

Report on the

Dallas County Board of Education

Dallas County, Alabama

October 1, 2017 through September 30, 2018

Filed: June 28, 2019



Department of Examiners of Public Accounts

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Rachel Laurie Riddle, Chief Examiner



Rachel Laurie Riddle
Chief Examiner

State of Alabama
Department of
Examiners of Public Accounts

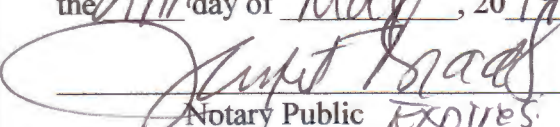
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Honorable Rachel Laurie Riddle
Chief Examiner of Public Accounts
Montgomery, Alabama 36130

Dear Madam:

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

Sworn to and subscribed before me this
the 29th day of May, 20 19.


Notary Public

Expires 01/12/2022

Respectfully submitted,



Brent Mims
Examiner of Public Accounts



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Department of
Examiners of Public Accounts

SUMMARY

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

The Dallas County Board of Education (the “Board”) is governed by a five-member body elected by the citizens of Dallas County. The members and officials in charge of governance of the Board are listed in Exhibit 14. The Board is the governmental agency that provides general administration and supervision for Dallas County public schools, preschool through high school, with the exception of schools administered by the Selma City School System.

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

An unmodified opinion was issued for all of the opinion units on the accompanying financial statements, except for the Governmental Activities and the General Fund on which we issued a qualified opinion. An unmodified opinion means that the Commission’s financial statements present fairly, in all material respects, its financial position and the results of its operations for the fiscal year ended September 30, 2018. Whereas, a qualified opinion means one or more opinion units in the Commission’s financial statements do not present fairly, in all material respects, its financial position and the results of its operations. The basis for the qualified opinion on the Governmental Activities and the General Fund is explained in the Independent Auditor’s Report.

Problems were found with the Board’s internal controls over financial reporting (Exhibit 17) and they are summarized below.

- ◆ 2018-001 relates to a liability not being recorded, resulting in a material misstatement to the Board’s financial statements.

- ◆ 2018-002 relates to inadequate controls over concession activities at several local schools.
- ◆ 2018-003 relates to inadequate controls over ticket sales at a local school.
- ◆ 2018-004 relates to the Board's failure to comply with Board policy and *Uniform Guidance* requirements for procurement transactions.

Board members and administrative personnel, as reflected on Exhibit 14, were invited to discuss the results of this report at an exit conference. Individuals in attendance were: Hattie Shelton, Superintendent; Brenda Turner, Chief School Financial Officer; Board Members: Roy Edwards and Mark Story. Also in attendance were representatives from the Department of Examiners of Public Accounts: Emily Tyler, Audit Manager, and Brent Mims, Accounts Examiner.

Independent Auditor's Report

Independent Auditor's Report

Members of the Dallas County Board of Education,
Superintendent and Chief School Finance Officer
Selma, 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 Dallas County Board of Education, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Dallas County Board of Education's basic financial statements, listed in the table of contents as Exhibits 1 through 6.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of 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 including 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 reasonable basis for our audit opinions.

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Qualified
General Fund	Qualified
Special Revenue Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

Basis for Qualified Opinion on Governmental Activities and General Fund

Management has not recorded in the Governmental Activities and General Fund a liability in the amount of \$1,178,526.63 for sales tax due to the Selma City Board of Education and, accordingly, has understated liabilities and overstated net position/fund balance. Accounting principles generally accepted in the United States of America require that liabilities be recognized when they are incurred.

Qualified Opinions

In our opinion, except for the effects of the matter discussed in the “Basis for Qualified Opinion on Governmental Activities and General Fund,” the financial statements referred to above present fairly, in all material respects, the respective financial position of the Governmental Activities and General Fund of the Dallas County Board of Education, as of September 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Special Revenue Fund and the aggregate remaining fund information of the Dallas County Board of Education, as of September 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 13 to the financial statements, during the fiscal year ended September 30 2018, the Dallas County Board of Education adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement Number 75, ***Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions***, as amended by GASB Statement Number 85, ***Omnibus 2017***. Our opinion on the basic financial statements is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), the Schedule of the Employer's Proportionate Share of the Collective Net Pension Liability (Exhibit 7), the Schedule of the Employer's Contributions – Pension (Exhibit 8), the Schedule of the Employer's Proportionate Share of the Collective Net OPEB Liability (Exhibit 9), the Schedule of the Employer's Contributions – OPEB (Exhibit 10) and the Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Exhibits 11 and 12) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

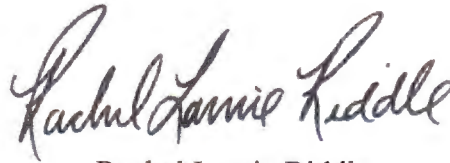
Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Dallas County Board of Education's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 13), as required by Title 2 U. S. ***Code of Federal Regulations*** Part 200, ***Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards*** (*Uniform Guidance*), is presented for the purposes of additional analysis, and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with ***Government Auditing Standards***, we have also issued our report dated May 29, 2019, on our consideration of the Dallas 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 grants 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 Dallas 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 Dallas County Board of Education's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Rachel Laurie Riddle". The signature is written in a cursive, flowing style.

Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

May 29, 2019

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

Management Discussion and Analysis (MD&A)

Introduction

The Management's Discussion and Analysis (MD&A) of the Dallas County Board of Education's financial performance provides an overall review of the Board's financial activities for the fiscal year ended September 30, 2018. The intent of this discussion and analysis is to look at the Board's financial performance as a whole. Readers should also review the financial statements and the notes to the financial statements to enhance their understanding of the Dallas County Board of Education's financial performance.

Financial Highlights

General Fund revenues and other fund sources exceeded expenditures and other fund uses in fiscal year 2018 by \$467,102.44 resulting in a deficit ending fund balance of \$385,371.04. Existing Long Term Liability continues to hinder the Board financially. A minimum fund balance equaling one month's operating balance is required by the School Fiscal Accountability Act enacted in 2006. At the end of fiscal year 2018, the funding available for operations fell short of the required one month's operating balance, which according to the State Department of Education calculations, equals \$2,220,771.00.

Overview of the Financial Statements

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

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

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

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

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

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

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

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

Financial Analysis of the Board as a Whole

As noted earlier, the Dallas County Board of Education has no business-type activities. Consequently, all of the Board's net position is reported as Governmental Activities.

Comparison of Net Position		
	Governmental Activities	
	2017	2018
Current and Other Assets	\$ 6,623,063.65	\$ 6,063,329.52
Capital Assets	12,999,270.32	12,469,695.50
Total Assets	19,622,333.97	18,533,025.02
Employer Pension Contribution	2,219,706.48	2,208,631.15
Proportionate Share of Collective Deferred Outflows Related to Net Position	2,636,000.00	1,663,000.00
Employer OPEB Contribution		903,434.00
Total Deferred Outflows of Resources	4,855,706.48	4,775,065.15
Current and Other Liabilities	3,828,532.69	3,233,176.13
Long-Term Liabilities	34,761,929.47	58,482,506.63
Total Liabilities	38,590,462.16	61,715,682.76
Unavailable Revenue – Property Tax	1,686,203.88	1,695,516.89
Revenue – Advance	118,346.43	105,787.15
Proportionate Share of Collective Deferred Inflows Related to Net Position Liability	2,109,000.00	4,012,000.00
Proportionate Share of Collective Deferred Inflows Related to Net OPEB Liability		4,568,354.00
Total Deferred Inflows of Resources	3,913,550.31	10,381,658.04
Net Position		
Net Investment in Capital Projects	9,222,340.85	9,231,680.87
Restricted:		
Capital Projects	325,914.89	202,201.00
Other Purposes	1,174,592.60	785,696.01
Unrestricted	(28,748,820.36)	(59,008,828.51)
Total Net Position	\$(18,025,972.02)	\$(48,789,250.63)

The Board's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$48,789,250.63 at the close of the fiscal year. The majority of the Board's net position is invested in capital assets (land, buildings, and equipment) owned by the Board. These assets are not available for future expenditures since they will not be sold. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by enabling legislation, debt covenants, or other legal requirements – totaled a deficit of (\$59,008,828.51) at the end of the year. The calculation of unrestricted net position includes Salaries and Benefits Payable totaling \$2,681,887.91 that will be paid using fiscal year 2019 funds, therefore, the Board was not without funds with which to operate on September 30, 2018.

The Board has recorded the Net Pension Liability and related Deferred Outflows and Inflows in accordance with GASB Statement Number 68. The Board also implemented GASB Statement Number 75, which established accounting and financial reporting standards for postemployment benefits other than pensions. The implementation of this Statement caused a significant decrease in the Board's net position.

The Board's total revenues and expenditures are reflected in the following chart:

	Governmental Activities	
	2017	2018
<u>Revenues</u>		
Program Revenues:		
Charges for Services	\$ 3,375,362.03	\$ 3,191,750.84
Operating Grants and Contributions	27,647,112.84	26,933,997.87
Capital Grants and Contributions	1,150,352.00	982,590.00
General Revenues:		
Property Taxes	2,014,896.83	2,057,371.51
Sales Tax	1,707,160.01	1,771,293.43
Miscellaneous Tax	41,164.37	41,199.32
Interest	8,277.35	8,075.21
Other Miscellaneous Revenues	602,705.06	745,463.61
Total Revenues	36,547,030.49	35,731,741.79
<u>Expenses</u>		
Instructional Services	17,406,314.61	16,566,575.13
Instructional Support Services	7,244,654.17	6,933,342.21
Operation and Maintenance Services	3,415,201.25	3,312,726.19
Auxiliary Services:		
Student Transportation Services	3,473,319.63	3,509,767.15
Food Services	2,666,211.94	2,542,635.01
General Administrative Services	1,515,922.58	1,502,275.39
Interest and Fiscal Charges	117,176.52	106,206.70
Other Expenses	1,098,653.06	1,430,997.62
Total Expenses	36,937,453.76	35,904,525.40
Change in Net Position	(390,423.27)	(172,783.61)
Net Position – Beginning of Year, as Restated	(17,635,548.75)	(48,616,467.02)
Net Position – End of Year	\$(18,025,972.02)	\$(48,789,250.63)

Program revenues totaling \$31,108,338.71, which mostly consists of operating grants and contributions, is the largest component of total revenues.

- ◆ Operating grants and contributions contribute \$26,933,997.87 of program revenues. The major sources of revenues in this category are state foundation program funds, state transportation operating funds, and state and federal funds restricted for specific programs.
- ◆ Capital grants and contributions totaling \$982,590.00 include state capital outlay funds and state fleet renewal funds.
- ◆ Charges for services totaling \$3,191,750.84 include federal reimbursement for meals, student meal purchases, and local school revenues.

