

Satsuma City Board of Education

September 30, 2017

Satsuma City Board of Education

September 30, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2017

The Satsuma City Board of Education's (the "Board") management's discussion and analysis presents the overall financial position and operating results for the year ended September 30, 2017. Readers are encouraged to read it in conjunction with the Board's financial statements, which follow this analysis. The Management's Discussion and Analysis (MD&A) reflects an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

Financial Highlights: Significant Items to Note

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

- The Board's financial status decreased for the audit period ending September 30, 2017. The total net position decreased by \$867,878 primarily due to the required reporting by GASB regarding the net pension liability, depreciation expense, a prior period adjustment and the entries required for financing of the HVAC services. The assets of the Board exceeded its liabilities at the close of fiscal year 2017 by approximately \$29.8 million (net position).
- The total cost of the Board's programs for the year was \$14.8 million. After taking away a portion of these costs paid for with charges or fees and operating and capital grants, the net cost that required funding from city and county taxpayers was approximately \$4.1 million. This includes the required 10-mill local system contribution into the State Foundation Program of \$518,803. The Foundation Program (the state funding mechanism for K-12 education systems in Alabama) and other state funds provided \$8.0 million toward the cost of these programs.
- For the General Fund, revenues exceeded total expenditures during the year by \$62,000 resulting in a fund balance of \$1,187,630 on the budgetary basis.
- The Board had long-term liabilities at year end totaling \$15,974,023. This liability represents a Qualified Zone Academy Bond (QZAB) bond payable of \$1,533,334, a Series 2015 bond payable of \$2,615,000, a Series 2016 bond payable of \$1,850,000, an equipment finance of \$334,070, plus unamortized premium of \$242,619 and a liability of \$9,399,000 for net pension liability as required by GASB Statement No. 68 reporting standards.

Using the Financial Statements – An Overview for the User

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

- Independent Auditor's Report
- Required Supplementary Information (including the MD&A)
- Basic Financial Statements (District-wide or Board-wide and Fund Financial Statements)
- Supplemental Information

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2017

Required Components of Annual Financial Report

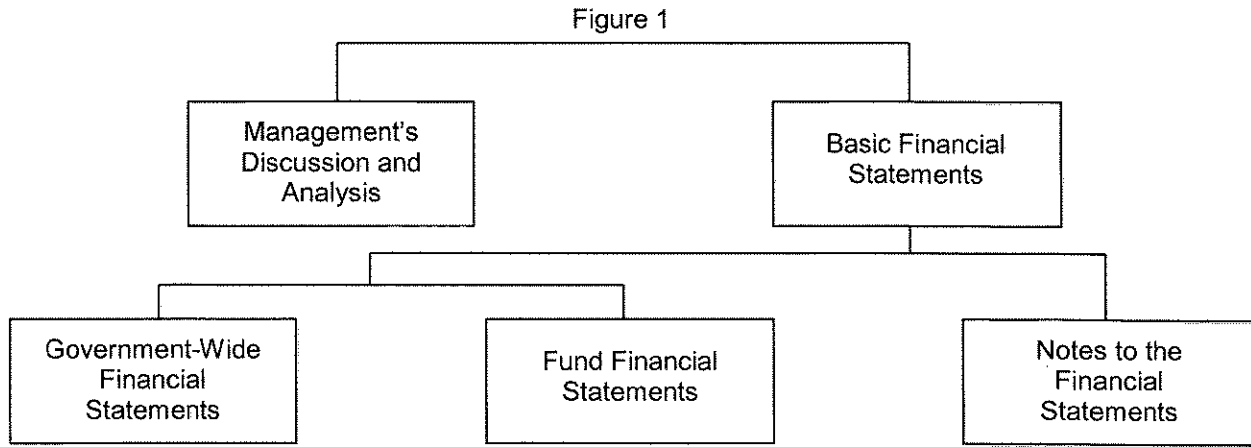


Figure 1 depicts the major features of the Board's financial statements. The focus of the financial statements is on the Board as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis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

Government-Wide Financial Statements

The first two statements are government-wide financial statements — the *Statement of Net Position* and the *Statement of Activities*. These provide both long-term and short-term information about the Board's overall financial status. The focus of the *Statement of Net Position* (the "Unrestricted Net Position") is designed to be similar to bottom line results for the Board and its activities.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2017

Fund Financial Statements

The fund financial statements provide more detailed information about the Board's most significant funds — not the Board as a whole. A fund is a grouping of related accounts that is used to keep track of specific sources of funding and spending for particular purposes. The Board uses fund accounting to ensure and demonstrate fiscal accountability. All of the funds of the Board can be classified into one category: Governmental funds.

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

Notes to the Financial Statements

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

Required Supplementary Information

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

Analysis of the School Board's Overall Financial Position

As indicated earlier, net position may serve over time as a useful indicator of a government's financial position. Refer to *Table 1* when reading the following analysis of net position. The Board's assets exceeded liabilities by \$29.8 million at September 30, 2017.

- Of this figure, \$35,762,205 reflects the Board's net investment in capital assets. Since these capital assets represent investment in land, building, school buses, furniture and equipment, this portion of net position is not available for future spending or funding of operations.
- Restricted net position is reported separately to show the external legal constraints from debt covenants and enabling legislation that limit the Board's ability to use this net position for day-to-day operations. \$51,811 is restricted for child nutrition program and \$868,614 is restricted for capital projects.
- The balance of the unrestricted net position is \$(6,916,711).

Satsuma City Board of Education

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2017

**Table 1: Summary of Net Positions
As of September 30, 2017**

	FY17	FY16	Variance
Current and other assets	\$ 4,629,712	\$ 2,986,238	55.03%
Deferred outflows of resources	1,843,885	1,671,347	10.32%
Capital assets	42,337,227	42,933,552	-1.39%
Total Assets and Deferred Outflows of Resources	\$ 48,810,824	\$ 47,591,137	2.56%
Current and other liabilities	\$ 1,244,482	\$ 1,175,167	5.90%
Deferred inflows of resources	1,826,400	162,000	1027.41%
Long-term liabilities	15,974,023	15,620,171	2.27%
Total Liabilities and Deferred Inflows of Resources	19,044,905	16,957,338	12.31%
Net position:			
Net investment in capital assets	35,762,205	36,332,381	-1.57%
Restricted	920,425	1,393,705	-33.96%
Unrestricted	(6,916,711)	(7,092,287)	-2.48%
Total Net Position	\$ 29,765,919	\$ 30,633,799	-2.83%

The results of fiscal year 2017's operations as a whole are reported in detail in the *Statement of Activities*. The total net position for FY 2017 was reduced by \$867,878. \$1,011,008 of the reduction is primarily due to recording adjustments required for financial statement reporting for pensions, capital assets and long term debt transactions. The other factor was a prior period adjustment that increased total net position by \$143,130. The Board had previously recorded the expendable trust fund as a fiduciary fund. The fund was restated to be included as a Special Revenue Fund in the Governmental Statements.

The factor attributing to the significant variance in current and other assets is the accrual of property tax receivable. The significant variances in total net position, deferred outflows and deferred inflows of resources are due to the implementation of GASB Statement No. 68. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. *Table 2* below condenses the results of operations for the audit period into a format where the reader can easily see the total revenues of the Board for the year. It also shows the impact the operations had on changes in net position as of September 30, 2017.

Satsuma City Board of Education

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2017

**Table 2: Summary of Revenues and Expenses from Operating
Results for Audit Period Ending September 30, 2017**

	<u>FY17</u>	<u>FY16</u>	<u>Variance</u>
Revenues			
Program revenues:			
Charges for services	\$ 1,620,802	\$ 1,505,747	7.64%
Operating grants & contributions	8,691,130	8,292,430	4.81%
Capital grants & contributions	378,686	369,284	2.55%
General revenues:			
Local property taxes	2,337,507	2,202,345	6.14%
Local sales taxes	161,883	180,012	-10.07%
Other taxes	93,403	93,922	-0.55%
Grants & contributions not restricted	108,000	108,000	0.00%
Investment earnings	28,280	28,577	-1.04%
Miscellaneous	402,905	227,025	77.47%
Total Revenues	<u>13,822,596</u>	<u>13,007,342</u>	<u>6.27%</u>
Expenses:			
Instructional services	7,962,062	7,361,502	8.16%
Instructional support services	2,361,133	2,047,967	15.29%
Operation & maintenance services	1,860,228	2,167,721	-14.19%
Student transportation	556,559	514,336	8.21%
Food service	657,167	628,246	4.60%
General administration services	1,044,790	2,273,220	-54.04%
Interest & fiscal charges	142,168	165,890	-14.30%
Other expenses	249,497	70,933	251.74%
Total Expenses	<u>\$ 14,833,604</u>	<u>\$ 15,229,815</u>	<u>-2.60%</u>

The Board's net position decreased by \$867,878. The revenues increased by 6.27% and the expenditures decreased by 2.60%. This decrease is primarily attributable to more expenditures for the capital projects in FY 2016. Refer to the reconciliation statement on page 18. The significant variances in miscellaneous and other expenses are a direct reflection of the implemented pre-k program.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2017

Governmental Activities - As shown in *Table 2*, the cost of services rendered from the Board's governmental activities for the audit period ended September 30, 2017 was \$14.8 million. It is important to note that not all of these costs were borne by the taxpayers of Satsuma City:

- Some of the cost, \$1.6 million, was paid by users who benefited from services provided during the year, such as school lunches, local school fundraisers, and admissions for local school events. State and federal governments subsidized certain programs with grants and contributions totaling approximately \$9.1 million.
- \$3.1 million of the Board's total costs of \$14.8 million was financed by district and state taxpayers, unrestricted grants, investment and miscellaneous revenues as follows: \$2,337,507 in property taxes, \$161,883 in sales taxes, \$53,495 in alcohol beverage tax, \$39,908 in other taxes (business privilege tax and tobacco tax), \$108,000 in unrestricted grants, \$28,280 in investment revenues, \$402,905 in miscellaneous revenues.

