree cost share if a retiree uses an out-of-network provider and no balance billing from the provider.

C. Contributions

The *Code of Alabama 1975*, Section 16-25A-8 and the *Code of Alabama 1975*, Section 16-25A-8.1, provide the PEEHIB with the authority to set the contribution requirements for plan members and the authority to set the employer contribution requirements for each required class, respectively. Additionally, the PEEHIB is required to certify to the Governor and the Legislature, the amount, as a monthly premium per active employee, necessary to fund the coverage of active and retired member benefits for the following fiscal year. The Legislature then sets the premium rate in the annual appropriation bill.

Notes to the Financial Statements
For the Year Ended September 30, 2018

For employees who retired after September 30, 2005, but before January 1, 2012, the employer contribution of the health insurance premium set forth by the PEEHIB for each retiree class is reduced by 2% for each year of service less than 25 and increased by 2% for each year of service over 25 subject to adjustment by the PEEHIB for changes in Medicare premium costs required to be paid by a retiree. In no case does the employer contribution of the health insurance premium exceed 100% of the total health insurance premium cost for the retiree.

For employees who retired after December 31, 2011, the employer contribution to the health insurance premium set forth by the PEEHIB for each retiree class is reduced by 4% for each year of service less than 25 and increased by 2% for each year over 25, subject to adjustment by the PEEHIB for changes in Medicare premium costs required to be paid by a retiree. In no case does the employer contribution of the health insurance premium exceed 100% of the total health insurance premium cost for the retiree. For employees who retired after December 31, 2011, who are not covered by Medicare, regardless of years of service, the employer contribution to the health insurance premium set forth by the PEEHIB for each retiree class is reduced by a percentage equal to 1% multiplied by the difference between the Medicare entitlement age and the age of the employee at the time of retirement as determined by the PEEHIB. This reduction in the employer contribution ceases upon notification to the PEEHIB of the attainment of Medicare coverage.

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

At September 30, 2018, the Board reported a liability of \$22,691,241 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the collective net OPEB liability was determined by an actuarial valuation as of September 30, 2016. The Board's proportion of the collective net OPEB liability was based on a projection of the Board's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At September 30, 2017, the Board's proportion was 0.305506%, which was a decrease of 0.011816% from its proportion measured as of September 30, 2016.

Notes to the Financial Statements
For the Year Ended September 30, 2018

For the year ended September 30, 2018, the Board recognized OPEB expense of \$1,218,364, with no special funding situations. At September 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$	\$2,356,029.00
Net difference between projected and actual earnings on OPEB plan investments		120,810.00
Changes in proportion and differences between Employer contributions and proportionate share of contributions		796,704.00
Employer contributions subsequent to the measurement date	782,094.00	
Total	\$782,094.00	\$3,273,543.00

The \$782,094.00 reported as deferred outflows of resources related to OPEB resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending	
September 30, 2019	\$(633,021.00)
2020	\$(633,021.00)
2021	\$(633,021.00)
2022	\$(633,021.00)
2023	\$(602,818.00)
Thereafter	\$(138,641.00)

Notes to the Financial Statements

For the Year Ended September 30, 2018

E. Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of September 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Projected Salary Increases (1)	3.25% - 5.00%
Long-Term Investment Rate of Return (2)	7.25%
Municipal Bond Index Rate at the Measurement Date	3.57%
Municipal Bond Index Rate at the Prior Measurement Date	2.93%
Projected Year for Fiduciary Net Position (FNP) to be Depleted	2042
Single Equivalent Interest Rate the Measurement Date	4.63%
Single Equivalent Interest Rate the Prior Measurement Date	4.01%
Healthcare Cost Trend Rate:	
Pre-Medicare Eligible	7.75%
Medicare Eligible	5.00%
Ultimate Trend Rate:	
Pre-Medicare Eligible	5.00%
Medicare Eligible	5.00%
Year of Ultimate Trend Rate	2022

(1) Includes 3.00% wage inflation.

(2) Compounded annually, net of investment expense and includes inflation.

Mortality rates for the period after service retirement are according to the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females. The rates of disabled mortality were based on the RP-2000 Disabled Mortality Table projected to 2020 using scale BB and adjusted 105% for males and 120% for females.

There were no ad hoc postemployment benefit changes, including ad hoc cost of living adjustments, during fiscal year 2017.