General revenues, primarily property taxes and sales taxes, are used to provide \$4,623,403.08 for expenses not covered by program revenues.

- ◆ Instructional services expense, primarily salaries and benefits for classroom teachers, is the largest expense function of the Board. In addition to teacher salaries and benefits, instructional services include teacher aides, substitute teachers, textbooks, professional development, and classroom instructional materials, supplies, and equipment.
- ◆ Instructional support services include salaries and benefits for school principals, assistant principals, librarians, counselors, school secretaries, school bookkeepers, speech therapists, and school nurses, library books, material, supplies, and equipment for instructional support staff, and professional development expenses.
- ◆ Operation and maintenance services includes utilities, security services, janitorial services, salaries and benefits for maintenance department employees, maintenance purchased services and supplies, and the purchase and upkeep of maintenance vehicles. The expense for insurance for Board owned vehicles, other than Student Transportation related vehicles, is also included in Operation and Maintenance services.
- ◆ Student transportation services includes bus drivers, mechanics, and bus aides' salaries and benefits, the purchase and upkeep of the bus fleet and mechanics' vehicles, as well as repair parts, fuel, and insurance for these vehicles.
- ◆ Food services includes salaries and benefits for cooks, cafeteria managers, Child Nutrition Program clerical staff, and the Child Nutrition Director, as well as donated and purchased food, food preparation and service supplies, kitchen and cafeteria equipment, and depreciation of equipment and facilities.
- ◆ General administrative services include salaries and benefits for the superintendent, assistants, clerical and accounting staff, and other personnel that provide system-wide support. Professional development expense, as well as material and supplies for these employees are included in General Administrative services. Also included are legal expenses, liability insurance, training for board members and general administrative staff, printing costs, and depreciation of central office equipment and facilities. Indirect cost paid to the Board by federal programs is considered an administrative service to the paying fund.
- ◆ Debt service includes interest and principal payments made toward existing long-term debt and other expense related to the issuance and continuation of debt.

- ◆ Other expenses include the salaries and benefits for extended day personnel, preschool resource personnel, health occupations personnel, testing personnel and summer feeding program personnel, as well as material, supplies, equipment, related depreciation, and other expenses associated with these programs.
- ◆ Special items are significant transactions or other events within the control of management that are either unusual in nature *or* infrequent in occurrence. There are no special items reported for fiscal year 2018.
- ◆ Extraordinary items are significant transactions or other events that are both unusual in nature *and* infrequent in occurrence. There are no extraordinary items reported for fiscal year 2018.

Net position decreased by \$172,783.61 in fiscal year 2018. Total revenues decreased by \$815,288.70 for fiscal year 2018. General revenues increased by \$249,199.46 and program revenues decreased by \$1,064,488.16. However, net position decreased as a result of total expenditures exceeding total revenues in 2018.

Financial Analysis of the Board's Funds

The analysis of governmental funds serves the purpose of looking at what resources came into funds, how they were spent, and what is available for future expenditures. The financial performance of the Board as a whole is reflected in its governmental funds as well. At the end of the fiscal year, the Board's governmental funds reported combined ending fund balances as \$1,051,908.43.

General Fund – The General Fund is the primary operating fund of the Board. The General Fund balance increased by \$467,102.44 this year. This resulted from a decrease in expenditures of \$467,387.69. However, total revenues decreased \$525,886.35. This decrease in expenditures was mainly in the areas of Instructional, Instructional Support, Operations and Maintenance and Student Transportation. Other financing uses increased by \$410,186.64, which was mainly due to an increase in other financing sources and a decrease in transfers out.

Special Revenue Fund – The Board receives several types of Federal Awards that are accounted for in the Board's Special Revenue Fund. Federal Award Revenues and Expenditures for 2018 are listed on Exhibit #13, *Schedule of Expenditures of Federal Awards*.

The source of federal funds from which the greatest dollar amount that was received in fiscal year 2018 is Title I funds. Title I funds are supplemental in nature. The state Foundation Program funds, plus Local matching funds, provide for the basic operation of the system. The funding of expenditures over and above basic operation is funded with federal funds. Title I funds are intended to supplement, not supplant state/local funds. Title I funds are used to hire teachers in addition to those funded by the state Foundation Program earned units, hire instructional support personnel in addition to those funded by state funding, purchase equipment and supplies that are not state funded, provide funds for professional development of the instructional staff, provide Supplemental Educational Services to students in need of these services, to provide transportation of students zoned to attend a school that is classified as a school in need of improvement (in School Improvement status) and chooses (Choice Transportation) to attend another school, in the system, that is classified as meeting annual yearly progress (AYP) and, finally, provides funds to employ personnel to administer the Title I program. This list does not encompass all items or services provided with Title I funds. Items and/or services change from year to year or as the system's required Needs Assessment dictates. Each school gets an allocation of Title I funds determined by the percentage of Children in Poverty (CIP) at each school times a per pupil amount. There is input from each school's instructional staff as to how Title I funds can best meet needs determined by the Needs Assessment. Title I funds have been especially critical in providing the children of Dallas County with the quality education they have come to expect since fiscal year 2009 when state fund allocations were not only reduced, but also slashed later on during the year due to proration. All schools in the system receive Title I funds.

Child Nutrition Program – The Child Nutrition Program (CNP) is the only self-supporting program of the Board. Although the CNP is a not-for-profit program; revenues (in addition to other financing sources) must exceed expenditures in amounts sufficient to operate and maintain the program. Fiscal year 2018 CNP expenditures exceeded revenues and other financing sources by \$398,286.37. By applying the State CNP formula for determining the Number of Months Net Operating Balance, the Child Nutrition Program's Number of Months Net Operating Balance decreased in fiscal year 2018 to 3.30 months. The CNP had a \$628,119.98 decrease in revenues and a decrease of \$132,972.80 in operating expenditures during fiscal year 2018 than the prior year. The State recommends that a minimum of two (2) months operating expense be maintained as an operating fund balance, in which CNP attained this two (2) month operating balance in fiscal year 2012. The State Department recommends reviewing the CNP in areas such as food costs of the total revenue and the measurement of the number of meals produced per labor hour (MPLH) by school. All aspects of the Child Nutrition Program will be monitored to ensure that the recommended two (2) months operating fund balance will be maintained.

School Improvement Grant 1003g (SIG) – The Board was awarded a School Improvement Grant 1003(g) for Brantley Elementary School and Southside High School. This grant is restricted in use and its purpose is to develop procedures that support coherence and provide incentives for change, to build the capacity of schools and classrooms, to improve results and impact student achievement.

Other Federal Funds – The Board received several other sources of federal revenue in addition to the ones listed above that are accounted for in the Special Revenue Fund. Most of these federal funds are “earmarked” for specific purposes. Other federal funds received must be used for children with special needs, career technical education, enhancing education technology, homeless children and improving teacher quality, to name a few.

Local School Funds – Local school funds that are derived from taxation, required fees, or school fund raisers are included in the Board’s Special Revenue Fund.

Budgetary Highlights of Major Funds

General Fund:

The original General Fund Budget 2018 fiscal year budget, adopted in 2017, was based on a “bare bones” approach that reflected “best guess” revenues as the threat of proration loomed. Expenditures necessary for basic operation were budgeted. Over the course of the year, the Board amended the operating budget to include carryover funds and additional funding that had not been allocated when the original budget was submitted. In addition, beginning fund balance actual amounts were budgeted that were estimated when the original budget was prepared. Budgeted expenditures were reviewed to determine if they were in line with year to date expenditures. Expenditure budgets were adjusted where necessary based on a review of year to date actual expenditures versus budgeted amounts.

Special Revenue:

All federal funds allocated through the U. S. Department of Education (see Exhibit #13) that the Board was aware of were budgeted in the original fiscal year 2018 budget which was adopted in 2017. Federal funds were budgeted to meet minimum requirements, by category, in each federal fund source. An amendment to these federal funds’ budgets was necessary to include carryover funds that were approved by the State Department of Education after the submission of the original budget and after the fiscal year 2017 General Purpose Financial Statement had been approved by the State Department. Portions of allocations that had been set aside in the original budget for specific line items such as Supplemental Education Services, Choice Transportation and Professional Development were either reduced or increased, depending on the estimated needs for the remainder of the fiscal year. Some of these funds are limited in the amounts of revenue that can be carried over into the upcoming fiscal year. Each source of funds was reviewed to ensure that funds were budgeted to appropriate line items to ensure that funds on hand at the end of the year would be within the maximum carryover requirement.

Federal funds that are passed through from the U. S. Department of Agriculture (see Exhibit #13) to the Child Nutrition Program as reimbursement for meals served, etc. are budgeted as revenue based on the number of meals served the prior year and the fiscal year reimbursement rates. The revenue is reviewed to ensure they were not over estimated or underestimated. As a general rule, the Child Nutrition budget is minimally amended. The only time the CNP budget is amended is when year to date revenue or expenditures are not in line with the original budget or equipment purchases are necessary that the CNP director was unaware of when the original budget was prepared. The budgeted fiscal year 2018 beginning balance was amended to reflect the actual fiscal year 2017 ending balance.

The budget for other federal funds budgeted on the original budget was based on the prior year's revenue and expenditures and allocations that had been obtained for the current fiscal year. Minimal changes were made to other federal funds in budget amendments.

Overall, the final amended budgets were fairly reflective of operating activity for the year in both funds.

Capital Assets and Debt Administration

Capital Assets – At September 30, 2018, the Board had approximately \$42.017 million invested in capital assets including land, buildings, building improvements, buildings under capital lease costing \$50,000 or more; and vehicles and equipment costing \$5,000 or more. Accumulated depreciation of approximately \$29.547 million results in approximately \$12.470 million in assets net of accumulated depreciation.

	Governmental Activities	
	September 30,	
	2017	2018
Land and Land Improvements	\$ 112,226.71	\$ 112,226.71
Land Improvement – Exhaustible	613,430.00	613,430.00
Buildings	27,053,270.91	27,053,270.91
Buildings and Improvements	6,620,025.40	6,620,025.40
Equipment and Furniture	1,633,864.68	1,670,002.65
Vehicles	3,599,169.55	3,609,369.55
Assets Under Capital Lease	1,922,966.00	2,338,796.00
Total Assets	41,554,953.25	42,017,121.22
Accumulated Depreciation	(28,555,682.93)	(29,547,425.72)
Total Assets, Net of Depreciation	\$ 12,999,270.32	\$ 12,469,695.50

Overall, capital assets, net of depreciation, decreased \$529,574.82 in fiscal year 2018. Capital asset fiscal year 2018 additions totaled \$462,167.97. Additions included Child Nutrition Program equipment, computer hardware, five regular buses, a Driver's Education car and grounds maintenance equipment. There were no capital asset deletions in fiscal year 2018.