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

Table 3: Net Cost of Governmental Activities for Audit Period Ended September 30, 2017

	FY17		FY16	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Expenses:				
Instructional services	\$ 7,962,062	\$ (1,706,794)	\$ 7,361,502	\$ (1,310,670)
Instructional support services	2,361,133	(496,255)	2,047,967	(273,992)
Operating & maintenance services	1,860,228	(853,702)	2,167,721	(1,279,872)
Student transportation	556,559	(83,835)	514,336	(90,182)
Food service	657,167	(94,939)	628,246	(33,234)
General administrative	1,044,790	(712,898)	2,273,220	(1,934,792)
Interest and fiscal charges	142,168	(142,168)	165,890	(165,890)
Other expenses	249,497	(52,395)	70,933	26,278
Total Expenses	\$ 14,833,604	\$ (4,142,986)	\$ 15,229,815	\$ (5,062,354)

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2017

Performance of School Board Funds

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

Governmental Funds - The focus of the Board's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Board's financial requirements (Note that the relationship between the *fund financial statements* and the *government-wide financial statements* are reconciled on pages 16 and 18. The financial performance of the Board as a whole is reflected in its governmental funds as well. At the end of the fiscal year, the Board's governmental funds reported combined ending fund balances of \$1,911,424 up from \$1,836,367 in FY 2016 due to prior period adjustment previously discussed.

General Fund – During the 2017 year, the net change in the general fund balance was a decrease of \$44,467 and resulted in an ending fund balance of \$379,034. Note that the actual general fund balance on the budgetary basis was \$1,187,630, an increase of \$62,000. According to the State standards, this budgetary fund balance represents a 1.41 months' operating balance. The State standard is to achieve a minimum of one month.

Special Revenue Fund - During the year, the net change in the special revenue fund was an increase of \$42,381, on the budgetary basis, resulting in a fund balance of \$716,346 as compared to a fund balance of \$673,965 in FY 2016.

Capital Projects Fund - The Capital Projects Fund accounts for all financial resources to be used for the acquisition or construction of major capital projects. The fund balance decreased from \$938,716 in FY16 to \$868,614 in FY17. The Board plans to continue to allow this fund to grow to meet capital and emergency needs.

Budgetary Highlights of Major Funds

The Board was required to prepare and submit to the State Department of Education by September 15, 2016, the annual budget adopted by the Board. The original 2017 fiscal year budget, adopted on September 6, 2016, was based on a conservative approach that reflected only allocated revenues and essential expenditures. The Board approved an amendment to the budget during the year on January 24, 2017 and June 13, 2017. For purposes of this budgetary analysis, the General Fund and the Special Revenue fund of the Board are discussed in accordance with the GASB 34 reporting model.

General Fund - The comparison of the General Fund original budget to the final amended budget is on page 42. The difference between the original budget and the final amended budget of the Board was a \$301,974 increase in overall revenues, an increase in overall expenditures of \$299,466, and a decrease in other financing sources of \$331. These changes were necessary to adjust for changes in additional state and local revenues and changes in the estimates for expenditures. These revenues coupled with monitoring of expenditures resulted in an actual ending fund balance of \$1,187,630 as compared to the final budgeted amount of \$1,130,008.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2017

Special Revenue Fund - The comparison of the special revenue original budget to the final amended budget is reflected on page 43. The Special Revenue Fund contains all of the federal programs including Child Nutrition as well as the public and non-public funds of the two local schools. The actual ending fund balance is \$716,346, as compared to the final budgeted fund balance of \$758,981.

Capital Assets and Debt Administration

Capital Assets – As of September 30, 2017, the Board had \$42,337,227 invested in capital assets including land and land improvements, building and building improvements, equipment and furniture and vehicles costing \$5,000 or more. This is the net of accumulated depreciation, as of September 30, 2017. Page 30 of the financial statements and Table 4 below show more detail.

**Table 4: Capital Assets (net of accumulated depreciation)
As of September 30, 2017**

	FY17	FY16	Variance
Land	\$ 683,800	\$ 664,800	2.9%
Land improvements-exhaustible	2,892,439	3,056,301	-5.4%
Buildings	35,255,418	35,928,610	-1.9%
Building improvements	2,881,674	2,589,111	11.3%
Equipment and furniture	231,345	246,242	-6.0%
Vehicles	392,551	448,485	-12.5%
Total Capital Assets	\$ 42,337,227	\$ 42,933,549	-1.4%

Long-term Liabilities

At year-end, the Board had \$15,974,023 in long-term liabilities as compared to \$15,620,170 in FY16. Refer to Note 10 on page 38. This amount is the payable for the QZAB Bond of \$1,533,334, the payable for the Series 2015 Bond of \$2,615,000, the payable for the Series 2016 Bond of \$1,850,000, the entry made for unamortized bond premiums \$242,619, equipment finance for HVAC services of \$334,070 and the entry made to recognize net pension liability of \$9,399,000.

Interfund Transfers

The board has certain transactions that require transfers between the funds. During FY 2017, the General Fund transferred \$211,472 to the Special Revenue Fund, and the Special Revenue Fund transferred \$81,705 to the General Fund.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2017

Economic Factors and Next Year's Budget

- The population of the City of Satsuma as of the year 2016 was 6,168, a 9.67% increase over the 2000 census.
- Median age for the City of Satsuma is 42.4 as compared to a State average of 39.0.
- The estimated per capita income in 2016 was \$30,861 (it was \$23,972 in 2000). The State average was \$26,338.
- The median household income in the City of Satsuma for 2016 was \$63,905 as compared to a State average of \$46,257.
- Estimated median house or condo value in the City of Satsuma for 2016 was \$156,062 as compared to a statewide value of \$136,200.
- The citizens of Satsuma voted an increase of 7.5 mills of ad valorem tax in order to support the newly formed Satsuma City Board of Education. This tax yielded \$410,641 for FY 2017.
- The City of Satsuma levied a one-cent sales tax and appropriates half of the penny sales tax to the Board. The City appropriated \$108,000 to the Board for FY 2017.
- The Board increased its General Fund Balance on a budgetary basis to \$1,130,008 which represents a 1.41 months' operating balance. The Board has a goal of maintaining the General Fund Balance each year for fiscal responsibility and security.

Circumstances that could significantly affect the Board's financial health in the future are listed as follows: Proration of State Appropriations. Applicable provisions of the Constitution of Alabama effectively prohibit the State from engaging in deficit financing-that is to say, state expenditures during any fiscal year may not exceed available revenues. State law provides procedures for delaying or, if necessary, reducing (or "prorating") appropriations of state revenues in order to maintain and enforce the constitutional ban on deficit financing. The Board's General Fund receives the largest share of its annual revenue from the State. Although the State revenues provided for the payment of employee salaries and benefits are prorated, State law prohibits the Board from reducing salaries and benefits paid to employees. The postponement or reduction of State appropriations to the Board as a consequence of proration may therefore result in reductions of expenditures by the Board for certain budget items other than salaries (e.g. instructional materials, certain academic programs, maintenance projects, and supplies). School systems have experienced four years without proration, and the general economy and state funding has continued to increase slightly over the past four years.

The Board monitors the state tax revenues closely in order to plan for any possible threat of proration.

Estimated Capital Needs: The Board's five year capital plan submitted for fiscal year 2017 is based on facility assessments and enrollment needs, and includes \$13 million in estimated capital needs throughout the system. \$375,000 has been funded with a 5-year equipment capital lease. Also, \$300,000 will be funded with local funds and state capital purchase funds. The source of funding for remaining needs of \$12.3 million are not identified or determined at this time. The Board plans to allow the Capital Fund to grow in order to combine those funds with future bond issues in order to meet capital needs.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2017

Student Enrollment: The Board's current enrollment based on the Average Daily Membership (ADM) as of the twenty-day report for the 2017-2018 scholastic year was 1,414. The next official count was 1,465 taken in October 2017. The growth in ADM will provide additional state and local county-wide tax revenue for the district next fiscal year.