The decremental assumptions used in the valuation were selected based on the actuarial experience study prepared as of September 30, 2015, submitted to and adopted by the Teachers' Retirement System of Alabama Board on September 13, 2016.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the September 30, 2016, valuation were based on a review of recent plan experience done concurrently with the September 30, 2016, valuation.

Notes to the Financial Statements
For the Year Ended September 30, 2018

The long-term expected return on plan assets is to be reviewed as part of regular experience studies prepared every five years, in conjunction with similar analysis for the TRS. Several factors should be considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation), as developed for each major asset class. These ranges should be 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 then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The long-term expected rate of return on the OPEB plan investments is determined based on the allocation of assets by asset class and by the mean and variance of real returns.

The target asset allocation and best estimates of expected geometric real rates of return for each major asset class is summarized below:

Asset Class	Target Allocation	Long-Term Expected Rate of Return (*)
Fixed Income	30.00%	4.40%
U. S. Large Stocks	38.00%	8.00%
U. S. Mid Stocks	8.00%	10.00%
U. S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	15.00%	9.50%
Cash	5.00%	1.50%
Total	100.00%	
(*) Geometric mean, includes 2.50% inflation		

Notes to the Financial Statements
For the Year Ended September 30, 2018

F. Discount Rate

The discount rate (also known as the Single Equivalent Interest Rate (SEIR), as described by GASB Statement Number 74) used to measure the total OPEB liability at September 30, 2017, was 4.63%. The discount rate used to measure the total OPEB liability at the prior measurement date was 4.01%. Premiums paid to the PEEHIB for active employees shall include an amount to partially fund the cost of coverage for retired employees. The projection of cash flows used to determine the discount rate assumed that plan contributions will be made at the current contribution rates. Each year, the State specifies the monthly employer rate that participating school systems must contribute for each active employee. Approximately, 27.08% of the employer contributions were used to assist in funding retiree benefit payments in 2016 and it is assumed that the amount will increase by 3.00% per year and continue into the future. The discount rate determination will use a municipal bond rate to the extent the Trust is projected to run out of money before all benefits are paid. The rate used for this purpose is the monthly average of the Bond Buyers General Obligation 20-year Municipal Bond Index Rate. Therefore, the projected future benefit payments for all current plan members were projected through 2115. The long-term rate of return is used until the assets are expected to be depleted in 2042, after which the municipal bond rate is used.

G. Sensitivity of the Board's Proportionate Share of the Collective Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following table presents the Board's proportionate share of the collective net OPEB liability of the Trust calculated using the current healthcare trend rate, as well as what the collective net OPEB liability would be if calculated using one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (6.75% Decreasing to 4% for Pre-Medicare, 4% for Medicare Eligible, and 1% for Optional Plans)	Current Healthcare Trend Rate (7.75% Decreasing to 5% for Pre-Medicare, 5% for Medicare Eligible, and 2% for Optional Plans)	1% Increase (8.75% Decreasing to 6% for Pre-Medicare, 6% for Medicare Eligible, and 3% for Optional Plans)
Board's proportionate share of collective net OPEB Liability	\$18,320	\$22,691	\$28,331
(Dollar amounts in thousands)			

Notes to the Financial Statements
For the Year Ended September 30, 2018

The following table presents the Board’s proportionate share of the collective net OPEB liability of the Trust calculated using the discount rate of 4.63%, as well as what the collective net OPEB liability would be if calculated using one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (3.63%)	Current Healthcare Trend Rate (4.63%)	1% Increase (5.63%)
Board’s Proportionate Share of the Collective Net OPEB Liability	\$27,429	\$22,691	\$18,915
(Dollar amounts in thousands)			

H. OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan’s fiduciary net position is located in the Trust’s financial statements for the fiscal year ended September 30, 2017. The supporting actuarial information is included in the GASB Statement Number 74 Report for PEEHIP prepared as of September 30, 2017. Additional financial and actuarial information is available at www.rsa-al.gov.

