

Report on the

Marshall County Board of Education

Marshall County, Alabama

October 1, 2018 through September 30, 2019

Filed: July 2, 2021



Department of Examiners of Public Accounts

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Rachel Laurie Riddle, Chief Examiner



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

Dear Madam:

An audit was conducted on the Marshall County Board of Education, Marshall County, Alabama, for the period October 1, 2018 through September 30, 2019, by Examiners Isabelle Lisenby, Ashleigh Bubbett, and Jeffryl Martin. I, Isabelle Lisenby, served as Examiner-in-Charge on the engagement, and under the authority of the *Code of Alabama 1975*, Section 41-5A-19, I hereby swear to and submit this report to you on the results of the audit.

Respectfully submitted,

A handwritten signature in blue ink that reads 'Isabelle Lisenby'.

Isabelle Lisenby
Examiner of Public Accounts

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<p>Provides basic information related to the Board, including reports and items required by generally accepted government auditing standards and/or Title 2 U. S. <i>Code of Federal Regulations</i> Part 200, <i>Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)</i> for federal compliance audits.</p>		
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Department of
Examiners of Public Accounts

SUMMARY

**Marshall County Board of Education
October 1, 2018 through September 30, 2019**

The Marshall County Board of Education (the “Board”) is governed by a five-member body elected by the citizens of Marshall 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 Marshall County Public Schools, preschool through high school, with the exception of schools administered by the Albertville, Arab, Boaz, and Guntersville City Boards 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.

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, 2019.

AUDIT FINDINGS

Instances of noncompliance with state and local laws and regulations and other matters were found during the audit, as shown on the Schedule of State and Local Compliance and Other Findings and they are summarized below.

- ◆ 2019-001 relates to the Board’s failure to ensure compliance with the Alabama Competitive Bid Law.
- ◆ 2019-002 relates to the Board’s failure to retain records for 1099 MISC forms filed in accordance with the Internal Revenue Code.

- ◆ 2019-003 relates to the Board's failure to ensure proper controls were in place for classroom instructional support monies.
- ◆ 2019-004 relates to the Board's failure to ensure financial statements were published annually in accordance with the *Code of Alabama 1975*, Section 16-8-37.
- ◆ 2019-005 relates to the Board's failure to follow established policies related to minimum fund balances.

Problems were found with the Board's internal controls over financial reporting (Exhibit 18) and they are summarized below.

- ◆ 2019-006 relates to the Board's failure to provide adequate oversight and approval of all expenditures and ensure appropriate supporting documentation was maintained. Management override of controls by the Chief School Financial Officer (CSFO) was noted, resulting in a misappropriation of funds totaling \$23,863.37, which was repaid by the CSFO prior to the conclusion of the audit.
- ◆ 2019-007 relates to the Board's failure to ensure adequate oversight of local school activities.
- ◆ 2019-008 relates to the Board's failure to follow established policies for reconciliation of capital assets to the Board's financial records and ensure adequate records are maintained for review.
- ◆ 2019-009 relates to the Board's failure to follow established policies for purchase orders.

EXIT CONFERENCE

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: Cindy Wigley, Superintendent; and Board Members: Tony Simmons, Joe Van Bunch, and Brian Naugher. Representing the Department of Examiners of Public Accounts were: April S. Purser, Audit Manager and Isabelle Lisenby, Examiner.

*Schedule of State and Local
Compliance and Other Findings*

Schedule of State and Local Compliance and Other Findings
For the Year Ended September 30, 2019

Ref. No.	Finding/Noncompliance
2019-001	<p><u>Finding:</u> The <i>Code of Alabama 1975</i>, Section 16-13B-1, requires all expenditure of funds of whatever nature for labor, services, work, or for the purchase of materials, equipment, supplies, or other personal property involving fifteen thousand dollars (\$15,000) or more made by or on behalf of any county board of education to be made under contractual agreement entered into by free and open competitive bidding, on sealed bids, to the lowest responsible bidder. Additionally, the <i>Code of Alabama 1975</i>, Section 16-13B-4(d), provides that all original bids, together with all documents pertaining to the award of the contract, be retained in accordance with a retention period of at least seven years established by the Local Government Records Commission and to be open to public inspection. During the audit period, the Marshall County Board of Education (the “Board”) expended in excess of \$15,000 for various goods or services without properly bidding them or maintaining supporting documentation of items purchased utilizing the State of Alabama's Statewide Contract bid list, joint purchasing agreements, or other means. The Board did not have procedures in place to ensure expenditures which met the competitive bid law threshold requirements were competitively bid and that all documentation of the awarding of contracts was retained in accordance with statute. As a result, the Board did not ensure a fair and competitive purchasing process was followed in the awarding of some contracts.</p> <p><u>Recommendation:</u> The Board should ensure compliance with the <i>Code of Alabama 1975</i>, Section 16-13B-1 and Section 16-13B-4(d) relating to the Alabama Competitive Bid Law.</p>
2019-002	<p><u>Finding:</u> Title 26 of the Internal Revenue Code requires governmental agencies to file returns (Form 1099-MISC) to report payments made to an individual who is not considered an employee of the agency in the amount of \$600 or more in a taxable year. Forms 1099-MISC were not filed or maintained for review for calendar year 2019. The Board failed to ensure individuals receiving payments in the amount of \$600 or more were issued Form 1099 MISC and proper documentation was maintained for review. As a result, we were unable to determine that taxable payments were properly reported to the Internal Revenue Service.</p> <p><u>Recommendation:</u> The Board should ensure Forms 1099-MISC are issued and records are maintained as required by the Internal Revenue Code.</p>

Schedule of State and Local Compliance and Other Findings
For the Year Ended September 30, 2019

Ref. No.	Finding/Noncompliance
2019-003	<p><u>Finding:</u> The <i>Code of Alabama 1975</i>, Section 16-1-8.1(5) provides "monies allocated for classroom instructional support may be spent for classroom instructional support purposes only". Testing revealed several teachers used classroom instructional support monies for purposes other than classroom instructional support, including personal charges. The Board failed to detect and prevent unallowable expenditures on teacher purchasing cards. As a result, expenditures were made for purposes other than classroom instructional support. The personal charges were repaid at the conclusion of the audit.</p> <p><u>Recommendation:</u> The Board should ensure policies and procedures are properly implemented and followed to ensure expenditures for classroom instructional support are in accordance with the <i>Code of Alabama 1975</i>, Section 16-1-8.1(5).</p>
2019-004	<p><u>Finding:</u> The <i>Code of Alabama 1975</i>, 16-8-37, requires a local board of education to publish annually in the month of October, in a county newspaper, a full and complete statement of receipts by source and disbursements by function for the twelve-month period ending September 30. The Board is also required to publish a statement of indebtedness, as well as a schedule which shows the resources available to pay such indebtedness. The Board did not publish the financial information for fiscal year 2019. Procedures were not in place to ensure financial information was published as required. As a result, the Board failed to ensure disclosure of its annual receipts, disbursements and indebtedness.</p> <p><u>Recommendation:</u> The Board should publish its financial information in the county newspaper in the month of October annually in accordance with the <i>Code of Alabama 1975</i>, Section 16-8-37.</p>

Schedule of State and Local Compliance and Other Findings
For the Year Ended September 30, 2019

Ref. No.	Finding/Noncompliance
2019-005	<p><u>Finding:</u> The <i>Code of Alabama 1975</i>, 16-13A-9, requires a local board of education to develop a plan to establish and maintain a one-month operating reserve. The Board has an established minimum fund balance policy which requires the Superintendent or Chief School Financial Officer to inform the Board before they vote on a budget or budget amendment, which will prevent the establishment or maintenance of a one-month operating balance. Procedures were not in place to ensure that the required one-month operating balances were maintained. As a result, the Board's fund balance did not meet the one-month operating reserve requirement.</p> <p><u>Recommendation:</u> The Board should comply with the provisions of the Board policy regarding a minimum fund balance.</p>

Independent Auditor's Report

Independent Auditor's Report

Members of the Marshall County Board of Education,
Superintendent and Chief School Financial Officer
Guntersville, 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 Marshall County Board of Education, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Marshall 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

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Marshall County Board of Education, as of September 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), the Schedule of the Employer's Proportionate Share of the Collective Net Pension Liability, Schedule of the Employer's Proportionate Share of the Collective Net Other Postemployment Benefits (OPEB) Liability, Schedules of the Employer's Contributions, 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.

Management has omitted the Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Marshall 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 purpose of additional analysis, and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the 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 June 22, 2021, on our consideration of the Marshall 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 Marshall 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 Marshall 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

June 22, 2021

Basic Financial Statements

Statement of Net Position
September 30, 2019

	Governmental Activities
<u>Assets</u>	
Cash and Cash Equivalents	\$ 5,409,147.27
Investments	204,014.30
Ad Valorem Property Taxes Receivable	6,420,330.22
Receivables (Note 4)	879,461.74
Inventories	166,138.42
Capital Assets (Note 5):	
Nondepreciable	1,255,928.99
Depreciable, Net	45,149,745.86
Total Assets	<u>59,484,766.80</u>
<u>Deferred Outflows of Resources</u>	
Employer Pension Contribution	3,827,992.17
Proportionate Share of Collective Deferred Outflows Related to Net Pension Liability	4,427,000.00
Employer Other Postemployment Benefits (OPEB) Contribution	1,689,399.00
Proportionate Share of Collective Deferred Outflows Related to Net Other Postemployment Benefits (OPEB) Liability	2,756,498.00
Total Deferred Outflows of Resources	<u>12,700,889.17</u>
<u>Liabilities</u>	
Accounts Payable	539,671.78
Unearned Revenue	371,475.55
Salaries and Benefits Payable	4,248,360.96
Accrued Interest Payable	20,163.05
Long-Term Liabilities:	
Portion Due or Payable Within One Year	1,487,528.43
Portion Due or Payable After One Year	109,524,197.12
Total Liabilities	<u>116,191,396.89</u>
<u>Deferred Inflows of Resources</u>	
Unavailable Revenue - Property Taxes	6,420,330.22
Revenue Received in Advance - Motor Vehicle Taxes	465,450.51
Proportionate Share of Collective Deferred Inflows Related to Net Pension Liability	5,118,000.00
Proportionate Share of Collective Deferred Inflows Related to Net OPEB Liability	3,755,563.00
Total Deferred Inflows of Resources	<u>\$ 15,759,343.73</u>