Outstanding Long-Term Debt

	Governmental Activities			
	For the Year Ended September 30, 2018			
	Beginning Balance	Issued/ Increase	Repaid/ Decrease	Ending Balance
<u>Warrants and Payable:</u>				
Capital Outlay Tax Anticipation Warrant, Series 2012	\$ 2,905,000.00	\$	\$ (700,000.00)	\$ 2,205,000.00
Total Warrants Payable	2,905,000.00		(700,000.00)	2,205,000.00
<u>Other Liabilities:</u>				
Capital Leases	871,929.47	415,830.00	(254,744.84)	1,033,014.63
Net Pension Liability	30,985,000.00		(3,114,000.00)	27,871,000.00
Net OPEB Liability	31,485,165.00		(4,111,673.00)	27,373,492.00
Total Other Liabilities	63,342,094.47	415,830.00	(7,480,417.84)	56,277,506.63
Total Governmental Activities				
Long-Term Debt	\$66,247,094.47	\$415,830.00	\$(8,180,417.84)	\$58,482,506.63

Long-Term Debt – At year-end, the Board had \$1,033,014.63 in capital leases that were outstanding which represented debt owed on capital leases for buses. The buses will generate additional state funds annually until they become over ten years old. Overall debt decreased in fiscal year 2018. Decreases in Long-Term Debt totaled \$8,180,417.84. Debt of \$2,205,000.00 is owed on Bonds and Warrants. The Board also had a net pension liability at year end in the amount of \$27,871,000.00 and a net OPEB Liability of \$27,373,492.00. (Additional information on the Board’s long-term debt is presented in the notes to the financial statements).

Economic Factors and Next Year’s Budget

The following are currently known Dallas County economic factors considered in going into the 2018-2019 fiscal year.

- ✓ State income and sales tax, which make up the majority of revenues that fund the Education Trust Fund, are estimated based on expected growth. Tax receipts are unpredictable in the existing economic climate. Should tax receipts not reach the estimated growth, proration is a possibility in fiscal year 2019. At the time these notes were prepared, the growth in the Education Trust Fund indicated proration would, more than likely, not be called in fiscal year 2019.
- ✓ Due to the current economic climate it is relatively impossible to estimate local sales tax receipts for 2019. Based on the fact that we will no longer receive the entire ½ cent sales tax passed by the Dallas County Commission in fiscal year 2013, the Board’s portion of revenue from the sales tax for fiscal year 2018 did increase by \$19,532.82 over receipts from fiscal year 2017.

- ✓ Although the Board was fortunate to have a 1.4 months operating balance at the end of fiscal year 2008, each year since then we have had to use a portion of the fiscal year 2008 fund balance of \$3,651,851.27 in order to operate a minimum program. The Board had to non-renew non-tenured personnel in May 2018. A careful review of fiscal year 2019 funds will determine if and how many of the non-renewed persons will be called back to work in fiscal year 2019.
- ✓ The Board will continue to seek additional revenue from any and all possible sources.

Estimated Capital Needs – The Board’s Capital Plan as of September 30, 2018, includes \$3,639,000.00 estimated capital needs throughout the system. While many improvements have been made system wide utilizing the 2007 Bond Funds, there are still many improvements needed. The Board continues to find it necessary to use state Capital Outlay funds, as well as most of the required matching local funds, to meet recurring annual debt obligations. The need to use Capital Outlay for its intended purpose, building improvements, is another indicator that the Board needs to seek additional revenue sources.

Fund Balance – The Board ended fiscal year 2018 with a fund balance that will fund operations for .97 of a month, or approximately thirty days of operation. Because the fund balance is less than the minimum fund balance required by the School Fiscal Accountability Law, the Board must strive to reduce expenditures and take advantage of every opportunity to generate additional revenues in fiscal year 2019. State revenues that fund the Education Trust Fund are unpredictable from year to year. Education Trust Fund budgets are based on revenue projections made approximately eighteen months prior to the end of the upcoming fiscal year. As long as fluctuating revenue sources are used to fund the Education Trust Fund, there is a possibility of prorated state funds in any fiscal year. Because of the depressed economy and revenues being initially overestimated in the Education Trust Fund budget each year since fiscal year 2008, proration continued to be a possibility in fiscal year 2019 although a more remote possibility in the past four years. The Board nearly exhausted their fund balance in 2012 to operate a minimum program, remained extremely low at the end of fiscal year 2013 and gained a little at the end of fiscal year 2014, fiscal year 2015, fiscal year 2016, fiscal year 2017 and fiscal year 2018. Unless additional funding can be found, the Board will be forced to reduce expenditures by reducing personnel again for fiscal year 2019 as well as reduce expenditures in any other area of operation possible.

Student Average Daily Membership (ADM) – The system Average Daily Membership (ADM) translates into the average daily attendance in Dallas County Schools. The number of state earned instructional and instructional support employees funded by state funds results from the prior year’s ADM. The fall of 2017 ADM, used to calculate 2018 funding, showed a decrease of 131.05, which translates into a decrease of 7.14 of state funded certified units for fiscal year 2018. The budget adopted by the Board for fiscal year 2017 took into account the original decrease in state funded units. Changes in Average Daily Membership figures below do not include juvenile facilities’ membership or attendance reported through our system.

Change in ADM	Fiscal Year	Change in Funded Units
-32.15	2008	-1.30
-143.90	2009	-9.41
-100.75	2010	-6.76
-146.00	2011	-9.86
-124.20	2012	-13.42
-165.95	2013	-11.27
-81.75	2014	-6.18
-86.75	2015	-5.42
-215.30	2016	-10.41
-72.65	2017	-1.97
-131.05	2018	-7.14

CONTACTING THE SCHOOL BOARD’S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Board’s finances and to show the Board’s accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Brenda W. Turner, Chief Finance Officer, at 429 Lauderdale Street, P. O. Box 1056, Selma, Alabama 36702 or by email address bturner@dallask12.org or by calling 334-876-4471 during regular office hours, Monday through Friday, from 8:30 a.m. to 4:30 p.m., central standard time.

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Basic Financial Statements

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Statement of Net Position

September 30, 2018

	Governmental Activities
<u>Assets</u>	
Cash and Cash Equivalents	\$ 3,247,857.60
Ad Valorem Property Taxes Receivable	1,695,516.89
Receivables (Note 4)	978,987.40
Inventories	128,865.83
Prepaid Items	12,101.80
Capital Assets (Note 5):	
Nondepreciable	112,226.71
Depreciable, Net	12,357,468.79
Total Assets	<u>18,533,025.02</u>
<u>Deferred Outflows of Resources</u>	
Employer Pension Contribution	2,208,631.15
Proportionate Share of Collective Deferred Outflows Related to Net Pension Liability	1,663,000.00
Employer OPEB Contribution	903,434.00
Total Deferred Outflows of Resources	<u>4,775,065.15</u>
<u>Liabilities</u>	
Payables (Note 8)	523,613.99
Unearned Revenue	4,615.15
Salaries and Benefits Payable	2,681,887.91
Accrued Interest Payable	23,059.08
Long-Term Liabilities:	
Portion Due or Payable Within One Year	970,810.88
Portion Due or Payable After One Year	57,511,695.75
Total Liabilities	<u>61,715,682.76</u>
<u>Deferred Inflows of Resources</u>	
Unavailable Revenue - Property Taxes	1,695,516.89
Revenue Received in Advance - Motor Vehicle Taxes	105,787.15
Proportionate Share of Collective Deferred Inflows Related to Net Pension Liability	4,012,000.00
Proportionate Share of Collective Deferred Inflows Related to Net OPEB Liability	4,568,354.00
Total Deferred Inflows of Resources	<u>10,381,658.04</u>
<u>Net Position</u>	
Net Investment in Capital Assets	9,231,680.87
Restricted for:	
Capital Projects	202,201.00
Child Nutrition Program	785,696.01
Unrestricted	<u>(59,008,828.51)</u>
Total Net Position	<u>\$ (48,789,250.63)</u>

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

Statement of Activities **For the Year Ended September 30, 2018**

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<u>Governmental Activities:</u>			
Instruction	\$ 16,566,575.13	\$ 306,397.13	\$ 14,341,662.11
Instructional Support	6,933,342.21	158,364.66	5,994,396.97
Operation and Maintenance	3,312,726.19	167,129.54	1,881,760.35
Auxiliary Services:			
Student Transportation	3,509,767.15	97,509.48	3,038,524.49
Food Service	2,542,635.01	2,156,270.88	116,319.04
General Administrative	1,502,275.39	157.78	846,847.92
Interest and Fiscal Charges	106,206.70		
Other Expenses	1,430,997.62	305,921.37	714,486.99
Total Governmental Activities	\$ 35,904,525.40	\$ 3,191,750.84	\$ 26,933,997.87

General Revenues:

Taxes:

Property Taxes for General Purposes

Sales Tax

Other Taxes

Investment Earnings

Miscellaneous

Total General Revenues

Changes in Net Position

Net Position - Beginning of Year, as Restated (Note 13)

Net Position - End of Year

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

		Net (Expenses) Revenues and Changes in Net Position	
Capital Grants and Contributions		Total Governmental Activities	
\$	622,020.22	\$	(1,296,495.67)
			(780,580.58)
	189,293.78		(1,074,542.52)
	171,276.00		(202,457.18)
			(270,045.09)
			(655,269.69)
			(106,206.70)
			(410,589.26)
\$	982,590.00		(4,796,186.69)

2,057,371.51
1,771,293.43
41,199.32
8,075.21
745,463.61
<u>4,623,403.08</u>
(172,783.61)
<u>(48,616,467.02)</u>
<u>\$ (48,789,250.63)</u>

Balance Sheet
Governmental Funds
September 30, 2018

	General Fund	Special Revenue Fund
Assets		
Cash and Cash Equivalents	\$ 2,231,975.91	\$ 798,882.02
Ad Valorem Property Taxes Receivable	1,695,516.89	
Receivables (Note 4)	224,397.75	754,589.65
Due from Other Funds	51,645.32	
Inventories		128,865.83
Prepaid Items	12,101.80	
Total Assets	<u>4,215,637.67</u>	<u>1,682,337.50</u>
Liabilities, Deferred Inflows of Resources and Fund Balances		
Liabilities		
Payables (Note 8)	221,239.83	302,374.16
Due to Other Funds		51,645.32
Unearned Revenues		4,615.15
Salaries and Benefits Payable	2,578,464.84	103,423.07
Total Liabilities	<u>2,799,704.67</u>	<u>462,057.70</u>
Deferred Inflows of Resources		
Unavailable Revenue - Property Taxes	1,695,516.89	
Revenue Received in Advance - Motor Vehicle Taxes	105,787.15	
Total Deferred Inflows of Resources	<u>1,801,304.04</u>	
Fund Balances		
Nonspendable:		
Inventories		128,865.83
Prepaid Items	12,101.80	
Restricted:		
Capital Projects		
Child Nutrition Program		656,830.18
Fleet Renewal		
Assigned:		
Local Schools		434,583.79
Unassigned	(397,472.84)	
Total Fund Balances	<u>(385,371.04)</u>	<u>1,220,279.80</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 4,215,637.67</u>	<u>\$ 1,682,337.50</u>

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

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

Total Fund Balances - Governmental Funds \$ 1,051,908.43

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

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

The Cost of Capital Assets is	\$ 42,017,121.22	
Accumulated Depreciation is	<u>(29,547,425.72)</u>	12,469,695.50

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds. (140,368.85)

Deferred outflows and inflows of resources related to OPEB obligations are applicable to future periods and, therefore, are not reported in the governmental funds. (3,664,920.00)

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

Current Portion of Long-Term Debt	\$ 970,810.88	
Noncurrent Portion of Long-Term Debt	<u>57,511,695.75</u>	(58,482,506.63)

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

Accrued Interest Payable	<u>(23,059.08)</u>
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Total Net Position - Governmental Activities	<u><u>\$ (48,789,250.63)</u></u>
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The accompanying Notes to the Financial Statements are an integral part of this statement.