Medical and Retirement Costs - Employee health insurance is provided through the Public Education Employees Health Insurance Program (PEEHIP). The monthly premium for health insurance for teachers and support personnel under PEEHIP will remain \$800 per month for fiscal year 2018. Also, the employer contribution rate to the Teachers Retirement System (TRS) was 12.01% and 10.82% for Tier I and II employees, respectively, in fiscal year 2017 and will increase to 12.24% and 11.01% for Tier I and Tier II employees, respectively, in fiscal year 2018.

Financial Contact

The Board's financial statements are designed to present users (citizens, taxpayers, investors and creditors) with a general overview of the Board's finances and to demonstrate the Board's accountability for public funds received. If you have questions about the report or need additional financial information, contact Dr. Joe Walters, Superintendent, 220 Baker Road, Satsuma, AL 36572, or by calling (251) 380-8200.

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CERTIFIED PUBLIC ACCOUNTANTS

Members of the Board
Satsuma City Board of Education
Satsuma, Alabama

Independent Auditor's Report

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 Satsuma City Board of Education (the "Board"), a component unit of the City of Satsuma, Alabama, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Satsuma City Board of Education as of September 30, 2017, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and pension schedules on pages 1 through 10 and Exhibits VII through XI be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also 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. The 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 by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2018, on our consideration of the Satsuma City Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.


RICHARD, HARRIS, INGRAM AND BOZEMAN, P.C.

Montgomery, Alabama
April 30, 2018

Satsuma City Board of Education

STATEMENT OF NET POSITION

September 30, 2017

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 2,769,175
Investments	32,120
Receivables	1,810,941
Inventories	17,476
Capital assets:	
Non-depreciable	683,800
Depreciable, net	41,653,427
Total assets	<u>46,966,939</u>
Deferred Outflows of Resources	
Employer pension contribution	694,885
Proportionate share of collective deferred outflows related to net pension liability	<u>1,149,000</u>
Total deferred outflows of resources	<u>1,843,885</u>
Liabilities	
Accounts payable	300,219
Deferred revenue	35,968
Salaries and benefits payable	883,701
Accrued interest payable	24,594
Long-term liabilities:	
Current portion of long-term obligations	437,058
Non-current portion of long-term obligations	15,536,965
Total liabilities	<u>17,218,505</u>
Deferred Inflows of Resources	
Unavailable revenue - property taxes	1,498,400
Proportionate share of collective deferred inflows related to net pension liability	<u>328,000</u>
Total deferred inflows of resources	<u>1,826,400</u>
Net Position	
Invested in capital assets, net of related debt	35,762,205
Restricted for:	
Child nutrition program	51,811
Capital projects	868,614
Unrestricted	<u>(6,916,711)</u>
Total net position	<u>\$ 29,765,919</u>

The notes to the financial statements are an integral part of this statement.

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2017

Functions	Program Revenues				Net (Expenses) Revenues and Changes in Net Position - Governmental Activities
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Instructional services	\$ 7,962,062	\$ 232,207	\$ 5,875,787	\$ 147,274	\$ (1,706,794)
Instructional support services	2,361,133	616,156	1,248,722		(496,255)
Operation and maintenance services	1,860,228	104,304	731,145	171,077	(853,702)
Student transportation	556,559	46,315	401,884	24,525	(83,835)
Food services	657,167	514,995	47,233		(94,939)
General administrative services	1,044,790	87,015	225,981	18,896	(712,898)
Interest and fiscal charges	142,168				(142,168)
Other expenses	249,497	19,810	160,378	16,914	(52,395)
Total	\$ 14,833,604	\$ 1,620,802	\$ 8,691,130	\$ 378,686	\$ (4,142,986)

General revenues:

Taxes:	
Property taxes for general purposes	1,562,206
Property taxes for specific purposes	775,301
Sales tax	161,883
Alcohol beverage tax	53,495
Other taxes	39,908
Grants and contributions not restricted for specific programs	108,000
Investment earnings	28,280
Miscellaneous	402,905
Total general revenues	3,131,978
Changes in net position	(1,011,008)
Net position - beginning of year	30,633,797
Prior period adjustment	143,130
Net position - end of year	\$ 29,765,919

The notes to the financial statements are an integral part of this statement.

BALANCE SHEET
Governmental Funds

September 30, 2017

	General Fund	Special Revenue Fund	Capital Projects Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,088,161	\$ 794,594	\$ 886,420	\$ 2,769,175
Investments			32,120	32,120
Receivables	872,028	179,134	759,779	1,810,941
Due from other funds	185,108	16,031		201,139
Inventories		17,476		17,476
Total assets	\$ 2,145,297	\$ 1,007,235	\$ 1,678,319	\$ 4,830,851
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 163,177	\$ 76,537	\$ 60,505	\$ 300,219
Due to other funds	22,756	178,383		201,139
Deferred revenues		35,968		35,968
Salaries and benefits payable	831,130	52,571		883,701
Total liabilities	1,017,063	343,459	60,505	1,421,027
Deferred Inflows of Resources:				
Unavailable revenue - property taxes	749,200		749,200	1,498,400
Total deferred inflows of resources	749,200	0	749,200	1,498,400
Fund Balances:				
Nonspendable				
Inventories		17,476		17,476
Restricted				
Capital projects			868,614	868,614
Child nutrition program		51,811		51,811
Assigned				
Local schools		594,489		594,489
Unassigned	379,034			379,034
Total fund balances	379,034	663,776	868,614	1,911,424
Total liabilities, deferred inflows of resources and fund balances	\$ 2,145,297	\$ 1,007,235	\$ 1,678,319	\$ 4,830,851

The notes to the financial statements are an integral part of this statement.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
WITH THE STATEMENT OF NET POSITION**

For the Year Ended September 30, 2017

Total fund balance - governmental funds \$ 1,911,424

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 \$	47,408,784	
	Accumulated depreciation	<u>(5,071,557)</u>	42,337,227

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

1,515,885

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

	Current portion of long-term debt \$	437,058	
	Non-current portion of long-term debt	<u>15,536,965</u>	(15,974,023)

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

	Accrued interest payable		<u>(24,594)</u>
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Total net position - governmental activities \$ 29,765,919

The 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, 2017

	General Fund	Special Revenue Fund	Capital Projects Fund	Total Governmental Funds
Revenues:				
State sources	\$ 7,675,798		\$ 377,660	\$ 8,053,458
Federal sources	152,437	\$ 1,134,166		1,286,603
Local sources	2,214,701	1,349,964	775,317	4,339,982
Other sources	129,564	12,989		142,553
Total revenues	<u>10,172,500</u>	<u>2,497,119</u>	<u>1,152,977</u>	<u>13,822,596</u>
Expenditures				
Instructional services	5,890,960	728,966	23,529	6,643,455
Instructional support services	1,380,615	893,949	42,608	2,317,172
Operation and maintenance services	1,424,088	26,706	397,473	1,848,267
Auxiliary services:				
Student transportation	425,260	58,105	5,679	489,044
Food services	5,322	720,714		726,036
General administrative services	841,991	119,166	40,265	1,001,422
Other expenditures	216,623	32,784	16,807	266,214
Capital outlay			527,703	527,703
Debt service:				
Principal retirement			384,263	384,263
Interest and fiscal charges			155,877	155,877
Debt issuance cost/other debt service			3,875	3,875
Total expenditures	<u>10,184,859</u>	<u>2,580,390</u>	<u>1,598,079</u>	<u>14,363,328</u>
<i>Excess (deficiency) of</i>				
<i> revenues over expenditures</i>	<u>(12,359)</u>	<u>(83,271)</u>	<u>(445,102)</u>	<u>(540,732)</u>
Other Financing Sources (Uses):				
Indirect cost	97,659			97,659
Long-term debt issued			375,000	375,000
Transfers in	81,705	307,858		389,563
Transfers out	<u>(211,472)</u>	<u>(178,091)</u>		<u>(389,563)</u>
Total other financing sources (uses)	<u>(32,108)</u>	<u>129,767</u>	<u>375,000</u>	<u>472,659</u>
NET CHANGE IN FUND BALANCES	(44,467)	46,496	(70,102)	(68,073)
Fund balances - beginning	423,501	474,150	938,716	1,836,367
		143,130		143,130
Fund balances - ending	<u>\$ 379,034</u>	<u>\$ 663,776</u>	<u>\$ 868,614</u>	<u>\$ 1,911,424</u>

The notes to the financial statements are an integral part of this statement.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT
OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE
STATEMENT OF ACTIVITIES**

For the Year Ended September 30, 2017

Total net change in fund balances - governmental funds \$ (68,073)

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 is exceeded by capital outlays in the period.