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

	Governmental Activities
<hr/>	
<u>Net Position</u>	
Net Investment in Capital Assets	\$ 27,576,122.83
Restricted for:	
Debt Service	1,447,500.85
Other Purposes	1,187,271.45
Unrestricted	<u>(89,975,979.78)</u>
Total Net Position	<u><u>\$ (59,765,084.65)</u></u>

Statement of Activities
For the Year Ended September 30, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position Total Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					
Instruction	\$ 30,510,815.91	\$ 770,594.44	\$ 25,770,916.12	\$ 791,361.48	\$ (3,177,943.87)
Instructional Support	9,923,751.74	169,257.45	8,607,909.72		(1,146,584.57)
Operation and Maintenance	5,986,020.12	212,594.01	1,736,395.44	890,961.15	(3,146,069.52)
Auxiliary Services:					
Student Transportation	4,673,460.48	77,721.81	3,333,486.09	376,777.00	(885,475.58)
Food Service	4,653,334.19	3,298,766.34	242,986.82		(1,111,581.03)
General Administrative and Central Support	2,863,837.33	13,245.51	1,770,418.41		(1,080,173.41)
Interest and Fiscal Charges	552,942.75		20,770.90		(532,171.85)
Other	2,454,374.37	472,754.33	1,932,433.06		(49,186.98)
Total Governmental Activities	<u>\$ 61,618,536.89</u>	<u>\$ 5,014,933.89</u>	<u>\$ 43,415,316.56</u>	<u>\$ 2,059,099.63</u>	<u>(11,129,186.81)</u>
General Revenues:					
Taxes:					
Property Taxes for General Purposes					7,109,011.26
Sales and Use Tax for General Purposes					1,597,751.48
Other Taxes					36,695.59
Grants and Contributions Not Restricted for Specific Programs					2,100.00
Investment Earnings					208,878.52
Miscellaneous					2,189,961.00
Total General Revenues					<u>11,144,397.85</u>
Changes in Net Position					15,211.04
Net Position - Beginning of Year					<u>(59,780,295.69)</u>
Net Position - End of Year					<u>\$ (59,765,084.65)</u>

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

Balance Sheet
Governmental Funds
September 30, 2019

	General Fund	Special Revenue Fund	Debt Service Fund	Other Governmental Fund	Total Governmental Funds
Assets					
Cash and Cash Equivalents	\$ 2,032,848.11	\$ 1,642,570.96	\$ 1,447,500.85	\$ 286,227.35	\$ 5,409,147.27
Investments	204,014.30				204,014.30
Ad Valorem Property Taxes Receivable	6,420,330.22				6,420,330.22
Receivables (Note 4)	307,954.52	571,507.22			879,461.74
Due from Other Funds	75,097.82	473,597.09			548,694.91
Inventories		166,138.42			166,138.42
Total Assets	<u>9,040,244.97</u>	<u>2,853,813.69</u>	<u>1,447,500.85</u>	<u>286,227.35</u>	<u>13,627,786.86</u>
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities					
Accounts Payable	278,516.52	261,155.26			539,671.78
Due to Other Funds	473,597.09	75,097.82			548,694.91
Unearned Revenue	253,064.96	118,410.59			371,475.55
Salaries and Benefits Payable	4,029,667.32	205,978.75		12,714.89	4,248,360.96
Total Liabilities	<u>5,034,845.89</u>	<u>660,642.42</u>		<u>12,714.89</u>	<u>5,708,203.20</u>
Deferred Inflows of Resources					
Unavailable Revenue - Property Taxes	6,420,330.22				6,420,330.22
Revenue Received in Advance - Motor Vehicle Taxes	465,450.51				465,450.51
Total Deferred Inflows of Resources	<u>6,885,780.73</u>				<u>6,885,780.73</u>
Fund Balances					
Nonspendable:					
Inventories		166,138.42			166,138.42
Restricted for:					
Debt Service			1,447,500.85		1,447,500.85
Child Nutrition		751,136.81			751,136.81
Other Purposes				273,512.46	273,512.46
Assigned to:					
Local Schools		1,275,896.04			1,275,896.04
Unassigned	(2,880,381.65)				(2,880,381.65)
Total Fund Balances	<u>(2,880,381.65)</u>	<u>2,193,171.27</u>	<u>1,447,500.85</u>	<u>273,512.46</u>	<u>1,033,802.93</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 9,040,244.97</u>	<u>\$ 2,853,813.69</u>	<u>\$ 1,447,500.85</u>	<u>\$ 286,227.35</u>	<u>\$ 13,627,786.86</u>

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

***Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Position
September 30, 2019***

Total Fund Balances - Governmental Funds (Exhibit 3) \$ 1,033,802.93

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 the governmental funds.

The Cost of Capital Assets is	\$ 73,094,951.08	
Accumulated Depreciation is	<u>(26,689,276.23)</u>	46,405,674.85

Deferred outflows and inflows of resources related to pensions are applicable to future
periods and, therefore, are not reported in the governmental funds. 3,136,992.17

Deferred outflows and inflows of resources related to Other Postemployment
Benefits (OPEB) obligations are applicable to future periods and, therefore,
are not reported in the governmental funds. 690,334.00

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

Current Portion of Long-Term Debt	\$ 1,487,528.43	
Noncurrent Portion of Long-Term Debt	<u>109,524,197.12</u>	(111,011,725.55)

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

Accrued Interest Payable	\$ 20,163.05	
		<u>(20,163.05)</u>

Total Net Position - Governmental Activities (Exhibit 1) \$ (59,765,084.65)

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, 2019

	General Fund	Special Revenue Fund	Debt Service Fund	Other Governmental Fund	Total Governmental Funds
Revenues					
State	\$ 38,024,803.33	\$ 3,000.00	\$ 55,987.32	\$ 1,958,697.68	\$ 40,042,488.33
Federal	353,351.60	7,827,982.93			8,181,334.53
Local	9,797,343.73	2,532,066.79	46,840.97	135,898.45	12,512,149.94
Other	723,953.26	52,602.57			776,555.83
Total Revenues	48,899,451.92	10,415,652.29	102,828.29	2,094,596.13	61,512,528.63
Expenditures					
Current:					
Instruction	25,475,438.17	3,413,159.10			28,888,597.27
Instructional Support	7,846,492.43	1,848,208.32			9,694,700.75
Operation and Maintenance	4,578,522.10	361,416.84		884,299.28	5,824,238.22
Auxiliary Services:					
Student Transportation	3,926,791.54	38,279.72			3,965,071.26
Food Services		4,837,189.24			4,837,189.24
General Administrative and Central Support	2,599,496.76	180,947.25		84.00	2,780,528.01
Other	1,625,959.23	806,255.24			2,432,214.47
Capital Outlay	148,700.55	117,421.02			266,121.57
Debt Service:					
Principal Retirement	1,193,463.98			856,856.68	2,050,320.66
Interest and Fiscal Charges	489,071.18		55,987.32	73,487.04	618,545.54
Other Debt Service	7,870.00				7,870.00
Total Expenditures	47,891,805.94	11,602,876.73	55,987.32	1,814,727.00	61,365,396.99
Excess (Deficiency) of Revenues Over Expenditures	1,007,645.98	(1,187,224.44)	46,840.97	279,869.13	147,131.64
Other Financing Sources (Uses)					
Indirect Cost	399,826.39				399,826.39
Transfers In	91,391.02	1,424,720.09	156,227.66		1,672,338.77
Other Financing Sources	80,794.67				80,794.67
Transfers Out	(1,580,947.75)	(91,391.02)			(1,672,338.77)
Total Other Financing Sources (Uses)	(1,008,935.67)	1,333,329.07	156,227.66		480,621.06
Net Changes in Fund Balances	(1,289.69)	146,104.63	203,068.63	279,869.13	627,752.70
Fund Balances - Beginning of Year	(2,879,091.96)	2,047,066.64	1,244,432.22	(6,356.67)	406,050.23
Fund Balances - End of Year	\$ (2,880,381.65)	\$ 2,193,171.27	\$ 1,447,500.85	\$ 273,512.46	\$ 1,033,802.93

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

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, 2019

Net Changes in Fund Balances - Total Governmental Funds (Exhibit 5) \$ 627,752.70

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 the 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 outlays differed from depreciation expense in the period.

Capital Outlays	\$ 266,121.57	
Depreciation Expense	<u>(2,063,125.14)</u>	(1,797,003.57)

Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities. 2,050,320.66

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 the governmental funds.

Accrued Interest Payable, Current Year (Increase)/Decrease	\$ 32,114.68	
Compensated Absences, Current Year (Increase)/Decrease	23,871.16	
Amortization of Warrant Premiums	41,358.11	
Pension Expense, Current Year (Increase)/Decrease	321,172.67	
OPEB Expense, Current Year (Increase)/Decrease	<u>(1,324,800.00)</u>	(906,283.38)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds:

Donated Assets	<u>40,424.63</u>
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Change in Net Position of Governmental Activities (Exhibit 2)	<u><u>\$ 15,211.04</u></u>
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The accompanying Notes to the Financial Statements are an integral part of this statement.

Statement of Fiduciary Net Position
September 30, 2019

	Agency Fund
<u>Assets</u>	
Cash	\$ 212,778.75
Total Assets	<u>212,778.75</u>
<u>Liabilities</u>	
Due to External Organizations	212,778.75
Total Liabilities	<u>\$ 212,778.75</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, 2019

Note 1 – Summary of Significant Accounting Policies

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

A. Reporting Entity

The Board is governed by a separately elected board composed of five members elected by the qualified electors of the County. The Board is responsible for the general administration and supervision of the public schools for the educational interests of the County with the exception of Albertville, Arab, Boaz, and Guntersville City Boards of Education.

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

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

Notes to the Financial Statements

For the Year Ended September 30, 2019

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. The remaining governmental fund is reported as a nonmajor fund in the Other Governmental Fund 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, state 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.

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

Notes to the Financial Statements

For the Year Ended September 30, 2019

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

Governmental Fund Types

- ◆ **Capital Projects Fund** – This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlay, including the acquisition or construction of capital facilities and other capital assets. Also included in this fund are Alabama Department of Education appropriations which are restricted to their use.