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

	General Fund	Special Revenue Fund
<u>Revenues</u>		
State	\$ 21,638,034.42	\$
Federal	654,324.99	6,607,933.97
Local	3,942,754.17	1,494,480.62
Other	63,072.83	57,914.14
Total Revenues	<u>26,298,186.41</u>	<u>8,160,328.73</u>
<u>Expenditures</u>		
Current:		
Instruction	13,396,458.29	2,861,589.98
Instructional Support	5,261,064.88	1,609,580.30
Operation and Maintenance	2,404,657.40	257,453.85
Auxiliary Services:		
Student Transportation	3,174,033.98	50,982.19
Food Service	93.65	2,637,366.02
General Administrative	1,027,761.69	519,394.11
Other	966,775.30	433,418.09
Capital Outlay	37,805.92	8,532.05
Debt Service:		
Principal Retirement		
Interest and Fiscal Charges		
Debt Issuance Costs/Other Debt Service		
Total Expenditures	<u>26,268,651.11</u>	<u>8,378,316.59</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>29,535.30</u>	<u>(217,987.86)</u>
<u>Other Financing Sources (Uses)</u>		
Indirect Cost	243,829.04	
Long-Term Debt Issued		
Transfers In	92,141.00	2,675.78
Other Financing Sources	104,272.88	16.55
Transfers Out	(2,675.78)	(92,141.00)
Total Other Financing Sources (Uses)	<u>437,567.14</u>	<u>(89,448.67)</u>
Net Changes in Fund Balances	467,102.44	(307,436.53)
Fund Balances - Beginning of Year	<u>(852,473.48)</u>	<u>1,527,716.33</u>
Fund Balances - End of Year	<u>\$ (385,371.04)</u>	<u>\$ 1,220,279.80</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 980,274.00	\$ 22,618,308.42
	7,262,258.96
188,663.22	5,625,898.01
	120,986.97
1,168,937.22	35,627,452.36
	16,258,048.27
	6,870,645.18
228,782.89	2,890,894.14
	3,225,016.17
	2,637,459.67
	1,547,155.80
	1,400,193.39
415,830.00	462,167.97
954,744.84	954,744.84
102,841.21	102,841.21
1,612.50	1,612.50
1,703,811.44	36,350,779.14
(534,874.22)	(723,326.78)
	243,829.04
415,830.00	415,830.00
	94,816.78
	104,289.43
	(94,816.78)
415,830.00	763,948.47
(119,044.22)	40,621.69
336,043.89	1,011,286.74
\$ 216,999.67	\$ 1,051,908.43

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

Net Changes in Fund Balances - Total Governmental Funds \$ 40,621.69

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

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

Capital Outlays	\$ 462,167.97	
Depreciation Expense	<u>(991,742.79)</u>	(529,574.82)

Some of the capital assets acquired this year were financed with capital leases. The
amount financed by the leases is reported in the governmental funds as a source of
financing. On the other hand, the capital leases are not revenues in the Statement
of Activities, but rather constitute long-term liabilities in the Statement of Net Position.

(415,830.00)

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.

954,744.84

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

Accrued Interest Payable, Current Year Increase/(Decrease)	\$ 1,752.99	
Pension Expense, Current Year Increase/(Decrease)	(226,924.67)	
OPEB Expense, Current Year Increase/(Decrease)	<u>447,917.00</u>	<u>(222,745.32)</u>

Change in Net Position of Governmental Activities \$ (172,783.61)

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

Notes to the Financial Statements

For the Year Ended September 30, 2018

Note 1 – Summary of Significant Accounting Policies

The financial statements of the Dallas 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 except for the Selma City Board of Education.

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

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

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.

Notes to the Financial Statements

For the Year Ended September 30, 2018

Fund Financial Statements

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

The Board reports the following major governmental funds:

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

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

Governmental Fund Type

- ◆ **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.

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. 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.

Notes to the Financial Statements

For the Year Ended September 30, 2018

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

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

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

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

1. Deposits

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

2. Receivables

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

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

Receivables due from other governments include amounts due from grantors for grants issued for specific programs, amounts due for reimbursements of services provided, and revenues from the county government.

Notes to the Financial Statements

For the Year Ended September 30, 2018

3. Inventories

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

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Restricted Assets

Included in cash and cash equivalents on the Government-Wide Statement of Net Position and Balance Sheet of Governmental Funds are assets which are restricted in use. The Public-School Capital Projects and Fleet Renewal funding sources are used to report proceeds that are restricted for use in various construction projects and the purchase of school buses.

6. Capital Assets

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

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

	Capitalization Threshold	Estimated Useful Life
Land Improvements	\$50,000	20 – 30 years
Buildings (Estimated Salvage Value 10% of cost)	\$50,000	25 – 50 years
Building Improvements	\$50,000	20 – 30 years
Equipment and Furniture	\$ 5,000	5 – 20 years
Vehicles	\$ 5,000	8 – 10 years
Equipment Under Capital Lease	\$ 5,000	5 – 20 years

Notes to the Financial Statements

For the Year Ended September 30, 2018

7. 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.

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Warrants Payable are reported at gross.

In the governmental fund statements, the face amount of debt issued is reported as other financing sources.

9. Deferred Inflows of Resources

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

10. Net Position/Fund Balances

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

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

Notes to the Financial Statements

For the Year Ended September 30, 2018

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

- ◆ **Nonspendable** – 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.
- ◆ **Restricted** – 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.
- ◆ **Committed** – Committed fund balances consist of amounts that are subject to a purpose constraint imposed by formal action by 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 the constraint.
- ◆ **Assigned** – Assigned fund balances consist of amounts that are intended to be used by the Board for specific purposes. The Board authorizes the Superintendent or Chief School Financial Officer to make a determination of the assigned amount of fund balance. Such assignments may not exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. Assigned fund balances require the same level of authority to remove the constraint.
- ◆ **Unassigned** – 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.

Notes to the Financial Statements

For the Year Ended September 30, 2018

E. Pensions

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

F. Other Postemployment Benefits (OPEB)

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

Note 2 – Stewardship, Compliance and Accountability

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, in the General Fund, ad valorem taxes are budgeted only to the extent expected to be received. All appropriations lapse at fiscal year-end.

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

Notes to the Financial Statements

For the Year Ended September 30, 2018

B. Deficit Fund Balances/Net Position of Individual Funds

The General Fund had a deficit fund balance of \$385,371.04 as of September 30, 2018. The deficit is a result of the salary accrual adjustment. Salaries and benefits payable at September 30, 2018, 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, 2018.

Note 3 – 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.

Note 4 – Receivables

On September 30, 2018, receivables for the Board's individual major funds are as follows:

	General Fund	Special Revenue Fund	Total
<u>Receivables:</u>			
Accounts	\$ 3,212.78	\$ 6,820.21	\$ 10,032.99
Sales Tax	149,678.42		149,678.42
Intergovernmental	71,506.55	747,531.19	819,037.74
Other		238.25	238.25
Total Receivables	<u>\$224,397.75</u>	<u>\$754,589.65</u>	<u>\$978,987.40</u>

Notes to the Financial Statements

For the Year Ended September 30, 2018

Note 5 – Capital Assets

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

	Beginning Balance 10/01/2017	Additions	Retirements	Ending Balance 09/30/2018
<u>Governmental Activities:</u>				
Capital Assets, Not Being Depreciated:				
Land and Land Improvements	\$ 112,226.71	\$	\$	\$ 112,226.71
Total Capital Assets, Not Being Depreciated	112,226.71			112,226.71
Capital Assets Being Depreciated:				
Land Improvements – Exhaustible	613,430.00			613,430.00
Buildings	27,053,270.91			27,053,270.91
Building Improvements	6,620,025.40			6,620,025.40
Equipment and Furniture	1,633,864.68	36,137.97		1,670,002.65
Vehicles	3,599,169.55	10,200.00		3,609,369.55
Assets Under Capital Leases	1,922,966.00	415,830.00		2,338,796.00
Total Capital Assets Being Depreciated	41,442,726.54	462,167.97		41,904,894.51
Less Accumulated Depreciation for:				
Land Improvements – Exhaustible	(279,152.75)	(30,671.50)		(309,824.25)
Buildings	(17,321,722.43)	(280,585.39)		(17,602,307.82)
Building Improvements	(5,146,729.69)	(371,488.28)		(5,518,217.97)
Equipment and Furniture	(1,086,743.19)	(74,842.94)		(1,161,586.13)
Vehicles	(3,498,942.89)	(96,978.47)		(3,595,921.36)
Assets Under Capital Leases	(1,222,391.98)	(137,176.21)		(1,359,568.19)
Total Accumulated Depreciation	(28,555,682.93)	(991,742.79)		(29,547,425.72)
Total Capital Assets Being Depreciated, Net	12,887,043.61	(529,574.82)		12,357,468.79
Total Governmental Activities Capital Assets, Net	\$ 12,999,270.32	\$(529,574.82)	\$	\$ 12,469,695.50

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

	Current Year Depreciation Expense
<u>Governmental Activities:</u>	
Instruction	\$195,843.46
Instructional Support	40,096.75
Operation and Maintenance	407,444.75
Auxiliary Services:	
Student Transportation	232,407.80
Food Service	70,494.17
General Administrative	2,445.55
Other Expenditures	43,010.31
Total Depreciation Expense – Governmental Activities	\$991,742.79

Notes to the Financial Statements

For the Year Ended September 30, 2018

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

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

Notes to the Financial Statements

For the Year Ended September 30, 2018

C. Contributions

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

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

Participating employers' contractually required contribution rate for the year ended September 30, 2018, was 12.24% of annual pay for Tier 1 members and 11.01% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the Board were \$2,208,631.15 for the year ended September 30, 2018.

