

Satsuma City Board of Education

September 30, 2018

Satsuma City Board of Education

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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, 2018, 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, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 9 to the financial statements, during fiscal year ended September 30, 2018, the Satsuma City Board of Education adopted Government Accounting Standards Board (GASB) Statement Number 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, pension information, and postemployment benefits other than pensions (OPEB) information on Exhibits VII through XIII 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not 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. Our opinion on the basic financial statements is not affected by this missing information.

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 accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations 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 June 12, 2019, 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.
RICHARD, HARRIS, INGRAM AND BOZEMAN, P.C.

Montgomery, Alabama
June 12, 2019

Satsuma City Board of Education

STATEMENT OF NET POSITION

September 30, 2018

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 3,100,839
Investments	32,118
Receivables	1,927,781
Inventories	16,445
Capital assets:	
Non-depreciable	683,800
Depreciable, net	40,642,892
Total assets	<u>46,403,875</u>
Deferred Outflows of Resources	
Employer pension contribution	761,988
Proportionate share of collective deferred outflows related to net pension liability	885,000
Employer OPEB contribution	283,733
Total deferred outflows of resources	<u>1,930,721</u>
Liabilities	
Accounts payable	59,617
Deferred revenue	13,362
Salaries and benefits payable	956,973
Accrued interest payable	23,602
Long-term liabilities:	
Current portion of long-term obligations	444,228
Non-current portion of long-term obligations	22,298,507
Total liabilities	<u>23,796,289</u>
Deferred Inflows of Resources	
Unavailable revenue - property taxes	1,673,466
Proportionate share of collective deferred inflows related to net pension liability	954,000
Proportionate share of collective deferred inflows related to net OPEB liability	999,367
Total deferred inflows of resources	<u>3,626,833</u>
Net Position	
Invested in capital assets, net of related debt	35,188,727
Restricted for:	
Child nutrition program	60,946
Other	4,102
Capital projects	1,000,874
Unrestricted	<u>(15,343,175)</u>
Total net position	\$ <u>20,911,474</u>

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

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2018

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	\$ 8,463,747	\$ 292,786	\$ 6,332,936	\$ 189,852	(1,648,173)
Instructional support services	2,456,454	649,226	1,381,578	1,068	(424,582)
Operation and maintenance services	1,831,382	111,312	835,110	184,867	(700,093)
Student transportation	601,500	62,476	417,655	37,788	(83,581)
Food services	644,713	547,727	32,169		(64,817)
General administrative services	1,178,717	149,835	184,445	25,772	(818,665)
Interest and fiscal charges	138,846				(138,846)
Other expenses	422,470	24,292	365,558		(32,620)
Total	\$ 15,737,829	\$ 1,837,654	\$ 9,549,451	\$ 439,347	(3,911,377)

General revenues:

Taxes:

Property taxes for general purposes	1,614,842
Property taxes for specific purposes	868,744
Sales tax	167,525
Alcohol beverage tax	53,170
Other taxes	42,659
Grants and contributions not restricted for specific programs	108,000
Investment earnings	22,849
Miscellaneous	612,593
Total general revenues	3,490,382
Changes in net position	(420,995)
Net position - beginning of year	29,765,919
Prior period adjustment	(8,433,450)
Net position - end of year	\$ 20,911,474

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

BALANCE SHEET
Governmental Funds

September 30, 2018

	General Fund	Special Revenue Fund	Capital Projects Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,380,263	\$ 799,810	\$ 920,766	\$ 3,100,839
Investments			32,118	32,118
Receivables	981,633	61,425	884,723	1,927,781
Due from other funds	249,875	78,827	27,684	356,386
Inventories		16,445		16,445
Total assets	\$ 2,611,771	\$ 956,507	\$ 1,865,291	\$ 5,433,569
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 16,887	\$ 42,730		\$ 59,617
Due to other funds	112,632	216,070	\$ 27,684	356,386
Deferred revenues		13,362		13,362
Salaries and benefits payable	929,678	27,295		956,973
Total liabilities	1,059,197	299,457	27,684	1,386,338
 Deferred Inflows of Resources:				
Unavailable revenue - property taxes	836,733		836,733	1,673,466
Total deferred inflows of resources	836,733	0	836,733	1,673,466
 Fund Balances:				
Nonspendable				
Inventories		16,445		16,445
Restricted				
Capital projects			1,000,874	1,000,874
Child nutrition program		60,946		60,946
Other		4,102		4,102
Assigned				
Local schools		575,557		575,557
Unassigned	715,841			715,841
Total fund balances	715,841	657,050	1,000,874	2,373,765
Total liabilities, deferred inflows of resources and fund balances	\$ 2,611,771	\$ 956,507	\$ 1,865,291	\$ 5,433,569

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, 2018

Total fund balance - governmental funds **\$ 2,373,765**

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 \$	47,514,831	
	Accumulated depreciation	<u>(6,188,139)</u>	41,326,692