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 organization, 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 when 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, 2019

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 is both restricted and unrestricted net position available to finance the program. It is the Board's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

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

1. Deposits and Investments

Cash and cash equivalents include cash on hand and demand deposits.

Statutes authorize the Board to invest in obligations of the U. S. Treasury, obligations of any state of the United States, general obligations of any Alabama county or city board of education secured by the pledged the three-mill school tax and certificates of deposit.

Investments are reported at fair value.

2. Receivables

Millage rates for property taxes are levied at the first regular meeting of the County Commission in February of the initial year of the levy. 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 taxes from local governments.

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, 2019

4. Restricted Assets

Certain funds received from the State Department of Education for capital projects and improvements, as well as certain resources set aside for repayment of debt, included in cash and cash equivalents on the financial statements, are considered restricted assets because they are maintained separately and their use is limited. The Public School Capital Projects, Fleet Renewal, Bond Issue Payments, and Bonds and Warrants 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 and Improvements	\$50,000	7 – 50 years
Vehicles, Equipment and Furniture	\$ 5,000	5 – 15 years

6. Deferred Outflows of Resources

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

Notes to the Financial Statements
For the Year Ended September 30, 2019

7. Long-Term Obligations

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

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 expenditures.

8. Compensated Absences

The Board's vacation leave policy consists of the following: All administrative and supervisory personnel with less than 15 years of service who are employed for twelve months are entitled to earn 5/6 (.8333) of a day vacation leave per month. All administrative and supervisory personnel with 15 or more years of service who are employed for twelve months are entitled to earn one-day vacation leave per month and personnel with 20 or more years of service earn 1.25 days of vacation leave per month. Unused leave days may be carried over to the next year. The Board will pay for a maximum of 20 days-unused vacation leave upon resignation or retirement of any employee with less than 15 years of service and a maximum of 30-days unused vacation leave for any employee with more than 15 years of service.

9. Deferred Inflows of Resources

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

Notes to the Financial Statements

For the Year Ended September 30, 2019

10. Net Position/Fund Balances

Net position is reported on the government-wide financial statements and is required to be classified for accounting and reporting purposes into the following net position 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** – The net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted portion of net position. Assignments and commitments of unrestricted net position should not be reported on the face of the Statement of Net Position.

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

- A. Nonspendable fund balances include amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Examples of nonspendable fund balance reserves for which fund balance shall not be available for financing general operating expenditures include inventories, prepaid items, and long-term receivables.

- B. Restricted fund balances consist of amounts that are subject to externally enforceable legal restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation.

- C. Committed fund balances consist of amounts that are subject to a purpose constraint imposed by formal action or resolution of the Board which is the highest level of decision making authority, before the end of the fiscal year and that require the same level of formal action to remove or modify the constraint.

Notes to the Financial Statements
For the Year Ended September 30, 2019

- D. Assigned fund balances consist of amounts that are intended to be used by the Board for specific purposes. The Board authorized 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 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 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 proposed or budget amendment shall be used.

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.

Notes to the Financial Statements
For the Year Ended September 30, 2019

F. Postemployment Benefits Other Than Pensions (OPEB)

The Alabama Retired Education Employees' Health Care Trust (the "Trust") financial statements are prepared by 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

A. 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 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. Also, ad valorem taxes and sales taxes in the General Fund are budgeted only to the extent expected to be received rather than on the modified accrual basis of accounting. The Capital Projects Fund adopt project-length budgets. All other governmental funds adopt budgets on the modified accrual basis of accounting. 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.

B. Deficit Fund Balance/Net Position of Individual Funds

As of September 30, 2019, the following fund had a deficit fund balance:

General Fund	\$2,880,381.65
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Notes to the Financial Statements

For the Year Ended September 30, 2019

The deficit is a result of the salary and benefit accrual adjustment. Salaries and benefits payable at September 30, 2019, are funded with an appropriation from the State of Alabama that is not legally available to the Board until October 1 and, therefore, is not reflected as revenue in the Board's financial statements as of September 30, 2019.

Note 3 – Deposits

Deposits

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Board will not be able to cover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Board's deposits at year-end were entirely covered by federal depository insurance or by the Security for Alabama Funds Enhancement Program (SAFE Program). The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the *Code of Alabama 1975*, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance. All of the Board's investments were in certificates of deposit. These certificates of deposit are classified as "Deposits" in order to determine insurance and collateralization. However, they are classified as "Investments" on the financial statements.

Note 4 – Receivables

On September 30, 2019, receivables for the Board's individual major funds are as follows:

	General Fund	Special Revenue Fund	Total
<u>Receivables:</u>			
Accounts	\$	\$ 658.44	\$ 658.44
Intergovernmental	307,954.52	562,041.31	869,995.83
Other		8,807.47	8,807.47
Total Receivables	\$307,954.52	\$571,507.22	\$879,461.74

Notes to the Financial Statements
For the Year Ended September 30, 2019

Note 5 – Capital Assets

Capital asset activity for the year ended September 30, 2019, was as follows:

	Balance 10/01/2018	Additions/ Reclassifications (*)	Deletions/ Reclassifications (*)	Balance 09/30/2019
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land and Land Improvements	\$ 1,207,665.94	\$ 48,263.05	\$	\$ 1,255,928.99
Construction in Progress	43,765.00		(43,765.00)	
Total Capital Assets, Not Being Depreciated	<u>1,251,430.94</u>	<u>48,263.05</u>	<u>(43,765.00)</u>	<u>1,255,928.99</u>
Capital Assets Being Depreciated:				
Land Improvements – Exhaustible	342,902.82			342,902.82
Buildings and Building Improvements	58,727,055.70	84,189.63		58,811,245.33
Equipment and Furniture	12,467,015.42	217,858.52		12,684,873.94
Total Capital Assets Being Depreciated	<u>71,536,973.94</u>	<u>302,048.15</u>		<u>71,839,022.09</u>
Less Accumulated Depreciation:				
Land Improvements – Exhaustible	(255,355.82)	(17,145.14)		(272,500.96)
Buildings and Building Improvements	(16,186,087.21)	(1,139,350.35)		(17,325,437.56)
Equipment and Furniture	(8,184,708.06)	(906,629.65)		(9,091,337.71)
Total Accumulated Depreciation	<u>(24,626,151.09)</u>	<u>(2,063,125.14)</u>		<u>(26,689,276.23)</u>
Total Capital Assets Being Depreciated, Net	<u>46,910,822.85</u>	<u>(1,761,076.99)</u>		<u>45,149,745.86</u>
Governmental Activities Capital Assets, Net	<u>\$ 48,162,253.79</u>	<u>\$(1,712,813.94)</u>	<u>\$(43,765.00)</u>	<u>\$ 46,405,674.85</u>
(*) The "Additions" and "Deletions" columns include reclassifications in the amount of \$43,765.00 from Construction in Progress to Buildings and Building Improvements.				

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

	Current Year Depreciation Expense
Governmental Activities:	
Instruction	\$1,150,999.22
Instructional Support	112,879.55
Operation and Maintenance	84,395.27
Auxiliary Services:	
Student Transportation	539,955.02
Food Service	118,242.74
General Administrative and Central Support	56,653.34
Total Depreciation Expense - Governmental Activities	<u>\$2,063,125.14</u>

Notes to the Financial Statements

For the Year Ended September 30, 2019

Note 6 – Defined Benefit Pension Plan

A. Plan Description

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

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 are eligible for retirement after age 60 with 10 years or more of creditable service or with 25 years of service (regardless of age) 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, 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, 2019

C. Contributions

Tier I 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, 2019, was 12.41% of annual pay for Tier 1 members and 11.35% 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 \$3,827,992.17 for the year ended September 30, 2019.

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

At September 30, 2019, the Board reported a liability of \$45,000,000.00 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2017. 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, 2018, the Board's proportion was 0.452598%, which was an increase of 0.009533% from its proportion measured as of September 30, 2017.

Notes to the Financial Statements
For the Year Ended September 30, 2019

For the year ended September 30, 2019, the Board recognized pension expense of \$3,530,000.00. At September 30, 2019, 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	\$ 971,000.00	\$1,371,000.00
Changes of assumptions	2,501,000.00	
Net difference between projected and actual earnings on pension plan investments		3,397,000.00
Changes in proportion and differences between employer contributions and proportionate share of contributions	955,000.00	350,000.00
Employer contributions subsequent to the measurement date	3,827,992.17	
Total	<u>\$8,254,992.17</u>	<u>\$5,118,000.00</u>

The \$3,827,922.17 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 ending September 30, 2020. 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, 2020	\$ 441,000
2021	\$(797,000)
2022	\$(630,000)
2023	\$ 183,000
2024	\$ 112,000
Thereafter	\$ 0

Notes to the Financial Statements

For the Year Ended September 30, 2019

E. Actuarial Assumptions

The net pension liability was determined by an actuarial valuation as of September 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Investment Rate of Return (*)	7.70%
Projected Salary Increases	3.25% - 5.00%

(*) Net of Pension Plan Investment Expense

The actuarial assumptions used in the September 30, 2017 valuation were based on the results of an actuarial experience study for the period October 1, 2010 through September 30, 2015.

Mortality rates were based on the sex distinct RP-2000 White Collar Mortality Table projected to 2020 using Scale BB and adjusted 115% for males and 112% for females age 78 and older. 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, 2019

F. Discount Rate

The discount rate used to measure the total pension liability was 7.70%. 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 7.70%, 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 (6.70%) or 1-percentage point higher (8.70%) than the current rate:

	1% Decrease (6.70%)	Current Rate (7.70%)	1% Increase (8.70%)
Board's Proportionate Share of Collective Net Pension Liability	\$62,640	\$45,000	\$30,079
(Dollar amounts in thousands)			

H. Pension Plan Fiduciary Net Pension

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, 2018. The supporting actuarial information is included in the GASB Statement Number 67 Report for the TRS prepared as of September 30, 2018. The auditor's report dated August 16, 2019, 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, 2018 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, 2019

Note 7 – 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*, Section 16-25A (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 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, 2019

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, eyeglasses, 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, 2019

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, 2019, the Board reported a liability of \$46,769,813.00 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of September 30, 2018 and the total OPEB liability used to calculate the collective net OPEB liability was determined by an actuarial valuation as of September 30, 2017. 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, 2018, the Board's proportion was 0.569064%, which was an increase of 0.027142% from its proportion measured as of September 30, 2017.