Notes to the Financial Statements
For the Year Ended September 30, 2018

Note 7 – Lease Obligations

Capital Lease

The Board is obligated under a certain lease for buses accounted for as a capital lease. Assets under capital lease totaled \$1,090,050.00 at September 30, 2018. If the Board completes the lease payments according to the schedule below, which is the stated intent of the Board, ownership of the leased equipment will pass to the Board. The following is a schedule of future minimum lease payments under capital lease, together with the net present value of the minimum lease payments as of September 30, 2018:

Fiscal Year Ending	Governmental Activities
September 30, 2019	\$120,340.37
2020	120,340.37
2021	120,340.38
2022	120,340.38
2023	120,340.37
2024-2025	240,680.75
Total Minimum Lease Payments	842,382.62
Less: Amount Representing Interest	(71,560.97)
Present Value of Net Minimum Lease Payments	<u>\$770,821.65</u>

Note 8 – Long-Term Debt

During fiscal year 2010, the Board, as part of a pooled bond issuance with other school systems within the State of Alabama, issued Capital Improvement Pool Refunding Bonds, Series 2009-B, in anticipation of their Public School Fund allocations, which are received from the Alabama Department of Education. The Alabama Department of Education withholds the required debt service payments from the Board’s Public School Fund allocation. The proceeds from these bonds provided funds for the purpose of refunding the Board’s Capital Improvement Pool Bonds, Series 1999-D.

The Board entered into a note payable on April 18, 2016, for the purchase of a lawnmower.

During fiscal year 2018, the Board issued Special Tax School Warrants, Series 2017, in the amount of \$9,105,000. The proceeds were used for various energy efficiency improvements throughout the district.

Notes to the Financial Statements
For the Year Ended September 30, 2018

The following is a summary of long-term debt transactions for the Board for the year ended September 30, 2018:

	Debt Outstanding, as Restated (*) 10/01/2017	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 09/30/2018	Amounts Due Within One Year
<u>Bonds Payable:</u>					
PSCA Pool Bonds, Series 2009-B	\$ 306,811.13	\$	\$ (149,017.48)	\$ 157,793.65	\$157,793.65
Special Tax School Warrants, Series 2017		9,105,000.00		9,105,000.00	
Total Bonds/Warrants Payable	<u>306,811.13</u>	<u>9,105,000.00</u>	<u>(149,017.48)</u>	<u>9,262,793.65</u>	<u>157,793.65</u>
<u>Other Liabilities:</u>					
Capital Lease Payable	871,381.66		(100,560.01)	770,821.65	102,842.72
Note Payable	2,918.90		(1,800.00)	1,118.90	1,094.64
Net Pension Liability	27,101,000.00		(2,236,000.00)	24,865,000.00	
Net OPEB Liability	25,488,056.00		(2,796,815.00)	22,691,241.00	
Total	<u>53,463,356.56</u>		<u>(5,135,175.01)</u>	<u>48,328,181.55</u>	<u>103,937.36</u>
Total Long-Term Liabilities	<u>\$53,770,167.69</u>	<u>\$9,105,000.00</u>	<u>\$ 5,284,192.49</u>	<u>\$57,590,975.20</u>	<u>\$261,731.01</u>
(*) Beginning balance was restated due to the implementation of GASB Statement Number 75 – refer to Note 11.					

Payments on the PSCA Pool Bonds, Series 2009-B, are made by the Bonds and Warrants fund source with Public School Funds withheld from the Board's allocation from the Alabama Department of Education. Capital lease obligations are paid from the Board's Fleet Renewal allocation received from the Alabama Department of Education. Note Payable obligations are paid from Local School Funds. Tax warrants are paid from sales tax revenue received by the district.

Notes to the Financial Statements
For the Year Ended September 30, 2018

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

Fiscal Year Ending	Special Tax School Warrants, Series 2017		Capital Outlay PSCA	
	Principal	Interest	Principal	Interest
September 30, 2019	\$	\$ 237,545.02	\$157,793.65	\$7,889.68
2020	390,000.00	237,545.02		
2021	395,000.00	229,745.02		
2022	405,000.00	221,845.02		
2023	410,000.00	213,745.02		
2024-2028	2,185,000.00	936,568.84		
2029-2033	2,470,000.00	652,003.80		
2034-2038	2,850,000.00	272,285.04		
Totals	\$9,105,000.00	\$3,001,282.78	\$157,793.65	\$7,889.68

Pledged Revenues

The Board issued Series 2009-B Capital Improvement Pool Refunding Bonds which are pledged to be repaid from the Board's allocation of public school funds received from the State of Alabama. The proceeds were used for the purpose of refunding the Capital Improvement Pool Bonds, Series 1999-D. Future revenues in the amount of \$165,683.33 are pledged to repay the principal and interest on the bonds at September 30, 2018. Proceeds in the amount of \$483,425.00 of Public School Funds were received by the Board during the fiscal year ended September 30, 2018, of which \$164,358.04 was used to pay principal and interest on the bonds. This amount represents 34% of the pledged funds received by the Board. The Series 2009-B bonds will mature in fiscal year 2019.