	Capital outlays \$	547,694	
	Depreciation expense	<u>(1,144,016)</u>	(596,322)

Some of the capital assets acquired this year were financed with capital leases. The amount financed by 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.

(375,000)

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.

384,263

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 decrease \$	700	
	Amortization of bond discounts/premiums/issuance costs	16,883	
	Pension expense, current year increase/decrease	<u>(373,459)</u>	<u>(355,876)</u>

		\$	<u><u>(1,011,008)</u></u>
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The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Satsuma City Board of Education (the "Board"), a component unit of the City of Satsuma, Alabama have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government 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 Board's accounting policies are described below.

A. Reporting Entity

The Governmental Accounting Standards Board establishes standards for defining and reporting on the financial reporting entity. The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for agencies that make up its legal entity. It is also financially accountable for a legally separate agency if its officials appoint a voting majority of that agency's governing body and either it is able to impose its will on that agency or there is a potential for the agency to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. There are no component units that should be included as part of the financial reporting entity of the Board.

The Board is a legally separate agency of the State of Alabama (the State). However, for financial reporting, the Board is considered a component unit of the City of Satsuma, Alabama (the City) due to the following reasons:

- (1) The City appoints the members of the Board.
- (2) The City appropriates funds to the Board on an annual basis.
- (3) The Board cannot levy taxes directly. Any tax revenues must be levied by the City or another taxing authority on behalf of the Board.

B. Basis of Presentation, Basis of Accounting

Basis of Presentation

Government-wide Financial Statements: The statement of net position and the statement of activities display information about the Board. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Although other governments may report both governmental activities and business-type activities, the Board has no business-type activities.

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) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and (b) charges to recipients of goods or services offered by the programs. Revenues that are not classified as program revenues, including all local taxes, are presented as general revenues.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

B. Basis of Presentation, Basis of Accounting – Continued

Basis of Presentation – Continued

Fund Financial Statements: The fund financial statements provide information about the Board's funds, including its fiduciary 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 other governmental funds.

The Board reports the following major governmental funds:

General Fund – This is the Board's primary operating fund. It accounts for all financial resources, except those required to be accounted for in another fund. The Board's General Fund primarily received revenues from the Education Trust Fund (ETF), appropriated by the Alabama Legislature, and from local taxes. The State Department of Education allocated amounts appropriated from the ETF to the school board on a formula basis.

Special Revenue Fund – Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. Special revenue funds consist of the following:

Restricted: Grants to be spent for specific purposes:

Special Education Grants to States, Special Education Preschool Grants, Title I Grants to Local Educational Agencies, Supporting Effective Instruction State Grant, Child Nutrition Program, State Administrative Expenses for Child Nutrition, ROTC Language and Cultural Training Grants, KEA Assessment Grant.

Assigned: Local School Funds (Robert E. Lee Elementary School and Satsuma High School) are to be used for school activities and are not considered restricted or committed.

Capital Projects Funds account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital project funds consist of the following:

Public School Funds, Capital Outlay and Bond Issue Payments, and Capital Project Local Funds.

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the Board's programs. The Board reports the following fiduciary funds:

Agency Funds generally account for assets held by the Board in a purely custodial capacity. Agency funds consist of accounts payable and payroll clearing funds.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

B. Basis of Presentation, Basis of Accounting – Continued

Measurement Focus, Basis of Accounting

Government-wide and Fiduciary Fund Financial Statements. The government-wide and fiduciary fund 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 when the related cash flows take place. Non-exchange 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 property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Governmental Fund Financial Statements. Governmental funds are reported using a current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when 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 reported in the governmental funds (excluding state and federal reimbursements) to be available if the revenues are collected within thirty (30) days after year-end. Revenues from state and federal funds are considered available if transactions eligible for reimbursement have taken place. Expenditures generally are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

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 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.

C. Assets, Liabilities, and Net Position

Deposits and Investment

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity date within three months of the date acquired by the Board. Investments are stated at fair value.

The State Attorney General has issued a legal opinion that boards of education may not put public funds at risk by investing in securities not insured by the federal government.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Assets, Liabilities, and Net Position - Continued

Receivables

Receivables are reported as *Receivables* in the government-wide financial statements and in the fund financial statements. Receivables include amounts due from grantors for grants issued for specific programs and local taxes. No allowances are made for uncollectible amounts because the amounts are considered immaterial. Sales tax receivables are based on the amounts collected within 60 days after year-end.

The Mobile County Commission levies property taxes for all jurisdictions including the school boards and municipalities within the county. Millage rates for property taxes are levied at the first regular meeting of the County Commission in February of each year. Property taxes are assessed for property 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 are recorded for 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.

Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than capitalized as an asset. GAAP require only material balances of inventories accounted for using the purchases method to be reported as an asset in the appropriate governmental fund. Prepaid items, such as insurance premiums and rent, are recorded as expenditures in governmental funds when paid.

In the government-wide financial statements, inventories and prepaid items are recorded on an accrual basis using the consumption method. Expenses reflect the amount of materials and supplies consumed and the amount of prepaid items applicable to the current period. Prepaid items, if any, on the statement of net position are included in *Other assets*.

Restricted Assets

Certain funds received from the State Department of Education for capital projects and improvements, as well as certain resources set aside for repayment of debt and operating the child nutrition program, included in cash and cash equivalents on the balance sheet are considered as restricted assets because their use is limited.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Assets, Liabilities, and Net Position – Continued

Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical costs in the statement of net position. Donated assets are recorded at their estimated fair value at the date of donation. The cost of maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Capital assets are recorded as expenditures at the acquisition date in the fund financial statements. The Board has no general infrastructure assets.

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

Asset Class	Capitalization Threshold	Estimated Useful Life
Land improvements – exhaustible	\$ 50,000	20 years
Buildings	\$ 50,000	50 years
Building improvements	\$ 50,000	7-30 years
Equipment	\$ 5,000	5-20 years
Equipment under capital lease	\$ 5,000	5-20 years
Vehicles	\$ 5,000	5-10 years

The capitalization threshold for land, construction in progress, and inexhaustible land improvements is \$1 or more. However, these capital assets are not depreciated.

Long-Term Obligations

In the government-wide financial statements, the unmatured principal of long-term debt, capital leases, and compensated absences are reported in the statement of net position. Interest expense for long-term debt, including accrued interest payable, is reported in the statement of activities. For warrants (bonds) and other long-term debt issued after December 15, 2012, generally accepted accounting principles require the related debt issuance costs to be expensed in the period incurred rather than amortized over the life of the related debt.

In the fund financial statements, bond premiums and the face amount of debt issued during the year are reported as other financing sources. Debt issuance costs are not deducted from the amount reported as an other financing source but are reported as debt service expenditures. Any discount resulting from a disparity between the market rate and the stated rate of interest is reported as an other financing use.

Expenditures for debt principal, interest and related costs are reported in the fiscal year payment is made. At the inception of the capital lease, an amount equal to the present value of the net minimum lease payments is reported as an other financing source and as an expenditure. The balance sheet does not reflect a liability for long-term debt.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Assets, Liabilities, and Net Position – Continued

Compensated Absences

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

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

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

Professional and support employees earn non-vesting sick leave at the rate of one day per month worked. Employees may accumulate an unlimited number of sick leave days. Employees may use their accrued sick leave as membership service in determining the total years of creditable service in the teachers' retirement system, with no additional cost to the Board. Because employees do not receive compensation for unused sick leave at termination, no liability is recorded on the financial statements.

Professional and support personnel are provided 2 days of personal leave per year with pay. The State provides funding, at the substitute rate, for up to 2 days of personal leave per employee per year. Professional employees are paid, at the Board's substitute rate, for up to 2 days of unused personal leave. Professional and support personnel may convert unused, unreimbursed personal leave to sick leave at the end of the scholastic year. Because unused personal leave cannot be carried over to succeeding years, no liability for unpaid leave is accrued in the financial statements

Employees are allowed 2 weeks of vacation per year with pay. Because unused vacation leave cannot be carried over to succeeding years, no liability for unpaid leave is accrued in the financial statements.

Pensions

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Assets, Liabilities, and Net Position – Continued

Net Position/Fund Equity

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

- **Invested in Capital Assets, Net of Related Debt** – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. Any significant unspent proceeds at year-end related to capital assets are reported as restricted funds.
- **Restricted** – Constraints imposed by external creditors, grantors, contributors, laws or regulations of other governments, or law through constitutional provision or enabling legislation.
- **Unrestricted** – Resources that are not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of the Board.