Notes to the Financial Statements
For the Year Ended September 30, 2019

For the year ended September 30, 2019, the Board recognized OPEB expense of \$3,004,890.00 with no special funding situations. At September 30, 2019, 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
Differences between expected and actual experience	\$ 880,533.00	\$
Changes of assumptions		2,278,122.00
Net difference between projected and actual earnings on OPEB plan investments		250,592.00
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,875,965.00	1,226,849.00
Employer contributions subsequent to the measurement date	1,689,399.00	
Total	\$4,445,897.00	\$3,755,563.00

The \$1,689,399.00 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 ending September 30, 2020. 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, 2020	\$(429,786)
2021	\$(429,786)
2022	\$(429,786)
2023	\$(373,528)
2024	\$ 516,369
Thereafter	\$ 147,452

Notes to the Financial Statements

For the Year Ended September 30, 2019

E. Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of September 30, 2017, 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	4.18%
Municipal Bond Index Rate at the Prior Measurement Date	3.57%
Projected Year for Fiduciary Net Position (FNP) to be Depleted	2029
Single Equivalent Interest Rate at the Measurement Date	4.44%
Single Equivalent Interest Rate at the Prior Measurement Date	4.63%
Healthcare Cost Trend Rate:	
Pre-Medicare Eligible	7.00%
Medicare Eligible	5.00%, beginning in 2019
Ultimate Trend Rate:	
Pre-Medicare Eligible	4.75% in 2026
Medicare Eligible	4.75% in 2024

⁽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.

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, 2017 valuation were based on a review of recent plan experience done concurrently with the September 30, 2017 valuation.

Notes to the Financial Statements
For the Year Ended September 30, 2019

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 Teachers' Retirement System of Alabama. 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:

	Target Allocation	Long-Term Expected Real 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	<u>100.00%</u>	
(*) Geometric mean, includes 2.5% inflation		

Notes to the Financial Statements

For the Year Ended September 30, 2019

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, 2018, was 4.44%. The discount rate used to measure the total OPEB liability at the prior measurement date was 4.63%. 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 20.307% of the employer contributions were used to assist in funding retiree benefit payments in 2018, and it is assumed that the amount will increase by 2.75% 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 2029. The long-term rate of return is used until the assets are expected to be depleted in 2029, 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 and in the Discount Rate

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 (6.00% Decreasing to 3.75% for Pre-Medicare, and 4.00% Decreasing to 3.75% for Medicare Eligible)	Current Healthcare Trend Rate (7.00% Decreasing to 4.75% for Pre-Medicare, and 5.00% Decreasing to 4.75% for Medicare Eligible)	1% Increase (8.00% Decreasing to 5.75% for Pre-Medicare, and 6.00% Decreasing to 5.75% for Medicare Eligible)
Board's Proportionate Share of Collective Net OPEB Liability	\$38,445,851	\$46,769,813	\$57,367,378

Notes to the Financial Statements
For the Year Ended September 30, 2019

The following table presents the Board’s proportionate share of the collective net OPEB liability of the Trust calculated using the discount rate of 4.44%, 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 (3.44%)	Current Discount Rate (4.44%)	1% Increase (5.44%)
Board’s Proportionate Share of the Collective Net OPEB Liability	\$55,870,079	\$46,769,813	\$39,429,141

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, 2018. The supporting actuarial information is included in the GASB Statement Number 74 Report for PEEHIP prepared as of September 30, 2018. Additional financial and actuarial information is available at www.rsa-al.gov.

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 proceeds from these bonds were used to refund the Series 1999-D bonds (“Capital Outlay Pool Warrant”).

On December 16, 2009, the Alabama Public School and College Authority issued Capital Improvement Pool Qualified School Construction Bonds Series 2009-D (Tax Credit Bonds) with a tax credit rate of 5.76% and interest rate of 1.865% on behalf of various Boards of Education in the State. The Board had a 2.06% participation in the bonds resulting in the Board’s share of principal, issuance costs and net proceeds of \$3,002,000.00, \$26,425.36 and \$2,975,574.64, respectively. The Board is required to make sinking fund deposits of \$156,227.66 on December 15 in each year for fifteen years so that such deposits and any interest earned thereon shall be used to pay the principal of the bonds upon maturity and are pledged to pay the debt service requirements of the bonds. The sinking fund deposits and interest payments are payable from and secured by a pledge of the Board’s allocable share of Public School Capital Outlay Funds.

Notes to the Financial Statements
For the Year Ended September 30, 2019

In a pooled bond issue with other school systems, the Board issued Capital Improvement Pool Bonds, Series 2013 in the principal amount of \$1,315,445.89 on June 24, 2013. The proceeds from this bond issue are to be used for the renovation of existing school facilities and construction of new school facilities. Principal and interest shall be paid solely out of local ad valorem and sales and use tax revenues and any other funds and revenues allocable or made available to the Board. However, none of such revenues or funds are pledged to secure the payment of this bond issue.

In May 2015, the Board issued \$4,370,000 of a Special Tax School Warrant, Series 2015 to refund the School Tax Anticipation Warrants, Series 2004 and make certain capital school improvements. Payments are made with the proceeds of a 13-mill district ad valorem tax.

In June 2016, the Board issued \$11,890,000 of Special Tax School Warrants, Series 2016 to provide various capital improvements (including, but not limited to, certain items of equipment). The Board hereby finds and declares that the reasonably expected economic usefulness of the various improvements funded with the proceeds of the Warrants exceeds the maturity of the Warrants being issued to fund such improvements. Payments are made with the proceeds of a special sales tax levied by the Marshall County Commission pursuant to Act Number 87-537, Acts of Alabama.

On November 16, 2017, the Board issued \$2,135,000 of a Special Tax School Warrant, Series 2017 to acquire and equip school buses for use by the Board. Principal and interest payments shall be paid from the one mill countywide tax levied for the support and furtherance of education by the Marshall County Commission on all taxable property in the County, pursuant to authorization contained in Section 269 of the *Constitution of Alabama 1901* and elections held on February 26, 1991, and December 15, 2015.

Notes to the Financial Statements
For the Year Ended September 30, 2019

The following is a summary of long-term debt transactions for the Board for the year ended September 30, 2019:

	Debt Outstanding 10/01/2018	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 09/30/2019	Amounts Due Within One Year
Governmental Activities:					
Bonds/Warrants Payable					
Capital Improvement Pool					
Refunding Bonds, Series 2009-B	\$ 661,856.68	\$	\$(661,856.68)	\$	\$
Qualified School Construction, Bonds Series 2009-D	3,002,000.00			3,002,000.00	
Capital Improvement Pool Bonds, Series 2013	1,078,779.39		(53,463.98)	1,025,315.41	56,170.32
Special Tax School Warrant, Series 2015	1,800,000.00		(890,000.00)	910,000.00	910,000.00
Special Tax School Warrants, Series 2016	11,520,000.00		(250,000.00)	11,270,000.00	280,000.00
Special Tax School Warrant, Series 2017	1,935,000.00		(195,000.00)	1,740,000.00	200,000.00
Sub-Total Bonds/Warrants Payable	19,997,636.07		(2,050,320.66)	17,947,315.41	1,446,170.32
Plus: Premium on Warrants	927,110.96		(41,358.11)	885,752.85	41,358.11
Total Bonds/Warrants Payable	20,924,747.03		(2,091,678.77)	18,833,068.26	1,487,528.43
Other Liabilities:					
Net Pension Liability	43,547,000.00	1,453,000.00		45,000,000.00	
Net OPEB Liability	40,250,871.00	6,518,942.00		46,769,813.00	
Compensated Absences	432,715.45		(23,871.16)	408,844.29	
Total Other Liabilities	84,230,586.45	7,971,942.00	(23,871.16)	92,178,657.29	
Total Governmental Activities Long-Term Liabilities	\$105,155,333.48	\$7,971,942.00	\$(2,115,549.93)	\$111,011,725.55	\$1,487,528.43

The compensated absences liability will be liquidated by the general fund or the fund for which the employee worked.

Notes to the Financial Statements
For the Year Ended September 30, 2019

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

Fiscal Year Ending	Bonds/Warrants Payable		Total Principal and Interest Requirements to Maturity
	Principal	Interest	
September 30, 2020	\$ 1,446,170.32	\$ 557,546.94	\$ 2,003,717.26
2021	563,931.89	535,193.17	1,099,125.06
2022	601,914.38	518,210.84	1,120,125.22
2023	650,007.34	498,068.87	1,148,076.21
2024	686,940.44	475,911.90	1,162,852.34
2025-2029	6,443,320.60	1,797,495.75	8,240,816.35
2030-2034	3,240,030.44	1,103,267.63	4,343,298.07
2035-2039	3,450,000.00	515,075.00	3,965,075.00
2040-2041	865,000.00	20,900.00	885,900.00
Totals	<u>\$17,947,315.41</u>	<u>\$6,021,670.10</u>	<u>\$23,968,985.51</u>

Premiums

The Board reports warrant premiums on debt in connection with the issuance of its 2016 Special School Tax Warrants. The warrant premiums are being amortized using the straight-line method over the term of the related debt.

Total Premiums	\$1,020,166.70
Prior Year Reductions	(93,055.74)
Balance 09/30/2018	927,110.96
Current Year Reductions	(41,358.11)
Balance 09/30/2019	<u>\$ 885,752.85</u>
Current Portion	\$ 41,358.11
Long-Term Portion	\$ 844,394.74

Pledged Revenues

The Board issued Series 2009-B Capital Improvement Pool Refunding Bonds, which are pledged to be repaid from their allocation of public-school funds received from the State of Alabama. The proceeds are to be used for the refunding of the 1999-D Capital Improvement Pool Bonds. Future revenues in the amount \$0.00 are pledged to repay the principal and interest on the bonds at September 30, 2019. Pledged funds in the amount of \$694,949.52 were used to pay principal and interest on the bonds during the fiscal year ended September 30, 2019. The Series 2009-D bonds matured during fiscal year 2019.