The Board issued Series 2017 Special Tax School Warrants to provide funds for various energy efficiency improvements throughout the district. The Board pledged to repay the 2017 Warrants from the proceeds of two separate one-half cent special privilege license and excise taxes levied in the county pursuant to (i) Act Number 89, Acts of Alabama 1962, as amended by Act Number 118, Acts of Alabama, 1963, and (ii) Section 40-12-4 of the *Code of Alabama 1975*, as amended, and resolutions of the governing body of the County (collectively, the "Special Taxes"), or any tax that may be levied in lieu of or in substitution for either or both of the Special Taxes. Future revenues of \$12,106,282.78 are pledged to repay the principal and interest on the warrants as of September 30, 2018. Proceeds of the Special Taxes of \$3,576,510.24 were received by the Board during the fiscal year ended September 30, 2018, of which \$118,772.51 was used to pay interest on the warrants. The Series 2017 Special Tax School Warrants will mature in 2038.

Notes to the Financial Statements
For the Year Ended September 30, 2018

Capital Lease		Note Payable	Total Principal and Interest Requirements to Maturity
Principal	Interest	Principal	
\$102,842.72	\$17,497.65	\$1,094.64	\$ 524,663.36
105,177.25	15,163.12	24.26	747,909.65
107,564.78	12,775.60		745,085.40
110,006.50	10,333.88		747,185.40
112,503.64	7,836.73		744,085.39
232,726.76	7,953.99		3,362,249.59
			3,122,003.80
			3,122,285.04
\$770,821.65	\$71,560.97	\$1,118.90	\$13,115,467.63

Note 9 – Risk Management

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

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

Notes to the Financial Statements
For the Year Ended September 30, 2018

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

Note 10 – Interfund Transactions

Interfund Receivables and Payables

The interfund receivables and payables at September 30, 2018, were as follows:

	Interfund Receivables			Totals
	General Fund	Special Revenue Fund	Capital Projects Fund	
Interfund Payables:				
General Fund	\$	\$414.58	\$	\$ 414.58
Special Revenue Fund	30,687.15		2,000.00	32,687.15
Totals	<u>\$30,687.15</u>	<u>\$414.58</u>	<u>\$2,000.00</u>	<u>\$33,101.73</u>

Interfund Transfers

The amounts of interfund transfers during the fiscal year ended September 30, 2018, were as follows:

	Transfers In				Totals
	General Fund	Special Revenue Fund	Capital Projects Fund	Other Governmental Fund	
Transfers Out:					
General Fund	\$	\$754,043.95	\$	\$	\$ 754,043.95
Special Revenue Fund	58,899.07		2,000.00		60,899.07
Capital Projects Fund		1,190.00		217,749.61	218,939.61
Totals	<u>\$58,899.07</u>	<u>\$755,233.95</u>	<u>\$2,000.00</u>	<u>\$217,749.61</u>	<u>\$1,033,882.63</u>

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

Notes to the Financial Statements
For the Year Ended September 30, 2018

Note 11 – Restatement

In fiscal year 2018, the Board adopted Governmental Accounting Standards Board (GASB) Statement Number 75, ***Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)***, as amended by GASB Statement Number 85, ***Omnibus 2017***. The provisions of this Statement establish accounting and financial reporting standards for postemployment benefits other than pensions that are provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts. The adoption of this statement has a significant impact on the Board’s financial statements. For fiscal year 2018, the Board made prior period adjustments due to the adoption of GASB Statement Number 75, which required the restatement of the September 30, 2017, net position in Governmental Activities. The impact of the restatements are as follows:

	Governmental Activities
Governmental Activities, Net Position, September 30, 2017, as Previously Reported	\$ (5,041,004.62)
Restatements Due to the Adoption of GASB Statement Number 75:	
Net OPEB Liability	(25,488,056.00)
Deferred Outflows of Resources	741,636.00
Governmental Activities, Net Position, September 30, 2017, as Restated	\$(29,787,424.62)

Note 12 – Construction and Other Significant Commitments

At September 30, 2018, the Board was obligated under the following construction contract for energy improvements.