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

At September 30, 2018, the Board reported a liability of \$27,871,000.00 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2016. The Board's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2017, the Board's proportion was 0.283574%, which was a decrease of (0.002637%) from its proportion measured as of September 30, 2016.

Notes to the Financial Statements

For the Year Ended September 30, 2018

For the year ended September 30, 2018, the Board recognized pension expense of \$1,982,000.00. At September 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$	\$1,195,000.00
Changes of assumptions	1,663,000.00	
Net difference between projected and actual earnings on pension plan investments		1,666,000.00
Changes in proportion and differences between Employer contributions and proportionate share of contributions		1,151,000.00
Employer contributions subsequent to the measurement date	2,208,631.15	
Total	<u>\$3,871,631.15</u>	<u>\$4,012,000.00</u>

The \$2,208,631.15 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending	
September 30, 2019	\$(684,000.00)
2020	\$(138,000.00)
2021	\$(839,000.00)
2022	\$(649,000.00)
2023	\$ (39,000.00)
Thereafter	\$

E. Actuarial assumptions

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

Inflation	2.75%
Investment Rate of Return (*)	7.75%
Projected Salary Increases	3.25% - 5.00%
(*) Net of pension plan investment expense	

Notes to the Financial Statements

For the Year Ended September 30, 2018

Post-Retirement mortality rates for service retirements and dependent beneficiaries were based on the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for all ages for males and 112% for ages 78 and older for females. 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	<u>100.00%</u>	
(*) Includes assumed rate of inflation of 2.50%		

F. Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Notes to the Financial Statements

For the Year Ended September 30, 2018

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

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

	1% Decrease (6.75%)	Current Rate (7.75%)	1% Increase (8.75%)
Board's proportionate share of collective net pension liability	\$38,443	\$27,871	\$18,928
(Dollar amounts in thousands)			

H. Pension Plan Fiduciary Net Position

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

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 the 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.

Notes to the Financial Statements

For the Year Ended September 30, 2018

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

B. Benefits Provided

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

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

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

Notes to the Financial Statements

For the Year Ended September 30, 2018

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.

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 Board 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.

Notes to the Financial Statements

For the Year Ended September 30, 2018

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

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

At September 30, 2018, the Board reported a liability of \$27,373,492.00 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the collective net OPEB liability was determined by an actuarial valuation as of September 30, 2016. The Board's proportion of the collective net OPEB liability was based on a projection of the Board's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At September 30, 2017, the Board's proportion was 0.368546%, which was a decrease of 0.023439% from its proportion measured as of September 30, 2016.

For the year ended September 30, 2018, the Board recognized pension expense of \$1,351,351.00, with no special funding situations. At September 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$	\$2,842,187.00
Net difference between projected and actual earnings on OPEB plan investments		145,739.00
Changes in proportion and differences between Employer contributions and proportionate share of contributions		1,580,428.00
Employer contributions subsequent to the measurement date	903,434.05	
Total	<u>\$903,434.05</u>	<u>\$4,568,354.00</u>

Notes to the Financial Statements

For the Year Ended September 30, 2018

The \$903,434.05 reported as deferred outflows of resources related to OPEB resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending	
September 30, 2019	\$(882,059.00)
2020	\$(882,059.00)
2021	\$(882,059.00)
2022	\$(882,059.00)
2023	\$(845,624.00)
Thereafter	\$(194,494.00)

E. Actuarial Assumptions

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

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

(1) Includes 3.00% wage inflation.

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

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

Notes to the Financial Statements

For the Year Ended September 30, 2018

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

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

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

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

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

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

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

Notes to the Financial Statements

For the Year Ended September 30, 2018

F. Discount Rate

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

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

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

	1% Decrease (6.75% Decreasing to 4% for Pre-Medicare, 4% for Medicare Eligible, and 1% for Optional Plans)	Current Healthcare Trend Rate (7.75% Decreasing to 5% for Pre-Medicare, 5% for Medicare Eligible, and 2% for Optional Plans)	1% Increase (8.75% Decreasing to 6% for Pre-Medicare, 6% for Medicare Eligible, and 3% for Optional Plans)
Board's proportionate share of collective net OPEB Liability	\$22,100,847	\$23,373,492	\$34,176,648

Notes to the Financial Statements

For the Year Ended September 30, 2018

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

	1% Decrease (3.63%)	Current Healthcare Trend Rate (4.63%)	1% Increase (5.63%)
Board's Proportionate Share of the Collective Net OPEB Liability	\$33,088,857	\$27,373,492	\$22,817,632

H. OPEB Plan Fiduciary Net Position

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

Note 8 – Payables

On September 30, 2018, payables for the Board's individual major funds and other governmental funds in the aggregate are as follows:

	Vendors	Intergovernmental Payables	Total Payables
<u>Governmental Activities:</u>			
General Fund	\$221,239.83	\$	\$221,239.83
Special Revenue Fund	258,933.52	43,440.64	302,374.16
Total Governmental Activities	<u>\$480,173.35</u>	<u>\$43,440.64</u>	<u>\$523,613.99</u>

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

Note 9 – Lease Obligations

Capital Leases

The Board is obligated under certain leases accounted for as capital leases. Assets under capital leases totaled \$2,338,796.00 at September 30, 2018. If the Board completes the lease payments according to the schedule below, which is the stated intent of the Board, ownership of the leased equipment will pass to the Board. The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of September 30, 2018.

Fiscal Year Ending	Governmental Activities
September 30, 2019	\$ 290,523.54
2020	119,625.03
2021	119,625.03
2022	119,625.03
2023	119,625.03
2024-2027	408,849.09
Total Minimum Lease Payments	1,177,872.75
Less: Amount Representing Interest	(144,858.12)
Present Value of Net Minimum Lease Payments	<u>\$1,033,014.63</u>

Note 10 – Long-Term Debt

During fiscal year 2009, the Board entered into a capital lease in the amount of \$1,371,762.05 that provided funding for 19 buses.

During fiscal year 2012, the Board issued the Capital Outlay Tax Anticipation Warrants, Series 2012, in the amount of \$6,240,000. The warrants were issued for the purpose of currently refunding the Board's 2005 sale-leaseback agreement with the Dallas County Commission and paying all issuance expenses of the warrants.

During fiscal year 2016, the Board entered into a capital lease in the amount of \$511,594.00 that provided funding for six buses.

During fiscal year 2017, the Board entered into a capital lease in the amount of \$94,756.00 that provided funding for one special needs bus.

During fiscal year 2018, the Board entered into a capital lease in the amount of \$415,830.00 that provided funding for five school buses.

Notes to the Financial Statements

For the Year Ended September 30, 2018

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

	Debt Outstanding 10/01/2017 (*)	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 09/30/2018	Amounts Due within One Year
Governmental Activities:					
Warrants Payable:					
Capital Outlay Tax Anticipation Warrants, Series 2012	\$ 2,905,000.00	\$	\$ (700,000.00)	\$ 2,205,000.00	\$715,000.00
Total Warrants Payable	2,905,000.00		(700,000.00)	2,205,000.00	715,000.00
Other Liabilities:					
Capital Lease Payable	871,929.47	415,830.00	(254,744.84)	1,033,014.63	255,810.88
Net Pension Liability	30,985,000.00		(3,114,000.00)	27,871,000.00	
Net OPEB Liability	31,485,165.00		(4,111,673.00)	27,373,492.00	
Total Other Liabilities	63,342,094.47	415,830.00	(7,480,417.84)	56,277,506.63	255,810.88
Total Governmental Activities Long-Term Liabilities	\$66,247,094.47	\$415,830.00	\$(8,180,417.84)	\$58,482,506.63	\$970,810.88
(*) Beginning balances were restated due to the implementation of GASB Statement Number 75. See Note 13.					

Payments on the capital lease related to the purchase of school buses are paid from Fleet Renewal funds. Payments on the warrants are paid from the Public School funds.

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

Fiscal Year Ending	Warrants Payable		Capital Lease Contracts Payable		Total Principal and Interest Requirements to Maturity
	Principal	Interest	Principal	Interest	
September 30, 2019	\$ 715,000.00	\$49,562.50	\$ 255,810.88	\$ 34,712.66	\$1,055,086.04
2020	735,000.00	31,687.50	94,704.89	24,920.14	886,312.53
2021	755,000.00	16,987.50	97,687.62	21,937.41	891,612.53
2022			100,767.86	18,857.17	119,625.03
2023			103,948.94	15,676.09	119,625.03
2024-2027			380,094.44	28,754.65	408,849.09
Totals	\$2,205,000.00	\$98,237.50	\$1,033,014.63	\$144,858.12	\$3,481,110.25

Notes to the Financial Statements

For the Year Ended September 30, 2018

Pledged Revenues

The Board issued Capital Outlay Tax Anticipation Warrants, Series 2012, which are pledged to be repaid from proceeds of the Board's 5 mill county-wide ad valorem tax and 3 mill district ad valorem tax and proceeds of the Board's share of the one cent sales and use tax authorized by Act Number 96-623, Acts of Alabama. Future revenues in the amount of \$2,303,237.50 are pledged to repay the principal and interest on the warrants at September 30, 2018. The Board received \$836,873.61 for the county-wide ad valorem tax, \$622,127.10 for the district ad valorem tax and \$583,749.06 for sales and use tax during the fiscal year ended September 30, 2018. However, pledged funds were not used to pay principal and interest on the warrants. The principal and interest payments were made from an allocation received from the Alabama State Department of Education Public School Fund. The Capital Outlay Tax Anticipation Warrants, Series 2012, will mature in fiscal year 2021.

Note 11 – Risk Management

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

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

Notes to the Financial Statements

For the Year Ended September 30, 2018

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

Note 12 – Interfund Transactions

Interfund Receivables and Payables

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

	Interfund Receivables General Fund	Totals
<u>Interfund Payables:</u>		
Special Revenue Fund	\$51,645.32	\$51,645.32
Totals	<u>\$51,645.32</u>	<u>\$51,645.32</u>

Interfund Transfers

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

	General Fund	Transfers Out Special Revenue Fund	Total
<u>Transfers In:</u>			
General Fund	\$	\$92,141.00	\$92,141.00
Special Revenue Fund	2,675.78		2,675.78
Totals	<u>\$2,675.78</u>	<u>\$92,141.00</u>	<u>\$94,816.78</u>

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

Notes to the Financial Statements

For the Year Ended September 30, 2018

Note 13 – Restatement

In fiscal year 2018, the Board adopted Governmental Accounting Standards Board (GASB) Statement Number 75, ***Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions***, as amended by GASB Statement Number 85, ***Omnibus 2017***. The provisions of this GASB Statement Number 75 establish accounting and financial reporting standards for postemployment benefits other than pensions that are provided to the employees of state and local governmental employers through plans that are administered through trusts. Implementation of this statement has a significant impact on the Board's financial statements. For fiscal year 2018, the Board made prior period adjustments due to the adoption of GASB Statement Number 75, which required the restatement of the September 30, 2017, net position in Governmental Activities. The result is a decrease in net position at October 1, 2017, of \$30,590,495.00.