Under Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, fund balance for governmental funds should be reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The classifications are as follows:

- **Nonspendable** – Nonspendable fund balance includes amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact. The Special Revenue Fund reports inventories as nonspendable.
- **Restricted** – Restricted fund balances should be reported as restricted when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. Special revenue funds other than school activity funds, debt service funds and capital projects funds are reported as restricted.
- **Committed** – Committed fund balances are amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board's highest level of decision-making authority. The Board does not currently report any committed funds.
- **Assigned** – Assigned fund balances are amounts that are constrained by the school system's intent to be used for specific purposes, but are neither restricted nor committed. The Board reports local school activity and funds set aside for intended future purposes of the Board as assigned.
- **Unassigned** – Unassigned fund balances are the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Assets, Liabilities, and Net Position – Continued

The Board's policy is to maintain a minimum reserve fund equal to one month's operating expenses as set by *Code of Alabama 1975*, Sections 16-13A-9.

D. Deferred Outflows/Inflows of Resources

Deferred outflows of resources are reported in addition to assets. These represent the consumption of net position that apply to future periods and will be recognized as an outflow of resources (expense or expenditure) in those future periods. Deferred outflows are recognized for differences resulting from refunding debt and pension activity.

Deferred inflows of resources are reported in addition to liabilities. These represent the acquisition of net position that apply to future periods and will be recognized as an inflow of resources (revenue) in those future periods. The Board's financial statement reports unavailable revenue and differences related to pension activity.

Deferred outflows/inflows of resources related to pensions are recognized and classified as either deferred outflows of resources or deferred inflows of resources accordingly, these are deferred, amortized, and recognized as outflows or inflows in future periods:

- Differences between expected and actual experience in the measurement of the total pension liability;
- Changes in assumptions or other inputs;
- Net difference between projected and actual earnings on pension plan investments;
- Changes in the employer's proportion and differences between the employer's contributions (other than those to separately finance specific liabilities of the individual employer to the pension plan) and the employer's proportionate share of contributions; and
- Contributions to the pension plan from the employer subsequent to the measurement date of the collective net pension liability and before the end of the employer's reporting period

E. Estimates

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

NOTE 2. RECONCILIATION OF FINANCIAL STATEMENTS

The financial statements include summary reconciliations of the fund financial statements to the government-wide statements after each of the fund statements. The governmental fund balance sheet is followed by reconciliation between *total fund balance-governmental funds* and *total net position-governmental activities* as reported in the government-wide statement of net position (Exhibit IV). The governmental funds statement of revenues, expenditures and changes in fund balances is followed by reconciliation between *total net changes in fund balances-governmental funds* and *change in net position of governmental activities* as reported in the government-wide statement of activities (Exhibit VI).

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2017

NOTE 3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgets

Annual budgets are adopted for all general and special revenue funds except the permanent funds. All annual appropriations lapse at fiscal year end. State law requires Alabama school boards to prepare and submit to the State Superintendent of Education the annual budget adopted by the local board of education. In accordance with the regulations of the State Board of Education, the due date for submission of the budget for the 2016-2017 fiscal year was September 15, 2016. The Board submitted its original 2016-2017 annual budget on September 6, 2016.

The 2016-2017 budget was amended on January 24, 2017 and again on June 13, 2017, to include new federal funds, federal carryover, and state allocations that were not available at the time of the original budget approval, adjust federal program expenditures that exceeded 10% and to amend the budgeted beginning balances to reflect the actual ending fund balances from fiscal year 2016.

The city superintendent of education or Board cannot approve any budget for operations of the school system for any fiscal year that shows expenditures in excess of income estimated to be available plus any balances on hand. The superintendent with the approval of the Board has the authority to make changes within the approved budget provided that a deficit is not incurred by such changes. The superintendent may approve amendments to program budgets without Board approval.

NOTE 4. DEPOSITS AND INVESTMENTS

The custodial 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 the Federal Depository Insurance Corporation (FDIC), the Securities Investor Protection Corporation (SIPC) 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 a 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 FDIC.

If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance. All of the Board's investments were in certificates of deposit. These certificates of deposit are classified as "Deposits" in order to determine insurance and collateralization. However, they are classified as "Investments" on the financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2017

NOTE 4. DEPOSITS AND INVESTMENTS - Continued

Restricted Cash

At September 30, 2017, the Board reported the following restricted cash in cash and cash equivalents:

Child Nutrition Program (Special Revenue Fund)	\$ 106,677
Held by fiscal agent:	
Capital Projects Fund	116,189
Total restricted cash	<u>\$ 222,866</u>

NOTE 5. RECEIVABLES AND PAYABLES

Receivables and payables (accounts payable and accrued liabilities) balances reported on the statement of net position and the balance sheet are aggregations of different components. Details of these balances are as follows:

STATEMENT OF NET POSITION

Receivables:

State of Alabama	
Child Nutrition Funds	\$ 33,931
Special Education Grants to States	60,446
Special Education Preschool Grants	890
Title I	74,766
ROTC	5,860
Other	3,457
State Contracts	7,708
AltaPointe Grant	37,868
16 th Section Land	7,133
A+ College Ready	3,518
Carl Perkins	9,718
Sales Tax	16,876
Ad Valorem Taxes	1,539,511
Alcohol Tax	9,259
Total	<u>\$ 1,810,941</u>

Accounts payable and accrued liabilities:

Accounts payable	\$ 300,219
Accrued interest payable	24,594
Salaries and employee benefits payable	<u>883,701</u>
Total	<u>\$ 1,208,514</u>

Satsuma City Board of Education

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2017

NOTE 5. RECEIVABLES AND PAYABLES – Continued

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Receivables:				
State of Alabama:				
Child Nutrition Funds		\$ 33,931		\$ 33,931
Special Education Grants to States		60,446		60,446
Special Education Preschool Grants		890		890
Title I		74,766		74,766
ROTC		5,860		5,860
Other	\$ 216	3,241		3,457
State Contracts	7,708			7,708
AltaPointe Grant	37,868			37,868
16 th Section Land	7,133			7,133
A+ College Ready	3,518			3,518
Carl Perkins	9,718			9,718
Sales Tax	16,876			16,876
Ad Valorem Taxes	779,732		\$ 759,779	1,539,511
Alcohol Tax	9,259			9,259
Total	<u>\$ 872,028</u>	<u>\$ 179,134</u>	<u>\$ 759,779</u>	<u>\$ 1,810,941</u>
Accounts payable and accrued liabilities:				
Accounts payable	\$ 163,177	\$ 76,537	\$ 60,505	\$ 300,219
Salaries and benefits payable	831,130	52,571		883,701
Totals	<u>\$ 994,307</u>	<u>\$ 129,108</u>	<u>\$ 60,505</u>	<u>\$ 1,183,920</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2017

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2017 was as follows:

	Beginning Balance	Additions	Ending Balance
Governmental activities:			
Capital assets not being depreciated:			
Land and land improvements	\$ 664,800	\$ 19,000	\$ 683,800
Total capital assets not being depreciated	<u>664,800</u>	<u>19,000</u>	<u>683,800</u>
Capital assets being depreciated:			
Land improvements-exhaustible	3,277,239		3,277,239
Buildings	39,296,758	113,882	39,410,640
Building improvements	2,701,189	394,821	3,096,010
Equipment and furniture	370,820	19,991	390,811
Vehicles	550,284		550,284
Total capital assets being depreciated	<u>46,196,290</u>	<u>528,694</u>	<u>46,724,984</u>
Less accumulated depreciation for:			
Land improvements-exhaustible	220,938	163,862	384,800
Buildings	3,368,148	787,074	4,155,222
Building improvements	112,078	102,258	214,336
Equipment and furniture	124,578	34,888	159,466
Vehicles	101,799	55,934	157,733
Total accumulated depreciation	<u>3,927,541</u>	<u>1,144,016</u>	<u>5,071,557</u>
Total capital assets being depreciated, net	<u>42,268,749</u>	<u>(615,322)</u>	<u>41,653,427</u>
Total governmental activities capital assets, net	<u>\$ 42,933,549</u>	<u>\$ (596,322)</u>	<u>\$ 42,337,227</u>

Depreciation expense was charged to governmental functions as follows:

Instructional services	\$ 1,061,876
Operation and maintenance services	9,884
Student transportation	51,802
Food services	12,693
General administrative	7,483
Other expenditures	278
Total governmental activities depreciation expense	<u>\$ 1,144,016</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2017

NOTE 7. DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

In fiscal year 2017, the Board reported deferred outflows of resources and deferred inflows of resources as follows:

	<u>September 30, 2017</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Employer pension contribution	\$ 694,885	
Proportionate share of collective deferred outflows related to net pension liability	1,149,000	
Proportionate share of collective deferred inflows related to net pension liability		\$ 328,000
Unavailable revenue - property taxes		1,498,400
Total	<u>\$ 1,843,885</u>	<u>\$ 1,826,400</u>

Deferred inflows of resources of \$1,498,400 were related to the accrual of property taxes. Because these 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.