Contract Amount	\$ 8,886,280.99
Less: Payments to date	(7,407,177.30)
Balance – September 30, 2018	\$ 1,479,103.69

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Required Supplementary Information

***Schedule of the Employer's Proportionate Share of the
Collective Net Pension Liability
For the Year Ended September 30, 2018
(Dollar amounts in thousands)***

	2018	2017
Employer's proportion of the collective net pension liability	0.252993%	0.250332%
Employer's proportionate share of the collective net pension liability \$	24,865	\$ 27,101
Employer's covered payroll during the measurement period (*) \$	16,723	\$ 15,896
Employer's proportionate share of the collective net pension liability as a percentage of its covered payroll	148.69%	170.49%
Plan fiduciary net position as a percentage of the total collective pension liability	71.50%	67.93%

(*) Employer's covered payroll during the measurement period is the total covered payroll (See GASB 82).
For fiscal year 2018, the measurement period is October 1, 2016 through September 30, 2017.

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



<u>2016</u>	<u>2015</u>
0.251826%	0.256628%
\$ 26,355	\$ 23,314
\$ 15,918	\$ 16,270
165.57%	143.29%
67.51%	71.01%

Schedule of the Employer's Contributions - Pensions
For the Year Ended September 30, 2018
(Dollar amounts in thousands)

	2018	2017
Contractually required contribution	\$ 2,043	\$ 1,983
Contributions in relation to the contractually required contribution	<u>\$ 2,043</u>	<u>\$ 1,983</u>
Contribution deficiency (excess)	\$	\$
Board's covered payroll	\$ 16,961	\$ 16,723
Contributions as a percentage of covered payroll	12.05%	11.86%

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



2016		2015	
\$	1,882	\$	1,858
\$	1,882	\$	1,858
\$		\$	
\$	15,896	\$	15,918
	11.84%		11.67%

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***Schedule of the Employer's Proportionate Share of the Collective
Net Other Postemployment Benefits (OPEB) Liability
Alabama Retired Education Employees' Health Care Trust
For the Year Ended September 30, 2018
(Dollar amounts in thousands)***

	2018
Employer's proportion of the collective net OPEB liability	0.305506%
Employer's proportionate share of the collective net OPEB liability	\$ 22,691
Employer's covered-employee payroll during the measurement period (*)	\$ 16,723
Employer's proportionate share of the collective net OPEB liability as a percentage of its covered-employee payroll	135.69%
Plan fiduciary net position as a percentage of the total collective OPEB liability	15.37%

(*) Employer's covered-employee payroll during the measurement period is the total covered payroll. For fiscal year 2018, the measurement period is October 1, 2016 - September 30, 2017.

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

***Schedule of the Employer's Contributions -
Other Postemployment Benefits (OPEB)
Alabama Retired Education Employees' Health Care Trust
For the Year Ended September 30, 2018
(Dollar amounts in thousands)***

	2018
Contractually required contribution	\$ 782
Contributions in relation to the contractually required contribution	<u>\$ 782</u>
Contribution deficiency (excess)	\$
Board's covered-employee payroll	\$ 16,961
Contributions as a percentage of covered-employee payroll	4.61%

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

***Notes to Required Supplementary Information
for Other Postemployment Benefits (OPEB)
For the Year Ended September 30, 2018***

Changes in Actuarial Assumptions

In 2016, rates of withdrawal, retirement, disability, mortality, spouse coverage, and tobacco usage were adjusted to more closely reflect actual experience. In 2016, economic assumptions and the assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. In 2016 and later, the expectation of retired life mortality was changed to the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females. The rates of disabled mortality were based on the RP-2000 Disabled Mortality Table projected to 2020 using Scale BB and adjusted 105% for males and 120% for females.

Recent Plan Changes

Effective January 1, 2017, Medicare eligible medical and prescription drug benefits are provided through the MAPD plan.

The Health Plan was changed in 2017 to reflect the ACA maximum annual out-of-pocket amounts.