Notes to the Financial Statements

For the Year Ended September 30, 2019

The Board issued Series 2009-D Capital Improvement Pool Qualified School Construction Bonds, which are pledged to be repaid from their allocation of public-school funds received from the State of Alabama. The proceeds are to be used for the acquisition, construction and renovation of school facilities. Future revenues in the amount \$1,904,419.78 are pledged to repay the principal and interest on the bonds at September 30, 2019. Also, the Board contributes annually to a sinking fund held by the State of Alabama. At September 30, 2019, the balance of cash held by the State of Alabama was \$1,447,500.85. The total of pledged revenues and the sinking fund balance totaled \$3,351,192.63, which equals the total required to service the entire debt. Pledged funds in the amount of \$212,214.98 were used to pay principal and interest on the bonds during the fiscal year ended September 30, 2019. The Series 2009-D bonds will mature in fiscal year 2026.

The Board issued Series 2015 Special Tax School Warrant to refund the Series 2004 Warrants and make certain capital school improvements. The Board pledged to repay the 2015 Warrant from the proceeds of a 13-mill district ad valorem tax that was authorized pursuant to Amendment 3 to the *Constitution of Alabama 1901* and an election held on February 26, 1991. Future revenues of \$916,370 are pledged to repay the principal and interest on the warrants at September 30, 2019. Pledged funds in the amount of \$908,970 were used to pay principal and interest on the bonds during the fiscal year ended September 30, 2019. The Series 2015 warrants will mature in fiscal year 2020.

The Board issued Series 2016 Special Tax School Warrants to provide various capital improvements (including, but not limited to, certain items of equipment). The Board pledged to repay the 2016 Warrants from the proceeds of a Special Sales Tax levied in the County District by the County pursuant to Act Number 87-537. Future revenues of \$16,453,150 are pledged to repay the principal and interest on the warrants at September 30, 2019. Pledged funds in the amount of \$674,900 were used to pay principal and interest on the bonds during the fiscal year ended September 30, 2019. The Series 2016 warrants will mature in fiscal year 2041.

The Board issued Series 2017 Special Tax School Warrant to acquire and equip school buses for use by the Board. The Board pledged to repay the 2017 Warrant from the one mill county-wide tax levied for the support and furtherance of education by the Marshall County Commission on all taxable property in the County, pursuant to authorization contained in Section 269 of the *Constitution of Alabama 1901* and elections held on February 26, 1991, and December 15, 2015. Future revenues of \$1,898,457 are pledged to repay the principal and interest on the warrants at September 30, 2019. Pledged funds in the amount of \$235,608.75 were used to pay principal and interest on the bonds during the fiscal year ended September 30, 2019. The Series 2017 warrants will mature in fiscal year 2027.

Notes to the Financial Statements

For the Year Ended September 30, 2019

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.

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

Notes to the Financial Statements
For the Year Ended September 30, 2019

Note 10 – Interfund Transactions

Interfund Receivables and Payables

The interfund receivables and payables at September 30, 2019, were as follows:

	Interfund Receivables		Total
	General Fund	Special Revenue Fund	
<u>Interfund Payables:</u>			
General Fund	\$	\$473,597.09	\$473,597.09
Special Revenue Fund	75,097.82		75,097.82
Totals	<u>\$75,097.82</u>	<u>\$473,597.09</u>	<u>\$548,694.91</u>

Interfund Transfers

The amounts of interfund transfers during the fiscal year ended September 30, 2019, were as follows:

	Transfers In			Total
	General Fund	Special Revenue Fund	Debt Service Fund	
<u>Transfers Out:</u>				
General Fund	\$	\$1,424,720.09	\$156,227.66	\$1,580,947.75
Special Revenue Fund	91,391.02			91,391.02
Total	<u>\$91,391.02</u>	<u>\$1,424,720.09</u>	<u>\$156,227.66</u>	<u>\$1,672,338.77</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, 2019

Note 11 – Line of Credit

The Board entered into a commercial line of credit with Citizens Bank & Trust in the amount of \$3,000,000.00 on September 4, 2009 to cover payroll expenses, as needed in times of funding shortages. The line of credit has an interest rate of 5.5% and matured on December 5, 2019. Short-term debt activity for the year ended September 30, 2019, was as follows:

	Beginning Balance	Proceeds	Repaid	Ending Balance
Note Payable	\$	\$2,300,000	\$2,300,000	\$

Note 12 – Subsequent Events

On December 15, 2019, the Board issued \$1,980,000.00 in Special Tax School Warrant, Series 2019, dated December 24, 2019. The warrant proceeds were used to pay a portion of the costs of acquiring school buses and to pay the costs of issuing the Warrant.

On March 17, 2021, the Board entered into a contract for alterations and additions to Brindlee Mountain School. Construction costs in the amount of \$6,395,467.00 were awarded for the project.

The United States encountered a COVID-19 pandemic which adversely affected the nation. On March 13, 2020, the President of the United States declared a state of emergency in response to the COVID-19 pandemic. Subsequently, on the same day, the Governor of Alabama declared a state of emergency. As a result, the operations of federal, state, and local governments including educational institutions were modified to ensure the safety of citizenry as well as employees. The results of this modification had little impact on the Marshall County Board of Education’s revenues. The Board’s revenues have remained steady throughout the pandemic and remain steady as of the date of this report. Any increase in costs associated with the pandemic, were covered with federal funds provided for the same costs. Marshall County Board of Education has received multiple federal grants for these expenditures. The Board does not expect to incur any additional locally funded cost as a result of the COVID-19 pandemic.

Required Supplementary Information

Schedule of the Employer's Proportionate Share of the Collective Net Pension Liability
For the Year Ended September 30, 2019
(Dollar amounts in thousands)

	2019	2018	2017	2016	2015
Employer's proportion of the collective net pension liability	0.452598%	0.443065%	0.440378%	0.446621%	0.449653%
Employer's proportionate share of the collective net pension liability	\$ 45,000	\$ 43,547	\$ 47,675	\$ 46,742	\$ 40,849
Employer's covered payroll during the measurement period (*)	\$ 30,206	\$ 29,274	\$ 28,014	\$ 28,268	\$ 28,515
Employer's proportionate share of the collective net pension liability as a percentage of its covered payroll	148.98%	148.76%	170.18%	165.35%	143.25%
Plan fiduciary net position as a percentage of the total collective pension liability	72.29%	71.50%	67.93%	67.51%	71.01%

(*) Employer's covered payroll during the measurement period is the total covered payroll. (See GASB Statement Number 82).
For fiscal year 2019, the measurement period is October 1, 2017 through September 30, 2018.

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 - Pension
For the Year Ended September 30, 2019
(Dollar amounts in thousands)

	2019	2018	2017	2016	2015
Contractually required contribution	\$ 3,828	\$ 3,610	\$ 3,469	\$ 3,311	\$ 3,296
Contributions in relation to the contractually required contribution	\$ 3,828	\$ 3,610	\$ 3,469	\$ 3,311	\$ 3,296
Contribution deficiency (excess)	\$	\$	\$	\$	\$
Employer's covered payroll	\$ 31,335	\$ 30,206	\$ 29,274	\$ 28,014	\$ 28,268
Contributions as a percentage of covered payroll	12.22%	11.95%	11.85%	11.82%	11.66%

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

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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, 2019
(Dollar amounts in thousands)***

	2019	2018
Employer's proportion of the collective net OPEB liability	0.569064%	0.541922%
Employer's proportionate share of the collective net OPEB liability	\$ 46,770	\$ 40,251
Employer's covered-employee payroll during the measurement period (*)	\$ 30,206	\$ 29,274
Employer's proportionate share of the collective net OPEB liability as a percentage of its covered-employee payroll	154.84%	137.50%
Plan fiduciary net position as a percentage of the total collective OPEB liability	14.81%	15.37%

(*) Employer's covered-employee payroll during the measurement period is the total covered payroll. For fiscal year 2019, the measurement period is October 1, 2017 through September 30, 2018.

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, 2019
(Dollar amounts in thousands)

	2019	2018
Contractually required contribution	\$ 1,689	\$ 1,407
Contributions in relation to the contractually required contribution	<u>\$ 1,689</u>	<u>\$ 1,407</u>
Contribution deficiency (excess)	\$	\$
Employer's covered-employee payroll	\$ 31,335	\$ 30,206
Contributions as a percentage of covered-employee payroll	5.39%	4.66%

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

***Notes to Required Supplementary Information
for Other Postemployment Benefits (OPEB)
For the Year Ended September 30, 2019***

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 United Healthcare Medicare Advantage Plan with Prescription Drug Coverage (MAPD).

The Plan is changed periodically to reflect the Affordable Care Act (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, 2016, 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	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	25 years, closed
Asset Valuation Method	Market Value of Assets
Inflation	2.875%
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 for Pre-Medicare Eligible 2018 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, 2019

	Budgeted Amounts		Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis
	Original	Final			
Revenues					
State	\$ 35,840,842.00	\$ 35,840,842.00	\$ 38,024,803.33	\$	\$ 38,024,803.33
Federal	2,000.00	2,000.00	353,351.60		353,351.60
Local	10,611,570.00	10,611,570.00	9,823,583.67	(1) (26,239.94)	9,797,343.73
Other	730,000.00	730,000.00	723,953.26		723,953.26
Total Revenues	47,184,412.00	47,184,412.00	48,925,691.86	(26,239.94)	48,899,451.92
Expenditures					
Current:					
Instruction	25,311,835.72	25,311,835.72	25,272,997.04	(2) 202,441.13	25,475,438.17
Instructional Support	7,152,358.93	7,152,358.93	7,971,501.66	(2) (125,009.23)	7,846,492.43
Operation and Maintenance	4,424,546.54	4,424,546.54	4,708,054.28	(2) (129,532.18)	4,578,522.10
Auxiliary Services:					
Student Transportation	3,913,003.62	3,913,003.62	3,928,464.27	(2) (1,672.73)	3,926,791.54
General Administrative and Central Support	2,651,831.84	2,651,831.84	2,673,007.44	(2) (73,510.68)	2,599,496.76
Other	1,381,167.35	1,381,167.35	1,674,962.25	(2) (49,003.02)	1,625,959.23
Capital Outlay	30,000.00	30,000.00	148,700.55		148,700.55
Debt Service:					
Principal Retirement	1,140,000.00	1,140,000.00	1,193,463.98		1,193,463.98
Interest and Fiscal Charges	464,900.00	464,900.00	489,071.18		489,071.18
Debt Issuance Costs/Other Debt Service	21,500.00	21,500.00	7,870.00		7,870.00
Total Expenditures	46,491,144.00	46,491,144.00	48,068,092.65	(176,286.71)	47,891,805.94
Excess (Deficiency) of Revenues Over Expenditures	693,268.00	693,268.00	857,599.21	150,046.77	1,007,645.98
Other Financing Sources (Uses)					
Indirect Cost	400,776.03	400,776.03	399,826.39		399,826.39
Transfers In	115,490.00	115,490.00	91,391.02		91,391.02
Other Financing Sources	40,000.00	40,000.00	80,794.67		80,794.67
Transfers Out	(1,418,681.86)	(1,418,681.86)	(1,580,947.75)		(1,580,947.75)
Total Other Financing Sources (Uses)	(862,415.83)	(862,415.83)	(1,008,935.67)		(1,008,935.67)
Net Changes in Fund Balances	(169,147.83)	(169,147.83)	(151,336.46)	150,046.77	(1,289.69)
Fund Balances - Beginning of Year	2,050,983.39	2,050,983.39	1,754,251.80	(3) (4,633,343.76)	(2,879,091.96)
Fund Balances - End of Year	\$ 1,881,835.56	\$ 1,881,835.56	\$ 1,602,915.34	\$ (4,483,296.99)	\$ (2,880,381.65)