The impact of the restatement on the net position as previously reported is as follows:

	Governmental Activities
Governmental Activities, Net Position, September 30, 2017, as Previously Reported	\$(18,025,972.02)
<u>Restatements Due to the Adoption of GASB Statement Number 75:</u>	
Net OPEB Liability	(31,485,165.00)
Deferred Outflows of Resources	894,670.00
Governmental Activities, Net Position, September 30, 2017, as Restated	<u>\$(48,616,467.02)</u>

Required Supplementary Information

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

	2018	2017
Employer's proportion of the collective net pension liability	0.283574%	0.286211%
Employer's proportionate share of the collective net pension liability	\$ 27,871	\$ 30,985
Employer's covered payroll during the measurement period (*)	\$ 18,727	\$ 18,197
Employer's proportionate share of the collective net pension liability as a percentage of its covered payroll	148.83%	170.28%
Plan fiduciary net position as a percentage of the total collective net pension liability	71.50%	67.93%

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

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

2016		2015	
	0.295485%		0.301482%
\$	30,925	\$	27,388
\$	18,688	\$	19,109
	165.48%		143.33%
	67.51%		71.01%

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

	2018	2017
Contractually required contribution	\$ 2,209	\$ 2,220
Contributions in relation to the contractually required contribution	\$ 2,209	\$ 2,220
Contribution deficiency (excess)	\$	\$
Employer's covered payroll	\$ 18,315	\$ 18,727
Contributions as a percentage of covered payroll	12.06%	11.85%

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

2016		2015	
\$	2,152	\$	2,180
\$	2,152	\$	2,180
\$		\$	
\$	18,197	\$	18,688
	11.83%		11.67%

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

	2018
Employer's proportion of the collective net OPEB liability	0.368546%
Employer's proportionate share of the collective net OPEB liability	\$ 27,373
Employer's covered-employee payroll during the measurement period (*)	\$ 18,382
Employer's proportionate share of the collective net OPEB liability as a percentage of its covered-employee payroll	148.91%
Plan fiduciary net position as a percentage of the total collective OPEB liability	15.37%

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

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

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

	2018
Contractually required contribution	\$ 903
Contributions in relation to the contractually required contribution	<u>\$ 903</u>
Contribution deficiency (excess)	\$
Employer's covered-employee payroll	\$ 17,966
Contributions as a percentage of covered-employee payroll	5.03%

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, 2018

Changes in Actuarial Assumptions

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

Recent Plan Changes

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

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

Method and Assumptions Used in Calculations of Actuarially Determined Contributions

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

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

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

	Budgeted Amounts		Actual Amounts
	Original	Final	Budgetary Basis
<u>Revenues</u>			
State	\$ 21,633,426.00	\$ 21,784,396.70	\$ 21,638,034.42
Federal	61,000.00	61,000.00	654,324.99
Local	3,706,825.50	3,721,943.94	3,930,194.89
Other	50,000.00	50,000.00	63,072.83
Total Revenues	25,451,251.50	25,617,340.64	26,285,627.13
<u>Expenditures</u>			
Current:			
Instruction	13,534,046.50	13,930,585.59	13,560,889.47
Instructional Support	5,217,418.00	5,237,976.07	5,334,674.36
Operation and Maintenance	2,204,255.00	2,334,510.77	2,419,730.74
Auxiliary Services:			
Student Transportation	3,137,592.00	3,193,881.00	3,170,383.83
Food Service			93.65
General Administrative	987,339.00	996,139.00	1,032,194.67
Other	792,963.00	933,239.18	953,570.66
Capital Outlay	25,000.00	52,000.00	37,805.92
Total Expenditures	25,898,613.50	26,678,331.61	26,509,343.30
Excess (Deficiency) of Revenues Over Expenditures	(447,362.00)	(1,060,990.97)	(223,716.17)
<u>Other Financing Sources (Uses)</u>			
Indirect Cost	245,992.83	255,251.62	243,829.04
Transfers In	30,000.00	30,000.00	92,141.00
Other Financing Sources			104,272.88
Transfers Out	(532,221.49)		(2,675.78)
Total Other Financing Sources (Uses)	(256,228.66)	285,251.62	437,567.14
Net Change in Fund Balances	(703,590.66)	(775,739.35)	213,850.97
Fund Balances - Beginning of Year	1,857,461.01	1,955,397.80	2,085,029.98
Fund Balances - End of Year	\$ 1,153,870.35	\$ 1,179,658.45	\$ 2,298,880.95

Explanation of differences:

The Board budgets revenues and expenditures to the extent they are expected to be received or paid in the current fiscal period, rather than on the modified accrual basis.

Budget to GAAP Differences	Actual Amounts GAAP Basis
\$	\$ 21,638,034.42
	654,324.99
12,559.28	3,942,754.17
	63,072.83
12,559.28	26,298,186.41

(164,431.18)	13,396,458.29
(73,609.48)	5,261,064.88
(15,073.34)	2,404,657.40
3,650.15	3,174,033.98
	93.65
(4,432.98)	1,027,761.69
13,204.64	966,775.30
	37,805.92
(240,692.19)	26,268,651.11

253,251.47	29,535.30
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	243,829.04
	92,141.00
	104,272.88
	(2,675.78)
	437,567.14

253,251.47	467,102.44
(2,937,503.46)	(852,473.48)
\$ (2,684,251.99)	\$ (385,371.04)

\$ 253,251.47

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

	Budgeted Amounts		Actual Amounts
	Original	Final	Budgetary Basis
<u>Revenues</u>			
Federal	\$ 6,417,354.00	\$ 7,642,960.36	\$ 6,607,933.97
Local	1,319,975.48	1,309,556.48	1,494,480.62
Other	89,745.00	89,745.00	57,914.14
Total Revenues	7,827,074.48	9,042,261.84	8,160,328.73
<u>Expenditures</u>			
Current:			
Instruction	2,613,096.52	3,146,028.59	2,861,589.98
Instructional Support	1,521,901.28	2,072,632.03	1,609,580.30
Operation and Maintenance	208,063.66	226,301.19	257,602.92
Auxiliary Services:			
Student Transportation	27,781.50	34,701.62	50,982.19
Food Service	2,863,808.87	2,922,309.44	2,646,606.73
General Administrative	512,516.75	539,124.64	519,394.11
Other	244,471.13	244,697.11	433,418.09
Capital Outlay			8,532.05
Total Expenditures	7,991,639.71	9,185,794.62	8,387,706.37
Excess (Deficiency) of Revenues Over Expenditures	(164,565.23)	(143,532.78)	(227,377.64)
<u>Other Financing Sources (Uses)</u>			
Transfers In	573,300.74	41,079.25	2,675.78
Other Financing Sources			16.55
Transfers Out	(71,079.25)	(71,079.25)	(92,141.00)
Total Other Financing Sources (Uses)	502,221.49	(30,000.00)	(89,448.67)
Net Change in Fund Balances	337,656.26	(173,532.78)	(316,826.31)
Fund Balances - Beginning of Year	1,320,190.82	1,644,526.68	1,640,529.18
Fund Balances - End of Year	\$ 1,657,847.08	\$ 1,470,993.90	\$ 1,323,702.87

Explanation of differences:

The Board budgets expenditures to the extent they are expected to be paid in the current fiscal period, rather than on the modified accrual basis.

Budget to GAAP Differences	Actual Amounts GAAP Basis
\$	\$ 6,607,933.97
	1,494,480.62
	57,914.14
	8,160,328.73
	2,861,589.98
	1,609,580.30
(149.07)	257,453.85
	50,982.19
(9,240.71)	2,637,366.02
	519,394.11
	433,418.09
	8,532.05
(9,389.78)	8,378,316.59
9,389.78	(217,987.86)
	2,675.78
	16.55
	(92,141.00)
	(89,448.67)
9,389.78	(307,436.53)
(112,812.85)	1,527,716.33
\$ (103,423.07)	\$ 1,220,279.80
\$ 9,389.78	

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Supplementary Information

Schedule of Expenditures of Federal Awards

For the Year Ended September 30, 2018

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number
<u>U. S. Department of Education</u>	
<u>Passed Through Alabama Department of Education</u>	
Title I Grants to Local Educational Agencies (M)	84.010
Special Education Cluster:	
Special Education - Grants to States	84.027
Special Education - Preschool Grants	84.173
Sub-Total Special Education Cluster	
Career and Technical Education - Basic Grants to States	84.048
Education of Homeless Children and Youth	84.196
Rural Education	84.358
Supporting Effective Instruction State Grants (M)	84.367
School Improvement Grants	84.377
Student Support and Academic Enrichment Program	84.424
<u>Passed Through Alabama Department of Early Childhood Education</u>	
Preschool Development Grants	84.419
Total U. S. Department of Education	
<u>U. S. Department of Agriculture</u>	
<u>Passed Through Alabama Department of Education</u>	
Child Nutrition Cluster:	
School Breakfast Program	10.553
National School Lunch Program:	
Cash Assistance	10.555
Non-Cash Assistance (Commodities)	10.555
Sub-Total National School Lunch Program	
Sub-Total Child Nutrition Cluster	
State Administrative Expenses for Child Nutrition	10.560
<u>Passed Through Dallas County Commission</u>	
Schools and Roads - Grants to States	10.665
Total U. S. Department of Agriculture	
<u>Social Security Administration</u>	
<u>Passed Through Alabama Department of Education</u>	
Social Security - Disability Insurance	96.001
Total U. S. Social Security Administration	
Sub-Total Forward	

Pass-Through Grantor's Number	Total Federal Expenditures
N.A.	\$ 2,801,363.30
N.A.	998,538.29
N.A.	15,151.44
	<u>1,013,689.73</u>
N.A.	78,364.00
N.A.	33,000.00
N.A.	55,537.32
N.A.	272,269.86
N.A.	536,373.67
N.A.	47,446.36
N.A.	209,735.28
	<u>5,047,779.52</u>
N.A.	604,702.64
N.A.	1,422,357.51
N.A.	111,563.31
	<u>1,533,920.82</u>
	<u>2,138,623.46</u>
N.A.	9,923.26
N.A.	1,657.70
	<u>2,150,204.42</u>
N.A.	1,838.00
	<u>1,838.00</u>
	\$ 7,199,821.94

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

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number
Sub-Total Brought Forward	
<u>General Services Administration</u>	
<u>Passed Through Alabama Department of Economic and Community Affairs</u>	
Donation of Federal Surplus Personal Property (N)	39.003
Total General Services Administration	
<u>Other Federal Assistance</u>	
<u>U. S. Department of Defense</u>	
<u>Direct Program</u>	
Air Force Junior R.O.T.C.	N.A.
Total Other Federal Assistance	
Total Expenditures of Federal Awards	

(M) = Major Program

(N) = Non-Cash Assistance

N.A. = Not Available or Not Applicable

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

Pass-Through Grantor's Number	Total Federal Expenditures
	\$ 7,199,821.94
N.A.	<u>114.64</u>
	<u>114.64</u>
N.A.	<u>62,437.02</u>
	<u>62,437.02</u>
	<u><u>\$ 7,262,373.60</u></u>

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

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal grant activity of the Dallas County Board of Education and is presented on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U. S. ***Code of Federal Regulations*** Part 200, ***Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)***. Because the Schedule presents only a selected portion of the operations of the Dallas County Board of Education, it is not intended to and does not present the financial position or changes in net position of the Dallas 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 Dallas County Board of Education has not elected to use the 10% de minimis indirect cost rate allowed by *Uniform Guidance*.