Method and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated as of September 30, 2014, three years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level percent of pay
Remaining Amortization Period	27 year, closed
Asset Valuation Method	Market Value of Assets
Inflation	3.00%
Healthcare Cost Trend Rate:	
Pre-Medicare Eligible	7.50%
Medicare Eligible	5.75%
Ultimate Trend Rate:	
Pre-Medicare Eligible	5.00%
Medicare Eligible	5.00%
Year of Ultimate Trend Rate	2019 for Pre-Medicare Eligible 2017 for Medicare Eligible
Investment Rate of Return	5.00%, including inflation

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended September 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>Budgetary Basis</u>
	<u>Original</u>	<u>Final</u>	
<u>Revenues</u>			
State	\$ 14,623,572.00	\$ 14,941,723.00	\$ 15,037,490.92
Federal	1,200.00	1,200.00	186,432.77
Local	8,930,491.00	9,245,491.00	9,196,419.25
Other			25,902.00
Total Revenues	<u>23,555,263.00</u>	<u>24,188,414.00</u>	<u>24,446,244.94</u>
<u>Expenditures</u>			
Current:			
Instruction	13,295,568.15	13,328,968.15	13,206,056.01
Instructional Support	4,422,057.80	4,434,697.80	4,502,187.21
Operation and Maintenance	2,238,566.22	2,497,177.22	2,276,216.00
Auxiliary Services:			
Student Transportation	1,826,063.58	1,826,063.58	1,896,051.44
General Administration and Central Support	930,792.84	930,792.84	888,066.21
Other	1,026,711.69	1,030,211.69	1,024,360.97
Capital Outlay		10,000.00	10,000.00
Total Expenditures	<u>23,739,760.28</u>	<u>24,057,911.28</u>	<u>23,802,937.84</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(184,497.28)</u>	<u>130,502.72</u>	<u>643,307.10</u>
<u>Other Financing Sources (Uses)</u>			
Indirect Cost	194,510.47	194,510.47	179,587.46
Transfers In	409,521.62	50,500.00	58,899.07
Other Financing Sources			30,021.92
Sale of Capital Assets			26,272.36
Transfers Out	(729,631.62)	(500,000.00)	(754,043.95)
Total Other Financing Sources (Uses)	<u>(125,599.53)</u>	<u>(254,989.53)</u>	<u>(459,263.14)</u>
Net Change in Fund Balances	(310,096.81)	(124,486.81)	184,043.96
Fund Balances - Beginning of Year	<u>5,562,239.97</u>	<u>5,971,844.43</u>	<u>5,971,844.43</u>
Fund Balances - End of Year	<u>\$ 5,252,143.16</u>	<u>\$ 5,847,357.62</u>	<u>\$ 6,155,888.39</u>

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	\$	\$ 15,037,490.92
		186,432.77
		9,196,419.25
		25,902.00
		<u>24,446,244.94</u>
(1)	2,296.03	13,208,352.04
(1)	(54,837.62)	4,447,349.59
(1)	(10,522.11)	2,265,693.89
(1)	(34,212.84)	1,861,838.60
(1)	(16,412.16)	871,654.05
(1)	12,919.62	1,037,280.59
		10,000.00
	<u>(100,769.08)</u>	<u>23,702,168.76</u>
	100,769.08	744,076.18
		179,587.46
		58,899.07
		30,021.92
		26,272.36
		(754,043.95)
		<u>(459,263.14)</u>
	100,769.08	284,813.04
(2)	<u>(2,767,550.58)</u>	<u>3,204,293.85</u>
	<u>\$ (2,666,781.50)</u>	<u>\$ 3,489,106.89</u>

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended September 30, 2018***

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

The Board budgets on the modified accrual basis of accounting except as shown below:

- (1) The Board budgets for salaries and benefits only to the extent expected to be paid, rather than on the modified accrual basis.

Net Change in Fund Balance - Budget to GAAP

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

\$ 100,769.08

\$ 100,769.08

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Special Revenue Fund
For the Year Ended September 30, 2018***