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended September 30, 2019

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

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

(1) The Board budgets for local revenues only to the extent that they are expected to be received, rather than on the modified accrual basis of accounting.	\$ (26,239.94)
(2) The Board budgets for salaries and benefits only to the extent expected to be paid, rather than on the modified accrual basis.	<u>176,286.71</u>
Net Increase in Fund Balance - Budget to GAAP	<u><u>\$ 150,046.77</u></u>
(3) The amount reported as "fund balance" on the budgetary basis of accounting derives from the basis of accounting used in preparing the Board's budget. This amount differs from the fund balance reported in the Statement of Revenues, Expenditures and Changes in Fund Balances because of the cumulative effect of transactions such as those described above.	

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Special Revenue Fund
For the Year Ended September 30, 2019***

	Budgeted Amounts		Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	
	Original	Final				
Revenues						
State	\$ 4,600.00	\$ 4,600.00	\$ 3,000.00	\$	\$ 3,000.00	
Federal	7,966,931.80	7,966,931.80	7,827,982.93		7,827,982.93	
Local	2,825,270.00	2,825,270.00	2,532,066.79		2,532,066.79	
Other	116,500.00	116,500.00	52,602.57		52,602.57	
Total Revenues	10,913,301.80	10,913,301.80	10,415,652.29		10,415,652.29	
Expenditures						
Current:						
Instruction	3,795,456.56	3,795,456.56	3,413,159.10		3,413,159.10	
Instructional Support	2,029,727.55	2,029,727.55	1,848,208.32		1,848,208.32	
Operation and Maintenance	591,851.27	591,851.27	362,505.09	(1)	(1,088.25)	361,416.84
Auxiliary Services:						
Student Transportation	61,280.00	61,280.00	38,279.72		38,279.72	
Food Service	4,389,475.53	4,389,475.53	4,851,365.95	(1)	(14,176.71)	4,837,189.24
General Administrative and Central Support	180,458.58	180,458.58	180,947.25		180,947.25	
Other	1,088,153.61	1,088,153.61	806,255.24		806,255.24	
Capital Outlay	62,566.50	62,566.50	117,421.02		117,421.02	
Total Expenditures	12,198,969.60	12,198,969.60	11,618,141.69		(15,264.96)	11,602,876.73
Excess (Deficiency) of Revenues Over Expenditures	(1,285,667.80)	(1,285,667.80)	(1,202,489.40)		15,264.96	(1,187,224.44)
Other Financing Sources (Uses)						
Transfers In	1,695,851.86	1,695,851.86	1,424,720.09		1,424,720.09	
Transfers Out	(392,660.00)	(392,660.00)	(91,391.02)		(91,391.02)	
Total Other Financing Sources (Uses)	1,303,191.86	1,303,191.86	1,333,329.07		1,333,329.07	
Net Changes in Fund Balances	17,524.06	17,524.06	130,839.67		15,264.96	146,104.63
Fund Balances - Beginning of Year	2,465,218.88	2,465,218.88	2,268,310.35	(2)	(221,243.71)	2,047,066.64
Fund Balances - End of Year	\$ 2,482,742.94	\$ 2,482,742.94	\$ 2,399,150.02	\$	(205,978.75)	\$ 2,193,171.27

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Special Revenue Fund
For the Year Ended September 30, 2019***

**Explanation of differences between Actual Amounts on
Budgetary Basis and Actual Amounts on 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.

\$ 15,264.96

Net Increase in Fund Balance - Budget to GAAP

\$ 15,264.96

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

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Supplementary Information

**Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2019**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Total Federal Expenditures
<u>U. S. Department of Agriculture</u>			
<u>Passed Through Alabama Department of Education</u>			
State Administrative Expenses for Child Nutrition Child Nutrition Cluster:	10.560	N/A	\$ 20,373.34
School Breakfast Program-Cash Assistance	10.553	N/A	786,505.05
National School Lunch Program:			
Cash Assistance	10.555	N/A	2,009,752.25
Non-Cash Assistance (Commodities)	10.555	N/A	227,977.87
Sub-Total National School Lunch Program			<u>2,237,730.12</u>
Sub-Total Child Nutrition Cluster			<u>3,024,235.17</u>
Total U. S. Department of Agriculture			<u>3,044,608.51</u>
<u>General Services Administration</u>			
<u>Passed Through Alabama Department of Economic and Community Affairs</u>			
Donation of Federal Surplus Personal Property (N)	39.003	N/A	7,149.98
<u>U. S. Department of Education</u>			
<u>Passed Through Alabama Department of Education</u>			
Title I Grants to Local Educational Agencies	84.010	N/A	2,702,678.06
Migrant Education-State Grant Program	84.011	N/A	55,198.00
Special Education Cluster:			
Special Education - Grants to States	84.027	N/A	1,442,961.56
Special Education - Preschool Grants	84.173	N/A	21,985.00
Sub-Total Special Education Cluster			<u>1,464,946.56</u>
Career and Technical Education - Basic Grants to States	84.048	N/A	144,940.40
Education for Homeless Children and Youth	84.196	N/A	33,783.00
Rural Education	84.358	N/A	107,796.00
English Language Acquisition State Grants	84.365	N/A	51,421.00
Supporting Effective Instruction State Grants	84.367	N/A	386,404.00
Student Support and Academic Enrichment Program	84.424	N/A	187,459.00
<u>Passed Through Alabama Department of Early Childhood Education</u>			
Preschool Development Grants	84.419	N/A	271,977.35
Total U. S. Department of Education			<u>5,406,603.37</u>
<u>Social Security Administration</u>			
<u>Passed Through Alabama Department of Education</u>			
Social Security - Disability Insurance	96.001	N/A	2,100.00
Total Expenditures of Federal Awards			<u>\$ 8,460,461.86</u>

(N) = Non-Cash Assistance
N/A = Not Available/Not Applicable

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

***Notes to the Schedule of Expenditures
of Federal Awards
For the Year Ended September 30, 2019***

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal award activity of the Marshall County Board of Education under programs of the federal government for the year ended September 30, 2019. 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 Marshall County Board of Education, it is not intended to and does not present the financial position or changes in net position of the Marshall 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 Marshall County Board of Education has elected not to use the 10-percent de minimis indirect cost rate as allowed in the *Uniform Guidance*.

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Additional Information

Board Members and Administrative Personnel
October 1, 2018 through September 30, 2019

Board Members

Term Expires

Hon. Terry Kennamer	President	November 2020
Hon. Tony Simmons	Vice-President	November 2024
Hon. Joe Van Bunch	Member	November 2022
Hon. Mark Rains	Member	November 2022
Hon. Vince Edmonds	Member	November 2018
Hon. Brian Naugher	Member	November 2024

Administrative Personnel

Cindy Wigley, Ed. D.	Superintendent	December 2021
Laura Bishop	Chief School Financial Officer	November 1, 2020

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

Members of the Marshall County Board of Education,
Superintendent and Chief School Financial Officer
Guntersville, Alabama

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards*** issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Marshall County Board of Education, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Marshall County Board of Education's basic financial statements and have issued our report thereon dated June 22, 2021.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as Finding 2019-006 to be a material weakness.

***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***

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as Findings 2019-007, 2019-008 and 2019-009 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Marshall 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 financial statements. 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***. However, we noted certain additional matters that we have reported to the management of the Marshall County Board of Education in the Schedule of State and Local Compliance and Other Findings.

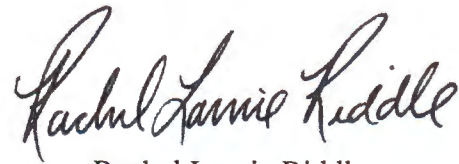
Marshall County Board of Education's Response to Findings

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

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

Purpose of this Report

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



Rachel Laurie Riddle
Chief Examiner

Department of Examiners of Public Accounts

Montgomery, Alabama

June 22, 2021

***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 Marshall County Board of Education,
Superintendent and Chief School Financial Officer
Guntersville, Alabama

Report on Compliance for Each Major Federal Program

We have audited the Marshall 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 Marshall County Board of Education's major federal programs for the year ended September 30, 2019. The Marshall 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 Marshall 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 Marshall 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 Marshall 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 Marshall 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, 2019.

Report on Internal Control Over Compliance

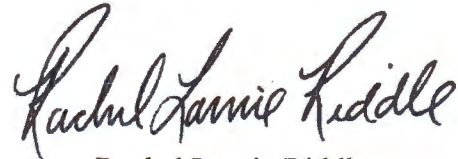
Management of the Marshall County Board of Education is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Marshall County Board of Education's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the *Uniform Guidance*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Marshall 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 a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

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

June 22, 2021

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2019

Section I – Summary of Examiner's Results

Financial Statements

Type of opinion issued: Unmodified

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

Significant deficiency(ies) identified? X Yes None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

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

Significant deficiency(ies) identified? Yes X None reported

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

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

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.010	Title I Grants to Local Educational Agencies
84.027 and 84.173	Special Education Cluster

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

Auditee qualified as low-risk auditee? Yes X No

Schedule of Findings and Questioned Costs

For the Year Ended September 30, 2019

Section II – Financial Statement Findings (GAGAS)

Reference Number: 2019-006
Type of Finding: Internal Control
Internal Control Impact: Material Weakness
Compliance Impact: None

Internal controls were not implemented to ensure all disbursements were adequately documented and made for allowable purchases.