In accordance with GASB 68 and 71, the Board reported \$694,885 employer pension contributions and employer's share of collective deferred outflows, \$1,149,000 and inflows, \$328,000 related to net pension liability. The net effect of these inflows and outflows related to the pension liability is reflected in unrestricted net position on the Statement of Net Position.

NOTE 8. DEFINED BENEFIT PENSION PLAN

Plan Description

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2017

NOTE 8. DEFINED BENEFIT PENSION PLAN - Continued

Benefits provided - continued

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

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. Tier 2 covered members of the TRS contribute 6% of earnable compensation to the TRS as required by statute.

Participating employers' contractually required contribution rate for the year ended September 30, 2017 was 12.01% of annual pay for Tier 1 members and 10.82% 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 \$694,885 for the year ended September 30, 2017.

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

At September 30, 2017 the Board reported a liability of \$9,399,000 for its proportionate share of the collective net pension liability which is reported as a long-term obligation. The collective net pension liability was measured as of September 30, 2016 and the total pension liability was determined by an actuarial valuation as of September 30, 2015. 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, 2016 the Board's proportion was .086818%, which was an increase of .000637% from its proportion measured as of September 30, 2015.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2017

NOTE 8. DEFINED BENEFIT PENSION PLAN - Continued

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

For the year ended September 30, 2017, the Board recognized pension expense of \$1,068,345. At September 30, 2017 the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 0	\$ 242,000
Changes of assumptions	664,000	
Net difference between projected and actual earnings on pension plan investments	136,000	0
Changes in proportion and differences between employer contributions and proportionate share of contributions	349,000	86,000
Employer contributions subsequent to the measurement date	<u>694,885</u>	<u>0</u>
Total	<u>\$ 1,843,885</u>	<u>\$ 328,000</u>

The amount of \$694,885 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	(in thousands)
2018	\$ 235
2019	\$ 235
2020	\$ 291
2021	\$ 25
2022	\$ 35
Thereafter	\$ 0

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, 2017

NOTE 8. DEFINED BENEFIT PENSION PLAN - Continued

Actuarial assumptions - continued

The actuarial assumptions used in the actuarial valuation as of September 30, 2015, were based on the results of an investigation of economic and demographic experience for the TRS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012.

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

The 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%

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2017

NOTE 8. DEFINED BENEFIT PENSION PLAN - Continued

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

Sensitivity of the Board's proportionate share of the net pension liability to changes in the discount rate

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

(Dollar amounts in thousands)	1% Decrease (6.75%)	Current Rate (7.75%)	1% Increase (8.75%)
Board's proportionate share of collective net pension liability	\$12,521	\$9,399	\$6,755

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, 2016. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2016. The auditor's report dated September 22, 2017 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, 2016 along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

NOTE 9. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

A. Plan Description

The Board contributes to the Alabama Retired Education Employee's Health Care Trust (Trust), a cost-sharing multiple-employer defined benefit OPEB plan established in 2007 under the provisions of Act 2007-16 as an irrevocable trust fund. The Trust is administered by members of the Public Education Employees' Health Insurance Board (PEEHIB). The Trust provides health care benefits to state and local school system retirees. *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.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2017

NOTE 9. OTHER POST-EMPLOYMENT BENEFITS (OPEB) - Continued

A. Plan Description - Continued

The Alabama Retired Education Employees' plan issues a stand-alone financial report that may be obtained on the PEEHIP website at www.rsa-al.gov under the Employers' Financial Reports section. The Plan's financial report for fiscal year 2017 will be available at the end of January 2018.

B. Funding Policy

The Public Education Employees' Health Insurance Fund (PEEHIF) was established in 1983 under the provisions of Act Number 83-455, Acts of Alabama, to provide a uniform plan of health insurance for current and retired employees of state educational institutions. The plan is administered by the PEEHIB. Any Trust assets used in paying administrative costs and retiree benefits are transferred to and paid from the PEEHIF. The PEEHIB periodically reviews the funds available in the PEEHIF and if excess funds are determined to be available, the PEEHIB authorizes a transfer of funds from the PEEHIF to the Trust. *Code of Alabama 1975*, Section 16-25A-8 provides the PEEHIB explicit authority to set the contribution requirements for plan members and employers. Retirees are required to contribute monthly as follows:

Fiscal Year 2017		
Individual coverage – Non-Medicare eligible	\$	166.00
Individual coverage – Medicare eligible retired member	\$	25.00
Family coverage–Non-Medicare eligible retired member and non-Medicare eligible non-spousal dependent(s)	\$	421.00
Family coverage–Non-Medicare eligible retired member and non-Medicare eligible dependent(s) with non-Medicare eligible spouse	\$	521.00
Family coverage–Non-Medicare eligible retired member and non-spousal dependent Medicare eligible	\$	280.00
Family coverage–Non-Medicare eligible retired member and spouse dependent Medicare eligible	\$	310.00
Family coverage–Medicare eligible retired member and non-Medicare eligible dependent(s) no spouse	\$	280.00
Family coverage–Medicare eligible retired member and non-Medicare eligible dependent(s) with non-Medicare eligible spouse	\$	380.00
Family coverage–Medicare eligible retired member and non-spousal dependent Medicare eligible	\$	139.00
Family coverage–Medicare eligible retired member and spousal dependent Medicare eligible	\$	169.00
Surviving spouse – Non-Medicare eligible	\$	816.00
Surviving spouse – Non-Medicare eligible and dependent non-Medicare eligible	\$	1,028.00
Surviving spouse – Non-Medicare eligible and dependent Medicare eligible	\$	1,067.00
Surviving spouse – Medicare eligible	\$	430.00
Surviving spouse – Medicare eligible and dependent non-Medicare eligible	\$	720.00
Surviving spouse – Medicare eligible and dependent Medicare eligible	\$	759.00
Tobacco surcharge	\$	50.00

Members who retired on or after October 1, 2005, and before January 1, 2012, pay two percent of the employer premium for each year under 25 years of service, and for each year over 25 years of service, the retiree premium is reduced by two percent. Employees who retire on or after January 1, 2012, with less than 25 years of service, are required to pay 4% for each year under 25 years of service. Additionally, non-Medicare eligible employees who retire on or after January 1, 2012 are required to pay 1% more for each year less than age 65 (age premium) and to pay the net difference between the active employee subsidy and the non-Medicare eligible retiree subsidy (subsidy premium). When the retiree becomes Medicare eligible, the age and subsidy premium no longer applies. However, the years of service premium (if applicable to the retiree) will continue to be applied throughout retirement.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2017

NOTE 9. OTHER POST-EMPLOYMENT BENEFITS (OPEB) - Continued

B. Funding Policy - Continued

The Board is required to contribute at a rate specified by the State Legislature for each active employee. The Board's share of premiums for retired Board employees health insurance is included as part of the premium for active employees. The following shows the required contributions in dollars and the percentage of that amount contributed for Board retirees:

Fiscal year ended September 30,	Active Health Insurance Premiums Paid by Board	Amount of Premium Attributable to Retirees	Percentage of Active Employee Premiums Attributable to Retirees	Annual Required Contribution (ARC)	Percentage of Required Amount Contributed
2017	\$ 800.00	\$ 152.57	19.07%	\$ 253,120	100%
2016	\$ 780.00	\$ 211.21	27.08%	\$ 336,599	100%
2015	\$ 780.00	\$ 180.76	23.17%	\$ 280,310	100%

The following shows the estimated portion of payments made on behalf of the Board for retiree drug subsidy payments:

Fiscal year ended September 30,	Retiree Drug Subsidy Premiums Paid on Behalf	Percentage Paid for Retirees
2017	\$ 71,926	5.09%

The Board has no responsibility for the payment of health care benefits, beyond the payment of the premium, for retired employees.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2017

NOTE 10. LONG-TERM OBLIGATION

Long-Term Obligation Activity

Long-term liability balances and activity for the year ended September 30, 2017 were as follows:

	Beginning Balance	Additions/ Reductions	Ending Balance	Amounts Due Within One Year
<u>Warrants Payable</u>				
Series 2015 Warrants	\$ 2,775,000	\$ (160,000)	\$ 2,615,000	\$ 165,000
Unamortized premium	110,260	(8,274)	101,986	8,274
Series 2016 Warrants	1,900,000	(50,000)	1,850,000	50,000
Unamortized premium	149,243	(8,610)	140,633	8,610
Qualified Zone Academy Warrants	<u>1,666,667</u>	<u>(133,333)</u>	<u>1,533,334</u>	<u>133,334</u>
Total warrants payable	6,601,170	(360,217)	6,240,953	365,218
Regions Equipment Finance		334,070	334,070	71,840
Net pension liability	<u>9,019,000</u>	<u>380,000</u>	<u>9,399,000</u>	
Governmental activities long-term debt	<u>\$ 15,620,170</u>	<u>\$ 353,853</u>	<u>\$ 15,974,023</u>	<u>\$ 437,058</u>

Warrants Payable

The Board issued Series 2015 Special Tax School Warrants in the amount of \$2,940,000 for the construction of a new football stadium at Satsuma High School. The warrants bear interest rates ranging from 2.00% to 3.50%. Principal is payable annually on February 1 with interest payable February 1 and August 1 until the warrants mature in 2030. The Warrants generated a deferred premium of \$119,288 which will be amortized over the remaining life of the debt (15 years). The Board will use proceeds from certain ad valorem taxes to repay the warrants.