	Budgeted Amounts		Actual Amounts Budgetary Basis
	Original	Final	
Revenues			
Federal	\$ 3,222,909.43	\$ 3,329,647.20	\$ 3,620,189.21
Local	1,666,047.00	1,666,047.00	2,265,458.74
Other	50,153.70	50,153.70	50,350.82
Total Revenues	<u>4,939,110.13</u>	<u>5,045,847.90</u>	<u>5,935,998.77</u>
Expenditures			
Current:			
Instruction	1,503,966.29	1,511,591.79	1,845,501.01
Instructional Support	747,257.15	804,225.42	878,259.59
Operation and Maintenance	143,095.00	158,095.00	223,733.91
Auxiliary Services:			
Student Transportation	126,542.82	126,592.82	185,342.87
Food Service	2,350,879.75	2,350,879.75	2,344,838.16
General Administration and Central Support	133,921.10	133,921.10	124,539.27
Other	507,697.64	508,647.64	626,489.83
Capital Outlay		40,344.00	125,634.00
Debt Service:			
Principal Retirement	15,000.00		1,800.00
Total Expenditures	<u>5,528,359.75</u>	<u>5,634,297.52</u>	<u>6,356,138.64</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(589,249.62)</u>	<u>(588,449.62)</u>	<u>(420,139.87)</u>
Other Financing Sources (Uses)			
Transfers In	784,331.62	554,700.00	755,233.95
Other Financing Sources			2,760.00
Transfers Out	(105,200.00)	(105,200.00)	(60,899.07)
Total Other Financing Sources (Uses)	<u>679,131.62</u>	<u>449,500.00</u>	<u>697,094.88</u>
Net Change in Fund Balances	89,882.00	(138,949.62)	276,955.01
Fund Balances - Beginning of Year	<u>673,886.86</u>	<u>1,153,858.85</u>	<u>1,153,858.85</u>
Fund Balances - End of Year	<u>\$ 763,768.86</u>	<u>\$ 1,014,909.23</u>	<u>\$ 1,430,813.86</u>



	Budget to GAAP Differences	Actual Amounts GAAP Basis
	\$	\$ 3,620,189.21
		2,265,458.74
		50,350.82
		<u>5,935,998.77</u>
		1,845,501.01
		878,259.59
		223,733.91
		185,342.87
(1)	(12,455.54)	2,332,382.62
		124,539.27
		626,489.83
		125,634.00
		1,800.00
	(12,455.54)	<u>6,343,683.10</u>
	<u>12,455.54</u>	<u>(407,684.33)</u>
		755,233.95
		2,760.00
		(60,899.07)
		<u>697,094.88</u>
	12,455.54	289,410.55
(2)	<u>(128,737.40)</u>	<u>1,025,121.45</u>
	<u>\$ (116,281.86)</u>	<u>\$ 1,314,532.00</u>

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Special Revenue Fund
For the Year Ended September 30, 2018***

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

The Board budgets on the modified accrual basis of accounting except as shown below:

- (1) The Board budgets for salaries and benefits only to the extent expected to be paid, rather than on the modified accrual basis.

Net Change in Fund Balance - Budget to GAAP

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

\$ 12,455.54

\$ 12,455.54

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Supplementary Information

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2018***

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number
<u>U. S. Department of Education</u>	
<u>Passed Through Alabama Department of Education</u>	
Career and Technical Education - Basic Grants to States	84.048
Title I Grants to Local Educational Agencies	84.010
Student Support and Academic Enrichment Program	84.424
Rural Education	84.358
Education for Homeless Children and Youth	84.196
Special Education Cluster:	
Special Education - Grants to States	84.027
Special Education - Preschool Grants	84.173
Sub-Total Special Education Cluster (M)	
Supporting Effective Instruction State Grants (M)	84.367
<u>Passed Through Alabama Department of Early Childhood Education</u>	
Preschool Development Grants	84.419
Total U. S. Department of Education	
<u>U. S. Department of Health and Human Services</u>	
<u>Passed Through Alabama Department of Education</u>	
Child Care and Development Block Grant	93.575
<u>U. S. Department of Energy</u>	
<u>Passed Through Alabama Department of Economic and Community Affairs</u>	
State Energy Program	81.041
Sub-Total Forward	

Pass-Through Grantor's Number	Total Federal Expenditures
N/A	\$ 48,340.00
N/A	1,070,370.22
N/A	24,644.00
N/A	45,023.00
N/A	10,000.00
N/A	727,086.00
N/A	18,088.00
	<u>745,174.00</u>
N/A	146,320.00
N/A	30,000.00
	<u>2,119,871.22</u>
N/A	11,600.00
N/A	15,000.00
	<u>15,000.00</u>
	\$ 2,146,471.22