Finding

The *Code of Alabama 1975*, Section 16-13A-1, requires a local board of education to ensure the sound fiscal management of board finances by adopting fiscal management policies. Control procedures established by the Board require supervisory review for all expenditures and review of bank reconciliations to be performed monthly. Management override of controls by the Chief School Financial Officer (CSFO) were noted resulting in a misappropriation of funds totaling \$23,863.37. The following matters were noted:

- ◆ Unauthorized personal expenses totaling \$18,741.89 were paid by the CSFO using the Board's debit and credit card. Expenses paid included rent payments, utilities, groceries, cable and cell phone bills, home security services, and undocumented travel expenses for lodging and gasoline.
- ◆ Travel expense advances totaling \$4,660.47 were paid to the CSFO for amounts also charged to the Board's credit card. This amount included airline tickets, hotel charges, meals and gasoline purchases. Travel expenses for the CSFO were paid in advance and adequate documentation was not available for all items included on the travel claim.
- ◆ Reconciling items totaling \$461.01 were included on the monthly bank reconciliations as "Due from the CSFO". This amount resulted from personal items purchased using Board funds which were not reimbursed. Additionally, the CSFO failed to prepare the bank reconciliations in a timely manner.

Policies and procedures were not in place to ensure adequate oversight and approval of Board expenditures and the reconciliation of bank statements. Adequate documentation was not always maintained to support expenditures paid and journal entries made on the bank reconciliations. As a result, unallowable and unauthorized expenditures were made resulting in financial loss to the Board. The CSFO repaid \$23,863.37 to the Board at the conclusion of the audit.

Schedule of Findings and Questioned Costs

For the Year Ended September 30, 2019

Recommendation

The Board should implement policies and procedures to ensure adequate oversight and approval of all expenditures and ensure appropriate supporting documentation is available for review. Bank accounts should be reconciled on a monthly basis and reviewed and approved by supervisory personnel.

Views of Responsible Officials

The Board agrees with the finding, with the following exception: there were policies and procedures in place but were not followed by the CSFO. The Board also believes that the CSFO who executed the personal transactions circumvented the policies and procedures and was responsible for ensuring adequate oversight and approval of Board expenditures. The Board believes the previous CSFO overrode the policies and procedures to execute the personal charges.

Auditor's Response

We appreciate the Board's response. However, it is the Board's responsibility to ensure all employees follow prescribed policies and procedures. We reaffirm our finding.

Section II – Financial Statement Findings (GAGAS)

Reference Number:	2019-007
Type of Finding:	Internal Control
Internal Control Impact:	Significant Deficiency
Compliance Impact:	None

Internal controls were not implemented to ensure activities did not expend more money than was available.

Finding

The *Code of Alabama 1975*, Section 16-13A-1, requires a local board of education to ensure the sound fiscal management of board finances by adopting fiscal management policies. Local school financial records indicate deficit activity balances at fiscal year-end in some individual nonpublic activities. The Board failed to ensure policies regarding fund availability in activities were followed at local schools. As a result, some activities expended more money than was available.

Recommendation

The Board should implement procedures to ensure compliance with established policies regarding fund availability in activity accounts.

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2019

Views of Responsible Officials

The Board agrees with the finding. While policies and procedures were in place, the previous CSFO did not ensure oversight.

Section II – Financial Statement Findings (GAGAS)

Reference Number: 2019-008
Type of Finding: Internal Control
Internal Control Impact: Significant Deficiency
Compliance Impact: None

Internal controls were not implemented to ensure capital assets were reconciled to the Board's general ledger or that an annual inventory was performed.

Finding

The *Code of Alabama 1975*, Section 16-13A-1, requires a local board of education to ensure the sound fiscal management of board finances by adopting fiscal management policies. As a part of their fiscal management, the Board has a policy that requires a reconciliation of physical inventory counts to capital asset records on the Board's general ledger. Records could not be located to confirm a reconciliation of the physical inventory to the Board's general ledger was performed. Adequate documentation was not always maintained and there was not proper oversight of reporting. The failure to maintain adequate capital asset records exposed the Board to a risk of loss and theft.

Recommendation

The Board should implement procedures to ensure compliance with established policies regarding reconciliation of capital assets to the Boards financial records and ensure adequate records are maintained for review.

Views of Responsible Officials

The Board agrees with the finding. The Board believes that there is a procedure for fixed assets, and it was not followed by the previous CSFO.

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2019

Section II – Financial Statement Findings (GAGAS)

Reference Number: 2019-009
Type of Finding: Internal Control
Internal Control Impact: Significant Deficiency
Compliance Impact: None

Internal controls were not implemented to ensure purchased orders were issued appropriately and in compliance with Board policy.

Finding

The *Code of Alabama 1975*, Section 16-13A-1, requires a local board of education to ensure the sound fiscal management of board finances by adopting fiscal management policies. As a part of their fiscal management, the Board has a policy that requires a purchase order to be issued prior to the purchase being made. Purchase orders issued by the Board were back dated to the first day of the month in which the invoice was dated, rather than obtaining proper approval and authorization before the purchase was made. Policies and procedures were not in place to ensure adequate oversight of the Board's purchase orders. The failure to properly issue purchase orders exposes the Board to the risk of overspending which would result in deficit balances and contributes to the Board's failure to maintain a one-month operating reserve.

Recommendation

The Board should implement procedures to ensure compliance with established policies regarding purchase orders.

Views of Responsible Officials

The Board agrees with the finding. The Board also believes there is a procedure in place to address how to issue purchase orders. The previous CSFO directed employees to backdate all P.O.'s to the first day of each month.

Section III – Federal Awards Findings and Questioned Costs

No matters were reportable.

Auditee Response/Corrective Action Plan

BOARD OF EDUCATION

Mr. Joe Van Bunch
Mr. Bill Hancock
Mr. Brian Naugher
Mr. Mark Rains
Mr. Tony Simmons

SUPERINTENDENT

Dr. Cindy Wigley



MARSHALL COUNTY
BOARD OF EDUCATION

12380 U.S. Highway 431 South
Guntersville, Alabama 35976
www.marshallk12.org
(256) 582-3171
(256) 582-3178 - FAX

Auditee Response/Corrective Action Plan
For the Year Ended September 30, 2019

As required by the *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, 2 CFR 200.511(c), the Marshall County Board of Education has prepared and hereby submits the following Corrective Action Plan for the findings which are included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2019.

**Finding
Ref.
No.**

Corrective Action Plan Details

2019-006

Finding:

The *Code of Alabama 1975*, Section 16-13A-1 requires a local board of education to ensure the sound fiscal management of board finances by adopting fiscal management policies. Control procedures established by the Board require supervisory review for all expenditures and review of bank reconciliations to be performed monthly. Management override of controls by the Chief School Financial Officer (CSFO) were noted resulting in a misappropriation of funds totaling \$23,863.37. The following matters were noted:

- Unauthorized personal expenses totaling \$18,741.89 were paid by the CSFO using the Board’s debit and credit card. Expenses paid included rent payments, utilities, groceries, cable and cell phone bills, home security services, and undocumented travel expenses for lodging and gasoline.
- Travel expense advances totaling \$4,660.47 were paid to the CSFO for amounts also charged to the Board’s credit card. This amount included airline tickets, hotel charges, meals and gasoline purchases. Travel expenses for the CSFO were paid in advance and adequate documentation was not available for all items included on the travel claim.
- Reconciling items totaling \$461.01 were included on the monthly bank reconciliations as “Due from the CSFO”. This amount resulted from personal items purchased using Board funds which were not reimbursed. Additionally, the CSFO failed to prepare the bank reconciliations in a timely manner.

Policies and procedures were not in place to ensure adequate oversight and approval of Board expenditures and the reconciliation of bank statements.

Adequate documentation was not always maintained to support expenditures paid and journal entries made on the bank reconciliations. As a result, unallowable and unauthorized expenditures were made resulting in financial loss to the Board. The CSFO repaid \$23,863.37 to the Board at the conclusion of the audit.

Recommendation:

The Board should implement policies and procedures to ensure adequate oversight and approval of all expenditures and ensure appropriate supporting documentation is available for review. Bank accounts should be reconciled on a monthly basis and reviewed and approved by supervisory personnel.

Response/Views:

The Board agrees with this finding, with the following exception: there were policies and procedures in place but were not followed by the CSFO. The Board also believes that the CSFO who executed the personal transactions circumvented the policies and procedures and was responsible for ensuring adequate oversight and approval of Board expenditures. The Board believes the previous CSFO overrode the policies and procedures to execute the personal charges.

Corrective Action Planned:

The CSFO that executed the personal transactions has resigned and is no longer employed by the Marshall County Board of Education. To further improve the process, the Board has reorganized the Finance Department to include a new position of Assistant CSFO. The Assistant CSFO allows the district to implement a better plan for segregating duties. The prior department structure allowed the CSFO complete control over the banking activities for the district. The CSFO was the only person reconciling and, in many instances, approving the bank reconciliations. The new procedure completely eliminates the CSFO's involvement in the physical transactions with the bank. The Assistant CSFO performs all bank reconciliations and physical bank transactions. The CSFO reviews and approves all bank reconciliations and bank transactions. The bank transfers are requested by Finance Department staff, approved by the CSFO, and performed by the Assistant CSFO. The Assistant CSFO maintains all documentation associated with the expenditures paid and journal entries made on the bank reconciliation. All transactions are reviewed and approved by the CSFO.

Anticipated Completion Date:

The Assistant CSFO position was added in December of 2020 and a new employee started work on February 1, 2021. The corrective action was implemented on February 1, 2021.

Contact Person(s):

Bob Haygood

2019-007

Finding:

The *Code of Alabama 1975*, Section 16-13A-1 requires a local board of education to ensure the sound fiscal management of board finances by adopting fiscal management policies. Local school financial records indicate deficit activity balances at fiscal year-end in some individual nonpublic activities. The Board failed to ensure policies regarding fund availability in activities were followed at local schools. As a result, some activities expended more money than was available.

Recommendation:

The Board should implement procedures to ensure compliance with established policies regarding fund availability in activity accounts.

Response/Views:

The Board agrees with this finding. While policies and procedures were in place, the previous CSFO did not ensure oversight.