The Board issued Series 2016 Special Tax School Warrants in the amount of \$1,900,000 for construction on the new football stadium. The warrants bear interest rates ranging from 2.00% to 4.00%. Principal is payable annually on February 1 with interest payable February 1 and August 1 until the warrants mature in 2034. The Warrants generated a deferred premium of \$154,266 which will be amortized over the remaining life of the debt (18 years). The Board will use proceeds from certain ad valorem taxes to repay the warrants.

The Board borrowed \$2,000,000 from Regions Bank for School Tax Warrants (Qualified Zone Academy Projects) Series 2014 for renovations at the high school and old elementary building. The Warrants are dated April 14, 2014, are non-interest bearing and require quarterly payments of \$33,333 until maturity in 2029.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2017

NOTE 10. LONG-TERM OBLIGATION – Continued

Maturities on General Obligation Warrants are as follows:

Fiscal Year Ending	2015 Warrants		2016 Warrants		2014 Warrants
	Principal	Interest	Principal	Interest	Principal
2018	\$ 165,000	\$ 80,388	\$ 50,000	\$ 64,200	\$ 133,334
2019	170,000	75,363	50,000	63,200	133,333
2020	175,000	70,188	50,000	62,200	133,333
2021	180,000	64,863	50,000	61,200	133,333
2022	185,000	59,388	55,000	60,150	133,333
2023	200,000	53,613	55,000	59,050	133,333
2024	200,000	47,613	55,000	57,950	133,333
2025	205,000	41,281	55,000	56,850	133,333
2026	210,000	34,538	60,000	55,250	133,334
2027	215,000	27,363	60,000	53,150	133,334
2028	225,000	19,663	60,000	51,050	133,334
2029	235,000	11,613	135,000	47,300	66,667
2030	250,000	3,750	205,000	40,500	
2031			215,000	32,100	
2032			225,000	23,300	
2033			230,000	14,200	
2034			240,000	4,800	
Totals	\$ <u>2,615,000</u>	\$ <u>589,624</u>	\$ <u>1,850,000</u>	\$ <u>806,450</u>	\$ <u>1,533,334</u>

Capital Lease

The Board entered into a capital lease agreement with Regions Equipment Finance Corporation for the purchase of HVAC controls (retrofit and technical support) in the amount of \$375,000. The lease bears interest at 2.98% and requires annual payments of \$80,819 until maturity in 2022. The Board expects to use the General Fund to make future payments on the lease. The remaining payments due are:

Fiscal Year Ending	Interest	Principal	Total
2018	\$ 8,979	\$ 71,840	\$ 80,819
2019	6,809	74,010	80,819
2020	4,573	76,246	80,819
2021	2,270	78,549	80,819
2022	249	33,425	33,674
Totals	\$ <u>22,880</u>	\$ <u>334,070</u>	\$ <u>356,950</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2017

NOTE 12. INTERFUND BALANCES AND ACTIVITY

Interfund balances (reported as "Due from other funds" and "Due to other funds" in the Balance Sheet) at September 30, 2017, consist of the following:

Interfund receivable to General Fund from other special revenue funds	\$ 164,754
Interfund receivable to General Fund from the General Fund	<u>20,354</u>
<i>Total due to General Fund</i>	<u>185,108</u>

Interfund receivable to Special Revenue Fund from other special revenue funds	13,628
Interfund receivable to General Fund from the General Fund	<u>2,403</u>
<i>Total due to Special Revenue Fund</i>	<u>16,031</u>

Total interfund balances	\$ <u>201,139</u>
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Interfund transfers for the fiscal year ended September 30, 2017, consist of the following:

Transfers to General Fund from:	
Special Revenue Fund for operating expenses	\$ <u>81,705</u>

Transfers to Special Revenue Fund from:	
General Fund for Child Nutrition	157,332
General Fund for local school operating expenses	54,140
Special Revenue Fund for local school operating expenses	<u>96,386</u>
Total transfers to Special Revenue Fund	<u>307,858</u>

Total interfund transfers	\$ <u>389,563</u>
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NOTE 13. RISK MANAGEMENT

The Board is exposed to various risks of losses related to torts; thefts 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), Alabama Department of Finance, Division of Risk Management, which operates as a common risk management and insurance program for state-owned properties and boards of education. The Board pays an annual premium based on the amount of coverage. The SIF is self-insured up to \$3.5 million per occurrence and purchases commercial insurance for claims in excess of \$3.5 million. Errors and omissions insurance and vehicle liability insurance is purchased from the Alabama Trust for Boards of Education (ATBE), a public entity risk pool. The ATBE collects the premiums and purchases excess insurance for any amount of coverage requested by pool participants in excess of the coverage provided by the pool. The Board purchases commercial insurance for fidelity bonds. Settled claims in the past three years have not exceeded the commercial insurance coverage. Also, there have been no significant reductions in insurance coverage from the prior year.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2017

NOTE 13. RISK MANAGEMENT - Continued

Employee health insurance is provided through the Public Education Employees' Health Insurance Fund (PEEHIF) administered by the Public Education Employees' Health Insurance Board. PEEHIF was established to provide a uniform plan of health insurance for current and retired employees of state educational institutions and is self-sustaining. Monthly premiums for employee and dependent coverage are set annually by the 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 the specified amount monthly to the PEEHIF for each employee. The Board contribution is applied against the employees' premiums for the coverage selected and the employee pays any remaining premium.

The State Board of Adjustments is a state agency with which people can file claims against the Board to collect reimbursement for damages when all other means have been exhausted. The Board does not have insurance coverage for job-related injuries.

Claims for employee job-related injuries may be filed with the State Board of Adjustment. The Board of Adjustment determines if a claim is valid and determines the proper amount of compensation. Payments are made from state appropriated funds at no cost to the Board.

NOTE 14. PRIOR PERIOD ADJUSTMENT

Non-public funds of the local schools are being reported in special revenue funds rather than Agency funds. A prior period adjustment in the amount of \$143,130 was made to effect this change.

NOTE 15. CONTINGENT LIABILITIES

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

The Board has evaluated subsequent events through April 30, 2018, and noted none affecting the current financial statements. This date approximates the date the financial statements were available to be issued.

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

For the Year Ended September 30, 2017

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
State sources	\$ 7,457,013	\$ 7,738,298	\$ 7,675,798	\$ (62,500)
Federal sources			152,437	152,437
Local sources	2,098,168	2,138,714	2,214,701	75,987
Other sources	144,332	124,475	129,564	5,089
Total revenues	<u>9,699,513</u>	<u>10,001,487</u>	<u>10,172,500</u>	<u>171,013</u>
Expenditures:				
Instructional services	5,513,476	5,704,515	5,816,626	(112,111)
Instructional support services	1,294,137	1,324,166	1,365,255	(41,089)
Operation and maintenance services	1,366,204	1,429,429	1,423,929	5,500
Auxillary services:				
Student transportation	460,900	457,470	421,528	35,942
Food service			5,322	(5,322)
General administrative services	829,038	847,641	841,991	5,650
Other expenditures	188,677	188,677	203,741	(15,064)
Total expenditures	<u>9,652,432</u>	<u>9,951,898</u>	<u>10,078,392</u>	<u>(126,494)</u>
Excess of revenues over expenditures	<u>47,081</u>	<u>49,589</u>	<u>94,108</u>	<u>44,519</u>
Other financing sources (uses):				
Indirect cost	84,490	84,821	97,659	12,838
Transfers in	25,000	25,000	81,705	56,705
Transfers out	(155,032)	(155,032)	(211,472)	(56,440)
Total other financing sources (uses)	<u>(45,542)</u>	<u>(45,211)</u>	<u>(32,108)</u>	<u>13,103</u>
NET CHANGE IN FUND BALANCES	1,539	4,378	62,000	57,622
Fund balances - beginning	1,098,157	1,125,630	1,125,630	0
Fund balances - ending	<u>\$ 1,099,696</u>	<u>\$ 1,130,008</u>	<u>\$ 1,187,630</u>	<u>\$ 57,622</u>