Additional Information

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

Board Members	Position	Term Expires
Hon. Mark Story	President	2022
Hon. Leroy Miles	Vice-President	2020
Hon. Roy Edwards	Member	2018
Hon. Carolyn Bates	Member	2018
Hon. William Minor	Member	2022
<u>Administrative Personnel</u>		
Hattie Shelton	Superintendent	June 30, 2019
Brenda Turner	Chief School Financial Officer	June 30, 2019

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

Independent Auditor's Report

Members of the Dallas County Board of Education,
Superintendent and Chief School Financial Officer
Selma, 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 Dallas County Board of Education, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Dallas County Board of Education's basic financial statements and have issued our report thereon dated May 29, 2019. Our report is unmodified for the Special Revenue Fund and the Aggregate Remaining Fund; however, our report is qualified for the Governmental Activities and the General Fund because the Dallas County Board of Education did not record a sales tax liability due to another entity.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Dallas 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 Dallas County Board of Education's internal control. Accordingly, we do not express an opinion on the effectiveness of the Dallas 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 were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 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 2018-001 to be a material weakness.

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 2018-002 and 2018-003 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Dallas County Board of Education's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under ***Government Auditing Standards*** and which is described in the accompanying Schedule of Findings and Questioned Costs as 2018-001.

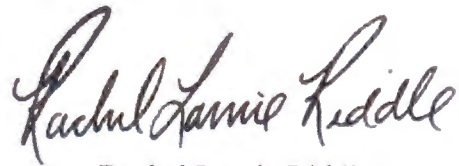
Dallas County Board of Education's Response to Findings

The Dallas County Board of Education's response to the findings identified in our audit is described in the accompanying Auditee Response/Corrective Action Plan. The Dallas 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 purpose.



Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

May 29, 2019

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

Independent Auditor's Report

Members of the Dallas County Board of Education,
Superintendent and Chief School Financial Officer
Selma, Alabama

Report on Compliance for Each Major Federal Program

We have audited the Dallas 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 Dallas County Board of Education's major federal programs for the year ended September 30, 2018. The Dallas 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 for each of the Dallas 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 Dallas 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 qualified and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of the Dallas 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

Basis for Qualified Opinion on Title I Grants to Local Educational Agencies

As described in the accompanying Schedule of Findings and Questioned Costs, the Dallas County Board of Education did not comply with procurement requirements regarding Title I Grants to Local Educational Agencies (CFDA Number 84.010), as described in the finding number 2018-004. Compliance with such requirements is necessary, in our opinion, for the Dallas County Board of Education to comply with the requirements applicable to that program.

Qualified Opinion on Title I Grants to Local Educational Agencies

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Dallas 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 Title I Grants to Local Educational Agencies for the year ended September 30, 2018.

Unmodified Opinion on Supporting Effective Instruction State Grants

In our opinion, the Dallas 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 Supporting Effective Instruction State Grants for the year ended September 30, 2018.

Other Matters

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

Report on Internal Control Over Compliance

Management of the Dallas 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 Dallas 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 Dallas County Board of Education's internal control over compliance.

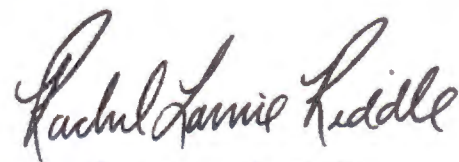
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2018-004, that we consider to be a material weakness.

The Dallas County Board of Education's response to the internal control over the compliance finding identified in our audit is described in the accompanying Auditee Response/Corrective Action Plan. The Dallas County Board of Education's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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



Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

May 29, 2019

Schedule of Findings and Questioned Costs

For the Year Ended September 30, 2018

Section I – Summary of Examiner's Results

Financial Statements

Type of opinion issued:

Qualified – Governmental
Activities, General Fund
Unmodified – Special Revenue,
Aggregate Remaining Funds

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?

 X Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

 X Yes No

Significant deficiency(ies) identified?

 Yes X None reported

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

Qualified – Title I Grants to Local
Educational Agencies (84.010)
Unmodified – Supporting Effective
Instruction State Grants (84.367)

Any audit findings disclosed that are required
to be reported in accordance with
2 CFR 200.516(a) of the *Uniform Guidance*?

 X Yes No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.010	Title I Grants to Local Educational Agencies
84.367	Supporting Effective Instruction State Grants

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

\$750,000.00

Auditee qualified as low-risk auditee?

 Yes X No

Schedule of Findings and Questioned Costs

For the Year Ended September 30, 2018

Section II – Financial Statement Findings (GAGAS)

Ref. No.	Type of Finding	Finding/Noncompliance	Questioned Costs
2018-001	Internal Control	<u>Finding:</u> The <i>Code of Alabama 1975</i>, Section 40-12-4, allows a county governing body to levy a county license tax for school purposes. On December 1, 2012, the Dallas County Commission passed a resolution authorizing a one-half cent sales tax to be collected for the Dallas County Board of Education for educational purposes. The <i>Code of Alabama 1975</i>, Section 40-12-4(b), states “In all counties having more than one local board of education, revenues collected under the provisions of this section shall be distributed within such county on the same basis of the total calculated costs for the Foundation Program for those local boards of education within the county.” An Attorney General’s Opinion dated December 10, 1984, concluded that the <i>Code of Alabama 1975</i>, Section 40-12-4, cannot be used to propose a county-wide sales tax earmarked solely for county schools and excluding the city school system. The Board began receiving the additional one-half cent sales tax in the 2013 fiscal year. No distribution of the one-half cent sales tax was remitted to the Selma City Board of Education for taxes received from the inception of the tax through June 8, 2014. The amount due to the Selma City Board of Education for this period has been calculated to be \$1,178,526.63. The Board did not have controls in place to ensure that the liability for this amount was recorded and reflected on the financial statements. This unrecorded liability resulted in a material misstatement of the financial statements for the Governmental Activities and General Fund. This finding was previously reported as finding 2014-002.	

Schedule of Findings and Questioned Costs

For the Year Ended September 30, 2018

Section II – Financial Statement Findings (GAGAS)

Ref. No.	Type of Finding	Finding/Noncompliance	Questioned Costs
2018-001	Internal Control	<u>Recommendation:</u> The Board should ensure that all liabilities are properly recorded and reflected on the financial statements. <u>Views of the Responsible Officials of the Board:</u> The Board agrees with the finding.	
2018-002	Internal Control	<u>Finding:</u> An adequate system of internal controls requires sales of concessions to be adequately monitored to ensure that a loss is not incurred in the sale of concession items. Testing of amounts recorded for concessions activities determined that the following schools incurred losses on the sale of concessions: ✓ B.K. Craig Elementary School ✓ Martin Middle School ✓ Keith Middle/High School ✓ Dallas County Career Technical Center The Board did not have procedures in place to monitor sales of concessions and to ensure that losses were not incurred in the sale of items. Due to the lack of controls, misappropriation of money received or concession items may occur and not be detected in a timely manner. <u>Recommendation:</u> The Board should ensure that adequate controls are in place over the sale of concessions. <u>Views of the Responsible Officials of the Board:</u> The Board agrees with the finding.	

Schedule of Findings and Questioned Costs

For the Year Ended September 30, 2018

Section II – Financial Statement Findings (GAGAS)

Ref. No.	Type of Finding	Finding/Noncompliance	Questioned Costs
2018-003	Internal Control	<u>Finding:</u> The State of Alabama Department of Education's Financial Procedures for Local Schools includes guidelines for preparing reports of sales of tickets for events where admission is charged, and for receipting, recording and depositing money collected for ticket sales. These guidelines provide that reports of ticket sales should contain the beginning and ending ticket numbers of the tickets issued and beginning and ending ticket numbers of the ticket not sold. The reports of ticket sales at Martin Middle School did not include all information for tickets issued and sold. The Board did not have procedures in place to ensure that reports of ticket sales were properly completed. Without complete ticket sales information, the sale of tickets forms could not be reconciled to the gate receipts, and we could not determine that all ticket sales transactions were properly recorded and money collected for ticket sales was properly receipted and deposited. <u>Recommendation:</u> The Board should implement procedures to ensure that reports of ticket sales are properly completed and reconciled to the gate receipts. <u>Views of the Responsible Officials of the Board:</u> The Board agrees with the finding.	

Schedule of Findings and Questioned Costs

For the Year Ended September 30, 2018

Section III – Federal Awards Findings and Questioned Costs

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
2018-004	84.010	U. S. Department of Education, Passed through Alabama Department of Education; Title I Grants to Local Educational Agencies for 10/01/2017 through 09/30/2018	<u>Finding:</u> Title 2 U. S. <i>Code of Federal Regulations</i> Part 200, <i>Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards (Uniform Guidance)</i> requires the Board to use specific methods of procurement. The <i>Uniform Guidance</i> , Section 200.320, requires small purchase procedures to be used for securing services, supplies or other property for amounts that exceed the micro-purchase threshold (\$3,500.00) but do not exceed the simplified acquisition threshold (\$150,000.00) by obtaining quotations from an adequate number of qualified sources. Sealed bids or competitive proposals are required for purchases of services, supplies or other property that exceed the simplified acquisition threshold. The Dallas County Board of Education adopted a policy on November 17, 2016, related to the <i>Uniform Guidance</i> for Federal Awards that requires obtaining price or rate quotes from two or more qualified sources for procurement transactions that exceed the micro-purchase threshold. The Board expended Title I funds for services and supplies that exceeded the micro-purchase threshold without obtaining quotations from an adequate number of sources.	\$182,132.17

Schedule of Findings and Questioned Costs

For the Year Ended September 30, 2018

Section III – Federal Awards Findings and Questioned Costs

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
2018-004	84.010	U. S. Department of Education, Passed through Alabama Department of Education; Title I Grants to Local Educational Agencies for 10/01/2017 through 09/30/2018	<u>Finding Continued:</u> The Board did not have controls in place to ensure compliance with the <i>Uniform Guidance</i> , Section 200.320, or its adopted policy related to the <i>Uniform Guidance</i> for Federal Awards for these transactions. As a result, the Board could not ensure that federal funds were expended in the most cost effective manner. <u>Recommendation:</u> The Board should ensure compliance with the <i>Uniform Guidance</i> , Section 200.320, and its adopted policy related to the <i>Uniform Guidance</i> for Federal Awards. <u>Views of Responsible Officials of the Board:</u> The Board agrees with the finding.	