Corrective Action Planned:

The district reorganized the finance department to include an Assistant CSFO. The Assistant CSFO will analyze school activity balances monthly to ensure that negative balances are addressed in a timely manner. Training will be provided to local schools to address the importance of eliminating deficit activity balances.

Anticipated Completion Date:

The Assistant CSFO was hired on February 1, 2021 and immediately began implementing the corrective action. Training of local school personnel is ongoing and will be completed prior to the end of fiscal year 2021.

Contact Person(s):

Bob Haygood

2019-008

Finding:

The *Code of Alabama 1975*, Section 16-13A-1 requires a local board of education to ensure the sound fiscal management of board finances by adopting fiscal management policies. As a part of their fiscal management, the Board has a policy that requires a reconciliation of physical inventory counts to capital asset records on the Board's general ledger. Records could not be located to confirm a reconciliation of the physical inventory to the Board's general ledger was performed. Adequate documentation was not always maintained and there was not proper oversight of reporting. The failure to maintain adequate capital asset records exposed the Board to a risk of loss and theft.

Recommendation:

The Board should implement procedures to ensure compliance with established policies regarding reconciliation of capital assets to the Boards financial records and ensure adequate records are maintained for review.

Response/Views:

The Board agrees with this finding. The Board believes that there is a procedure for fixed assets and it was not followed by the previous CSFO.

Corrective Action Planned:

Beginning with fiscal year 2020, the fixed asset inventory count will be imported in to the financial accounting software. Previously, the fixed asset inventory has been maintained in a separate system, which makes it difficult to analyze and review. Importing the fixed asset inventory will provide reports of additions and deletions and make the fixed asset reconciliation to the actual count easier to maintain and audit.

Anticipated Completion Date:

The correction will be completed during the fiscal year end September 30, 2020 financial statement audit.

Contact Person(s):

Bob Haygood

2019-009

Finding:

The *Code of Alabama 1975*, Section 16-13A-1 requires a local board of education to ensure the sound fiscal management of board finances by adopting fiscal management policies. As a part of their fiscal management, the Board has a policy that requires a purchase order to be issued prior to the purchase being made. Purchase orders issued by the Board were back dated to the first day of the month in which the invoice was dated, rather than obtaining proper approval and authorization before the purchase was made. Policies and procedures were not in place to ensure adequate oversight of the Board's purchase orders. The failure to properly issue purchase orders exposes the Board to the risk of overspending which would result in deficit balances and contributes to the Board's failure to maintain a one-month operating reserve.

Recommendation:

The Board should implement procedures to ensure compliance with established policies regarding purchase orders.

Response/Views:

The Board agrees with this finding. The Board also believes there is a procedure in place to address how to issue purchase orders. The previous CSFO directed employees to backdate all P.O.'s to the first day of each month.

Corrective Action Planned:

The Board does have a procedure for purchase requisitions and purchase orders. The procedure does not state the date to use when compiling a purchase order, however, it is implicit that purchase orders should use the current date and not be

backdated to the first day of the month. The practice of backdating P.O.'s has been changed.

Anticipated Completion Date:

The corrective action was implemented in October of 2020.

Contact Person(s):

Bob Haygood

Other matters came to our attention while performing our audit that are not included in the Schedule of Findings and Questioned Costs. These matters will be addressed in the Schedule of State and Local Compliance and Other findings and are included as findings below.

Finding Ref. No.	Corrective Action Plan Details
2019-001	<p><i>Finding:</i> The <i>Code of Alabama 1975</i>, Section 16-13B-1, requires all expenditure of funds of whatever nature for labor, services, work, or for the purchase of materials, equipment, supplies, or other personal property involving fifteen thousand dollars (\$15,000) or more made by or on behalf of any county board of education to be made under contractual agreement entered into by free and open competitive bidding, on sealed bids, to the lowest responsible bidder. Additionally, the <i>Code of Alabama 1975</i>, Section 16-13B-4(d), provides that all original bids, together with all documents pertaining to the award of the contract, be retained in accordance with a retention period of at least seven years established by the Local Government Records Commission and shall be open to public inspection. During the audit period, the Marshall County Board of Education (the "Board") expended in excess of \$15,000 for various goods or services without properly bidding them or maintaining supporting documentation of items purchased utilizing the State of Alabama's Statewide Contract bid list, joint purchasing agreements, or other means. The Board did not have procedures in place to ensure expenditures which met the competitive bid law threshold requirements were competitively bid and that all documentation of the awarding of contracts was retained in accordance with statute. As a result, the Board did not ensure a fair and competitive purchasing process was followed in the awarding of some contracts.</p> <p><i>Recommendation:</i> The Board should ensure compliance with the <i>Code of Alabama 1975</i>, Section 16-13B-1 and Section 16-13B-4(d) relating to the Alabama Competitive Bid Law.</p> <p><i>Response/Views:</i></p>

The Board agrees with this finding. The Board does have procedures in place concerning the state bid law. The procedure in place was not followed by the previous CSFO.

Corrective Action Planned:

The CSFO will review all purchases to ensure a fair and competitive purchasing process is followed in awarding contracts. Training will be provided to employees who have responsibility for the procurement process.

Anticipated Completion Date:

The CSFO began reviewing purchases during fiscal year 2021. When expenditures meet the competitive bid law threshold, competitive bids are required for the purchase, or supporting documentation must be maintained when using the State bid or other purchasing cooperative. Training will be provided to employees prior to the end of fiscal year 2021.

Contact Person(s):

Bob Haygood

2019-002

Finding:

Title 26 of the Internal Revenue Code requires governmental agencies to file returns (Form 1099-MISC) to report payments made to an individual who is not considered an employee of the agency in the amount of \$600 or more in a taxable year. Forms 1099-MISC were not filed or maintained for review for calendar year 2019. The Board failed to ensure individuals receiving payments in the amount of \$600 or more were issued Form 1099 MISC and proper documentation was maintained for review. As a result, we were unable to determine that taxable payments were properly reported to the Internal Revenue Service.

Recommendation:

The Board should ensure Forms 1099-MISC are issued and records are maintained as required by the Internal Revenue Code.

Response/Views:

The Board agrees with the finding. A mechanism was available that the CSFO chose not to use.

Corrective Action Planned:

Previously the board did not use the financial accounting software to maintain 1099 information. A procedure was implemented in January 2021 to utilize the financial accounting software to maintain 1099 information. In addition to paper files, using the financial accounting software will provide an electronic audit of the 1099 vendor information was well.

Anticipated Completion Date:

The corrective action was implemented in January of 2021.

Contact Person(s):

Bob Haygood

2019-003

Finding:

The *Code of Alabama 1975*, Section 16-1-8.1(5) provides "monies allocated for classroom instructional support may be spent for classroom instructional support purposes only". Testing revealed several teachers used classroom instructional support monies for purposes other than classroom instructional support, including personal charges. The Board failed to detect and prevent unallowable expenditures on teacher purchasing cards. As a result, expenditures were made for purposes other than classroom instructional support. The personal charges were repaid at the conclusion of the audit.

Recommendation:

The Board should ensure policies and procedures are properly implemented and followed to ensure expenditures for classroom instructional support are in accordance with *Code of Alabama 1975*, Section 16-1-8.1(5).

Response/Views:

The Board agrees with the finding. The new CSFO has implemented new strategies to resolve the issue.

Corrective Action Planned:

The district implemented a procedure in January of 2021 to review the charges made with teacher purchasing cards to ensure personal charges are not incurred. If items are found to be personal in nature, the teacher is required to repay the charges immediately. Should there be a recurring problem with personal purchases, the finance department will suspend the purchasing card privileges for the teacher. Beginning in fiscal year 2022, the district will implement Class Wallet in lieu of teacher purchasing cards. Class Wallet will eliminate the personal charges.

Anticipated Completion Date:

Procedure changed in January of 2021. The district will utilize Class Wallet beginning in October 2022.

Contact Person(s):

Bob Haygood

2019-004

Finding:

The *Code of Alabama 1975*, 16-8-37, requires a local board of education to publish annually in the month of October, in a county newspaper, a full and complete statement of receipts by source and disbursements by function for the

twelve-month period ending September 30. The Board is also required to publish a statement of indebtedness, as well as a schedule which shows the resources available to pay such indebtedness. The Board did not publish the financial information for fiscal year 2019. Procedures were not in place to ensure financial information was published as required. As a result, the Board failed to ensure disclosure of its annual receipts, disbursements and indebtedness.

Recommendation:

The Board should publish its financial information in the county newspaper in the month of October annually in accordance with the *Code of Alabama 1975*, Section 16-8-37.

Response/Views:

The Board agrees with this finding due to the fact that the previous CSFO had not completed the report in order to publish.

Corrective Action Planned:

The new CSFO will complete required reports prior to deadlines and publish a full and complete statement of receipts by source and disbursements by function along with a statement of indebtedness in the month of October for the twelve-month period ending September 30.

Anticipated Completion Date:

The corrective action will be complete in October of 2021.

Contact Person(s):

Bob Hagood

2019-005

Finding:

The *Code of Alabama 1975*, 16-13A-9, requires a local board of education to develop a plan to establish and maintain a one-month operating reserve. The Board has an established minimum fund balance policy which requires the Superintendent or Chief School Financial Officer to inform the Board before they vote on a budget or budget amendment, which will prevent the establishment or maintenance of a one-month operating balance. Procedures were not in place to ensure that the required one-month operating balances were maintained. As a result, the Board's fund balance did not meet the one-month operating reserve requirement.

Recommendation:

The Board should comply with the provisions of the Board policy regarding a minimum fund balance.

Recommendation:

The Board should comply with the provisions of the Board policy regarding a minimum fund balance.

Response/Views:

The Board agrees with the finding. The Board does believe that proper procedures were in place to address the one-month operating reserve. The previous CSFO failed to implement the existing procedure to ensure the Board maintained the one-month operating reserve.

Corrective Action Planned:

The Board was notified that a one-month operating balance was not maintained. The district has utilized all flexibility possible to reach the one-month operating balance. The district will work with the State Department of Education financial staff to assist with a plan to obtain and maintain a one-month operating balance.

Anticipated Completion Date:

Date has not been determined. The district will work to achieve the one-month balance as soon as possible.

Contact Person(s):

Bob Hagood



Superintendent, Marshall County Board of Education