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2018***

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

Sub-Total Brought Forward

**U. S. Department of Agriculture
Passed Through Alabama Department of Education**

Child Nutrition Cluster:	
School Breakfast Program	10.553
National School Lunch Program:	
Cash Assistance	10.555
Non-Cash Assistance (Commodities)	10.555
Sub-Total National School Lunch Program	
Total Child Nutrition Cluster	
Fresh Fruit and Vegetable Program	10.582
Child Nutrition Discretionary Grants Limited Availability	10.579
State Administrative Expenses for Child Nutrition	10.560
Total U. S. Department of Agriculture	

**Social Security Administration
Passed Through Alabama Department of Education**

Social Security - Disability Insurance	96.001
--	--------

Total Expenditures of Federal Awards

(M) = Major Program

N/A = Not Applicable or Not Available

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



<u>Pass-Through Grantor's Number</u>	<u>Total Federal Expenditures</u>
	\$ 2,146,471.22
N/A	461,780.01
N/A	929,006.35
N/A	106,555.77
	<u>1,035,562.12</u>
	1,497,342.13
N/A	86,761.31
N/A	40,344.00
N/A	6,863.32
	<u>1,631,310.76</u>
N/A	<u>1,340.00</u>
	<u><u>\$ 3,779,121.98</u></u>

***Notes to the Schedule of Expenditures
of Federal Awards
For the Year Ended September 30, 2018***

Note 1 – Basis of Presentation

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

Note 2 – Summary of Significant Accounting Policies

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

Additional Information

Board Members and Administrative Personnel
October 1, 2017 through September 30, 2018

Board Members		Term Expires
Hon. Ricky Saint	President	2020
Hon. Sandra James	Vice-President	2022
Hon. Thomas Burgess	Member	2024
Hon. Mary Moore	Member	2020
Hon. Thomas Barnes	Member	2022
Hon. Carrie Mitchell	Member	2018
<u>Administrative Personnel</u>		
Dr. Gale D. Satchel	Superintendent	2021
Mr. James Brumley	Chief School Financial Officer	Indefinite

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

Independent Auditor's Report

Members of the Colbert County Board of Education,
Superintendent and Chief School Financial Officer
Tuscumbia, 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 the Colbert County Board of Education, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Colbert County Board of Education's basic financial statements and have issued our report thereon dated May 17, 2019.

Internal Control Over Financial Reporting

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

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

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

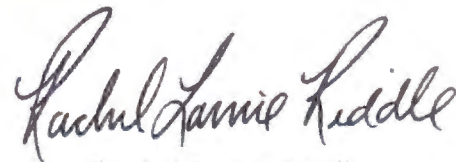
***Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance With
Government Auditing Standards***

Compliance and Other Matters

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

Purpose of this Report

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



Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

May 17, 2019

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

Independent Auditor's Report

Members of the Colbert County Board of Education,
Superintendent and Chief School Financial Officer
Tuscumbia, Alabama

Report on Compliance for Each Major Federal Program

We have audited the Colbert County 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 the Colbert County Board of Education's major federal programs for the year ended September 30, 2018. The Colbert County Board of Education's major federal programs are identified in the Summary of Examiner's Results Section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance with each of the Colbert County Board of Education's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U. S. ***Code of Federal Regulations*** Part 200, ***Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)***. Those standards and the ***Uniform Guidance*** require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Colbert County Board of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

Opinion on Each Major Federal Program

In our opinion, the Colbert County Board of Education complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2018.

Report on Internal Control Over Compliance

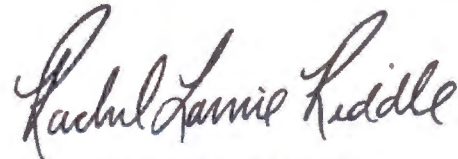
Management of the Colbert County Board of Education is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Colbert County Board of Education's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

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

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

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

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.



Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

May 17, 2019

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2018

Section I – Summary of Examiner's Results

Financial Statements

Type of opinion issued: Unmodified
Internal control over financial reporting:
Material weakness(es) identified? _____ Yes X No
Significant deficiency(ies) identified? _____ Yes X None reported
Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:
Material weakness(es) identified? _____ Yes X No
Significant deficiency(ies) identified? _____ Yes X None reported
Type of auditor's report issued on compliance for major programs: Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) of the *Uniform Guidance*? _____ Yes X No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.027 and 84.173 84.367	Special Education Cluster Supporting Effective Instruction State Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000.00
Auditee qualified as low-risk auditee? X Yes _____ No

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2018

Section II – Financial Statement Findings (GAGAS)

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

Section III – Federal Awards Findings and Questioned Costs

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