Summary Schedule of Prior Audit Findings

DALLAS COUNTY BOARD OF EDUCATION
OFFICE OF THE SUPERINTENDENT

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SELMA, ALABAMA 36702-1056
TELEFAX 334-876-4493 • TELEPHONE 334-875-3440

SUPERINTENDENT
HATTIE R. SHELTON

ASSISTANT SUPERINTENDENT
VICKIE L. POE

BOARD OF EDUCATION

LEROY MILES, JR., PRESIDENT
ROY C. EDWARDS, VICE-PRESIDENT
WILLIAM D. MINOR
MARK A. STORY
MAMIE W. SOLOMON

Summary Schedule of Prior Audit Findings
For the Year Ended September 30, 2018

As required by the *Uniform Administrative Requirements, Costs Principles and Audit Requirements for Federal Awards*, 2 CFR 200.511, the Dallas County Board of Education has prepared and hereby submits the following Summary Schedule of Prior Audit Findings as of September 30, 2018.

Finding

Ref.

No.

Status of Prior Audit Finding

2017-001 An adequate system of internal controls requires the proper use of a purchase order system and retention of documentation for expenditures. The following matters were noted relating to expenditures at B.K. Craig Elementary School and the Dallas County Career Technical Center:

- Numerous purchase orders were dated after the invoice date or were not dated at all.
- Adequate supporting documentation was not provided for several expenditures.

Response: The Dallas County Board of Education has taken corrective action.

2014-002 The *Code of Alabama 1975*, Section 40-12-4, allows a county governing body to levy a county license tax for school purposes. On December 1, 2012, the Dallas County Commission passed a resolution authorizing a one-half cent sales tax to be collected for the Dallas County Board of Education for educational purposes. The *Code of Alabama 1975*, section 40-12-4(b), states "In all counties having more than one local board of education, revenues collected under the provisions of this section shall be distributed within such county on the same basis of the total calculated cost for the Foundation Program for those local boards of education within the county." An Attorney General's Opinion dated December 10, 1984, concluded that the *Code of Alabama 1975*, Section 40-12-4, cannot be used to propose a county-wide sales tax earmarked solely for county schools and excluding the city school system. The Board began receiving the additional one-half cent sales tax in the 2013 fiscal year.

No distribution of the one-half cent sales tax was remitted to the Selma City Board of Education for taxes received from the inception of the tax through June 8, 2014. The amount due to the Selma City Board of Education for this period has been calculated to be \$1,178,526.63. The Board did not have controls in place to ensure that a liability for this amount was recorded and reflected on the financial statements. This unrecorded liability resulted in a material misstatement of the financial statements for the Governmental Activities and General Fund.

Response: No liabilities were recorded and reflected on our financial statement because negotiations to resolve the matter are still active. A legislative bill authored by Senator Hank Sanders to resolve the matter was not introduced as planned and a referendum that was planned and sponsored by the Dallas County Commission was not introduced. Representatives of Dallas County Board of Education and representatives of Selma City Board of Education have met to discuss this situation. We are trying to work out an arrangement with Selma City Board for possible forgiveness of all or part of the amount claimed. In the event that fails, we must work out an installment plan with the Selma City Board of Education.

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Auditee Response/Corrective Action Plan

*DALLAS COUNTY BOARD OF EDUCATION
OFFICE OF THE SUPERINTENDENT*

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BOARD OF EDUCATION

*LEROY MILES, JR., PRESIDENT
ROY C. EDWARDS, VICE-PRESIDENT
WILLIAM D. MINOR
MARK A. STORY
MAMIE W. SOLOMON*

June 18, 2017

Rachel Laurie Riddle
Chief Examiner
Examiner of Public Accounts
P.O. Box 302251
Montgomery, AL 36130-2251

Dear Ms. Riddle:

In response to the letter received from Mr. James Hall dated June 17, 2019, I have enclosed the Corrective Action Plan for audit findings for the period of October 1, 2017 through September 30, 2018.

I would like to commend you and your staff on the professionalism displayed during our audit.

If I can be of further assistance, please feel free to contact me.

Sincerely,

Hattie R. Shelton
by Brenda Turner
Hattie R. Shelton
Superintendent

HRS: BT

DALLAS COUNTY BOARD OF EDUCATION
OFFICE OF THE SUPERINTENDENT
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SELMA, ALABAMA 36702-1056
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SUPERINTENDENT
HATTIE R. SHELTON

ASSISTANT SUPERINTENDENT
VICKIE L. POE

BOARD OF EDUCATION

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Corrective Action Plan
For the Year Ended September 30, 2018

As required by the *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, 2 CFR 200.511(c), the Dallas County Board of Education has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2018.

Finding

Ref.

No. Corrective Action Plan Details

Finding #2018-001: The *Code of Alabama 1975*, Section 40-12-4, allows a county governing body to levy a county license tax for school purposes. On December 1, 2012, the Dallas County Commission passed a resolution authorizing a one-half cent sales tax to be collected for the Dallas County Board of Education for educational purposes. The *Code of Alabama 1975*, Section 40-12-4(b), states "In all counties having more than one local board of education, revenues collected under the provisions of this section shall be distributed within such county on the same basis of the total calculated costs for the Foundation Program for those local boards of education within the county." An Attorney General's Opinion dated December 10, 1984, concluded that the *Code of Alabama 1975*, Section 40-12-4, cannot be used to propose a county-wide sales tax earmarked solely for county schools and excluding the city school system. The Board began receiving the additional one-half cent sales tax in the 2013 fiscal year. No distribution of the one-half cent sales tax was remitted to the Selma City Board of Education for taxes received from the inception of the tax through June 8, 2014. The amount due to the Selma City Board of Education for this period has been calculated to be \$1,178,526.63. The Board did not have controls in place to ensure that the liability for this amount was recorded and reflected on the financial statements. This unrecorded liability resulted in a material misstatement of the financial statements for the Governmental Activities and General Fund. This finding was previously reported as finding 2014-002.

Response: No liabilities were recorded and reflected on our financial statement because negotiations to resolve the matter are still active. A legislative bill authored by Senator Hank Sanders to resolve the matter was not introduced as planned and a referendum that was planned and sponsored by the Dallas County Commission was not introduced. Representatives of Dallas County Board of Education and representatives of Selma City Board of Education have met to discuss this situation. We are trying to work out an arrangement with Selma City Board for possible forgiveness of all or part of the amount claimed. In the event that fails, we must work out an installment plan with the Selma City Board of Education.

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Finding #2018-002: An adequate system of internal controls requires sales of concessions to be adequately monitored to ensure that a loss is not incurred in the sale of concession items. Testing of amounts recorded for concessions activities determined that the following schools incurred losses on the sale of concessions:

- B.K. Craig Elementary School
- Martin Middle School
- Keith Middle/High School
- Dallas County Career Technical Center

The Board did not have procedures in place to monitor sales of concessions and to ensure that losses were not incurred in the sale of items. Due to the lack of controls, misappropriation of money received or concession items may occur and not be detected in a timely manner.

Response: The Board has procedures in place to monitor the sale of concessions at the local schools. The local schools are to report monthly inventories, revenues and expenditures for concession sales at the local schools. Mrs. Mary Shaw, Local School Accounting (LSA) Support Clerk, and the Chief School Finance Officer, Mrs. Sandra Purdie, will give detailed instructions and presentations to the local school bookkeepers at their annual summer training workshop in July, 2019. In addition, local schools will turn in a Concessions Revenue, Expense and Inventory Form with their monthly reports. Mrs. Shaw will monitor these reports and report any deficiencies to Mrs. Purdie.

Finding #2018-003: The State of Alabama Department of Education's Financial Procedures for Local Schools includes guidelines for preparing reports of sales of tickets for events where admission is charged, and for receipting, recording and depositing money collected for ticket sales. These guidelines provide that reports of ticket sales should contain the beginning and ending ticket numbers of the tickets issued and beginning and ending ticket numbers of the ticket not sold. The reports of ticket sales at Martin Middle School did not include all information for tickets issued and sold. The Board did not have procedures in place to ensure that reports of ticket sales were properly completed. Without complete ticket sales information, the sale of tickets forms could not be reconciled to the gate receipts, and we could not determine that all ticket sales transactions were properly recorded and money collected for ticket sales was properly receipted and deposited.

Response: The Board has procedures in place to monitor ticket sales at events where admission is charged, and for receipting, recording and depositing money collected for ticket sales. The local schools have a Ticket Sales Report which includes a formula for calculating the number of tickets sold based on the beginning and ending ticket numbers to determine the number of tickets sold and for calculating the total funds to be receipted and deposited. Mrs. Mary Shaw, Local School Accounting (LSA) Support Clerk, and the Chief School Finance Officer, Mrs. Sandra Purdie, will give detailed instructions and presentations to the local school bookkeepers at their annual summer training workshop in July, 2019. In addition, the local schools will turn in any Admission Ticket Receipt Form for the month with the regular

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monthly reports that are due to the Central Office. Mrs. Shaw will monitor these reports and report any deficiencies to Mrs. Purdie.

Finding #2018-004: Title 2 U. S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) requires the Board to use specific methods of procurement. The *Uniform Guidance*, Section 200.320, requires small purchase procedures to be used for securing services, supplies or other property for amounts that exceed the micro-purchase threshold (\$3,500.00) but do not exceed the simplified acquisition threshold (\$150,000.00) by obtaining quotations from an adequate number of qualified sources. Sealed bids or competitive proposals are required for purchases of services, supplies or other property that exceed the simplified acquisition threshold. The Dallas County Board of Education adopted a policy on November 17, 2016, related to the *Uniform Guidance* for Federal Awards that requires obtaining price or rate quotes from two or more qualified sources for procurement transactions that exceed the micro-purchase threshold. The Board expended Title I funds for services and supplies that exceeded the micro-purchase threshold without obtaining quotations from an adequate number of sources. The Board did not have controls in place to ensure compliance with the *Uniform Guidance*, Section 200.320, or its adopted policy related to the *Uniform Guidance* for Federal Awards for these transactions. As a result, the Board could not ensure that federal funds were expended in the most cost effective manner.

Response: The Board has policies and procedures in place for federal funds procurement. In June, 2019, the Board will revise their policy to include that federal fund procurements that are not subject to the state procurement laws, but exceed the aggregate amount of the federal micro purchase threshold, to obtain and utilize price or rate quotes from two or more qualified sources and to attach those price or rate quotes to the purchase order as evidence of compliance with the *Uniform Guidance* for Federal Awards for these transactions.