**BUDGETARY COMPARISON SCHEDULE
SPECIAL REVENUE FUND**

For the Year Ended September 30, 2017

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Federal sources	\$ 1,001,742	\$ 1,173,141	\$ 1,134,166	\$ (38,975)
Local sources	756,609	982,479	1,349,964	367,485
Other	27,100	27,100	12,989	(14,111)
Total revenues	<u>1,785,451</u>	<u>2,182,720</u>	<u>2,497,119</u>	<u>314,399</u>
Expenditures:				
Instructional services	511,750	766,602	737,700	28,902
Instructional support services	468,989	427,314	893,949	(466,635)
Operation and maintenance services	863	4,830	26,706	(21,876)
Auxillary services:				
Student transportation	51,960	55,630	57,970	(2,340)
Food service	651,875	686,073	716,230	(30,157)
General administrative services	128,986	129,205	119,166	10,039
Other expenditures	20,078	52,349	32,784	19,565
Total expenditures	<u>1,834,501</u>	<u>2,122,003</u>	<u>2,584,505</u>	<u>(462,502)</u>
Excess (deficiency) of revenues over expenditures	<u>(49,050)</u>	<u>60,717</u>	<u>(87,386)</u>	<u>(148,103)</u>
Other financing sources (uses):				
Transfers in	155,032	155,032	307,858	152,826
Transfers out	(25,000)	(23,310)	(178,091)	(154,781)
Total other financing sources (uses)	<u>130,032</u>	<u>131,722</u>	<u>129,767</u>	<u>(1,955)</u>
NET CHANGE IN FUND BALANCES	80,982	192,439	42,381	(150,058)
Fund balances - beginning	550,732	566,542	673,965	107,423
Fund balances - ending	<u>\$ 631,714</u>	<u>\$ 758,981</u>	<u>\$ 716,346</u>	<u>\$ (42,635)</u>

Satsuma City Board of Education

NOTES TO THE BUDGETARY COMPARISON SCHEDULE

For the Year Ended September 30, 2017

**Note A - Explanation of Differences between Budgetary Inflows and Outflows
and GAAP Revenues and Expenditures**

	<u>General Fund</u>	<u>Special Revenue Fund</u>
Sources/inflows of resources		
Actual amounts (budgetary basis) available for appropriation shown as total revenues on the budgetary comparison schedule	\$ <u>10,172,500</u>	\$ <u>2,497,119</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	\$ <u>10,172,500</u>	\$ <u>2,497,119</u>
Uses/outflows of resources		
Actual amounts (budgetary basis) available for expenditures shown as total expenditures on the budgetary comparison schedule	\$ 10,078,392	\$ 2,584,505
Differences - budget to GAAP:		
Salaries of teachers and other personnel with contracts of less than 12 months are paid over a 12 month period. Expenditures for salaries (and related fringe benefits) are budgeted based on the amount that will be paid from budgeted revenues. However, salaries (and related benefits) earned but not paid are reported as expenditures on the financial statements.	<u>106,467</u>	<u>(4,115)</u>
Total expenditures are reported on the statement of revenues, expenditures and changes in fund balances - governmental funds.	\$ <u>10,184,859</u>	\$ <u>2,580,390</u>

Satsuma City Board of Education

SCHEDULE OF THE BOARD'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**TEACHERS' RETIREMENT SYSTEM OF ALABAMA**

For the Year Ended September 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Board's proportion of net pension liability	0.086818%	0.086181%	0.087614%
Board's proportionate share of the net pension liability	\$ 9,399,000	\$ 9,019,000	\$ 7,959,000
Board's covered-employee payroll*	\$ 5,563,112	\$ 5,470,807	\$ 5,576,529
Board's proportionate share of the net pension liability as a percentage of its covered-employee payroll	168.95%	164.86%	142.72%
Plan fiduciary net position as a percentage of the total pension liability	67.93%	67.51%	71.01%

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

* Employer's covered-employee payroll during the measurement period is the total payroll paid to covered employees (not just pensionable payroll). For fiscal year 2017, the measurement period is October 1, 2015 through September 30, 2016.

Satsuma City Board of Education

SCHEDULE OF BOARD CONTRIBUTIONS**TEACHERS' RETIREMENT SYSTEM OF ALABAMA**

For the Year Ended September 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 694,885	\$ 652,347	\$ 615,112
Contributions in relation to the contractually required contribuiton	<u>694,885</u>	<u>652,347</u>	<u>615,112</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Board's covered-employee payroll*	\$ 5,919,812	\$ 5,563,112	\$ 5,470,807
Contributions as a percentage of covered- employee payroll	11.74%	11.73%	11.24%

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

* Employer's covered-employee payroll during the measurement period is the total payroll paid to covered employees (not just pensionable payroll). For fiscal year 2017, the measurement period is October 1, 2016 through September 30, 2017.

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2017

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass- Through Grantor Number</u>	<u>Total Federal Expenditures</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed through Alabama State Department of Education:			
<i>Special Education Cluster:</i>			
Special Education Grants to States	84.027	196	\$ 357,245
Special Education Preschool Grants	84.173	196	7,402
<i>Subtotal Special Education Cluster</i>			<u>364,647</u>
Title I Grants to Local Educational Agencies	84.010	196	293,447
Career and Technical Education - Basic Grants to States	84.048	196	2,085
Supporting Effective Instruction State Grant	84.367	196	<u>31,213</u>
Total U.S. Department of Education passed through Alabama State Department of Education			<u>691,392</u>
Passed through Alabama Department of Early Childhood Education:			
Preshool Development Grants	84.419A		152,437
KEA Assessment Grant	84.419A		<u>32,191</u>
Total U.S. Department of Education passed through Alabama Department of Early Childhood Education			<u>184,628</u>
Total U.S. Department of Education			<u>876,020</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed through Alabama State Department of Education:			
<i>Child Nutrition Cluster:</i>			
School Breakfast Program	10.553	196	36,720
National School Lunch Program	10.555	196	256,982
Food Distribution Program (N)	10.565	196	45,848
<i>Subtotal Child Nutrition Cluster</i>			<u>339,550</u>
State Administrative Expenses for Child Nutrition	10.560	196	<u>1,108</u>
Total U.S. Department of Agriculture passed through Alabama State Department of Education			<u>340,658</u>
<u>U.S. DEPARTMENT OF DEFENSE</u>			
Direct Programs:			
ROTC Language and Cultural Training Grants	12.357		<u>69,925</u>
Total Expenditures of Federal Awards			<u>\$ 1,286,603</u>

(N) Non cash assistance

The accompanying notes are an integral part of this schedule.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

September 30, 2017

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Satsuma City Board of Education (the "Board") under programs of the federal government for the year ended September 30, 2017. 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 Board, it is not intended to and does not present the financial position or changes in net position of the Board.

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.

NOTE 3: INDIRECT COST RATE

The Board uses the simplified method to allocate costs as either direct or indirect to allocable individual federal awards and has not elected to use the 10% de Minimis indirect cost rate.

Richard, Harris, Ingram and Bozeman, P.C.
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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Members of the Board
Satsuma City Board of Education
Satsuma, Alabama

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Satsuma City Board of Education (the "Board"), a component unit of the City of Satsuma, Alabama as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements and have issued our report thereon dated April 30, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Board'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Richard, Harris, Ingram and Bozeman, P.C.
RICHARD, HARRIS, INGRAM AND BOZEMAN, P.C.

Montgomery, Alabama
April 30, 2018

Richard, Harris, Ingram and Bozeman, P.C.
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Members of the Board
Satsuma City Board of Education
Satsuma, Alabama

Report on Compliance for Each Major Federal Program

We have audited the Satsuma City Board of Education's (the "Board") 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 Board's major federal programs for the year ended September 30, 2017. The Board's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Board'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 Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Board complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2017.

Report on Internal Control Over Compliance

Management of the Board 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 Board'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 Board's internal control over compliance.

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

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

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

Richard, Harris, Ingram and Bozeman, P.C.
RICHARD, HARRIS, INGRAM AND BOZEMAN, P.C.

Montgomery, Alabama
April 30, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified
 Internal Control over financial reporting:
 Material weakness(es) identified? _____ Yes X No
 Significant deficiency(s) identified
 not considered to be material weaknesses? _____ Yes X None reported
 Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:
 Material weakness(es) identified? _____ Yes X No
 Significant deficiency(s) identified
 not considered to be material weaknesses? _____ Yes X None reported
 Type of auditor's report issued on compliance
 for major programs: Unmodified

Any audit findings disclosed that are required to be reported
 in accordance with 2 CFR 200.516(a)? _____ Yes X No

Identification of major programs:

CFDA Number(s) Name of Federal Program or Cluster

Special Education Cluster:	
84.027	Special Education Grants to States
84.173	Special Education Preschool Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000
 Auditee qualified as low-risk auditee? X Yes _____ No

Section II - Financial Statement Findings

None noted.

Section III - Federal Award Findings and Questioned Costs

None noted.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – ALABAMA STATE LAW

For the Year Ended September 30, 2017

The Code of Alabama Section 16-11-24 requires publication of the Board's financial statements with certain specified components in a newspaper by October 31 of each year. The publication of the September 30, 2017 financial statements omitted the statement of indebtedness as specified by state law. Management responds that future publications will include all required components.