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds	692,988
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Deferred outflows and inflows of resources related to OPEB obligations are applicable to future periods and, therefore, are not reported in the governmental funds	(715,634)
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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 \$	444,228	
	Non-current portion of long-term debt	<u>22,298,507</u>	(22,742,735)

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

	Accrued interest payable	<u>(23,602)</u>
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Total net position - governmental activities	\$ <u>20,911,474</u>
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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, 2018

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Revenues:				
State sources	\$ 8,758,936		\$ 438,279	\$ 9,197,215
Federal sources	19,794	\$ 1,073,246		1,093,040
Local sources	2,380,945	1,443,604	868,744	4,693,293
Other sources	131,266	16,740		148,006
Total revenues	<u>11,290,941</u>	<u>2,533,590</u>	<u>1,307,023</u>	<u>15,131,554</u>
Expenditures				
Instructional services	6,427,433	715,309	42,625	7,185,367
Instructional support services	1,449,028	979,006	1,665	2,429,699
Operation and maintenance services	1,384,902	9,375	589,576	1,983,853
Auxiliary services:				
Student transportation	444,214	59,258	122,557	626,029
Food services		696,987		696,987
General administrative services	845,302	118,262	43,533	1,007,097
Other expenditures	391,873	29,838		421,711
Debt service:				
Principal retirement			420,173	420,173
Interest and fiscal charges			153,497	153,497
Debt issuance cost/other debt service			3,225	3,225
Total expenditures	<u>10,942,752</u>	<u>2,608,035</u>	<u>1,376,851</u>	<u>14,927,638</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>348,189</u>	<u>(74,445)</u>	<u>(69,828)</u>	<u>203,916</u>
Other Financing Sources (Uses):				
Indirect cost	73,144			73,144
Other financing sources			185,281	185,281
Transfers in	87,926	365,619	16,807	470,352
Transfers out	<u>(172,452)</u>	<u>(297,900)</u>		<u>(470,352)</u>
Total other financing sources (uses)	<u>(11,382)</u>	<u>67,719</u>	<u>202,088</u>	<u>258,425</u>
NET CHANGE IN FUND BALANCES	336,807	(6,726)	132,260	462,341
Fund balances - beginning	379,034	663,776	868,614	1,911,424
Fund balances - ending	<u>\$ 715,841</u>	<u>\$ 657,050</u>	<u>\$ 1,000,874</u>	<u>\$ 2,373,765</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, 2018

Total net change in fund balances - governmental funds **\$ 462,341**

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	\$ 279,821	
Depreciation expense	<u>(1,151,337)</u>	(871,516)

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.

420,173

In the Statement of Activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. The change in net position differs from the change in fund balances this amount.

Loss on disposition of capital assets	(139,019)
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Accrued interest payable, current year decrease	\$ 992	
Amortization of bond discounts/premiums/issuance costs	16,884	
Pension expense, current year increase/decrease	(144,896)	
OPEB expense, current year increase/decrease	<u>(165,954)</u>	<u>(292,974)</u>

Change in net position of governmental activities	<u>\$ (420,995)</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, 2018

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, 2018

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, Student Support and Academic Enrichment Program, 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, 2018

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, 2018

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, 2018

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 another 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 another 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 another 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, 2018

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 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, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Assets, Liabilities, and Net Position – Continued

Postemployment Benefits Other Than Pensions (OPEB)

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

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.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Assets, Liabilities, and Net Position – Continued

Net Position/Fund Equity – Continued

- **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.

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 in the Statement of Net Position. These represent the net position that applies to future periods and will be recognized as an outflow of resources (expense or expenditure) in those future periods. Deferred outflows of resources increase net position, similar to assets.

Deferred inflows of resources are reported in addition to liabilities in the government-wide and fund financial statements. These represent the net position that applies to future periods and will be recognized as an inflow of resources (revenue) in those future periods. Deferred inflows of resources decrease net position/fund balances, similar to liabilities.

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.

F. Economic Dependency

The Board receives a substantial amount of its support from federal and state government. A significant reduction in the level of support, if this were to occur, may have an effect on the Board's programs and activities.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

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).

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 2017-2018 fiscal year was September 15, 2017. The Board submitted its original 2017-2018 annual budget on September 12, 2017.

The 2017-2018 budget was amended on January 9, 2018 and again on May 8, 2018, 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 2017.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

NOTE 4. DEPOSITS AND INVESTMENTS - Continued

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.

Restricted Cash

At September 30, 2018, the Board reported the following restricted cash in cash and cash equivalents:

Child Nutrition Program (Special Revenue Fund)	\$ 58,818
Held by fiscal agent:	
Capital Projects Fund	173,969
Total restricted cash	<u>\$ 232,787</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:

Federal Sources:

State Department of Education:

Child Nutrition Funds	\$ 28,696
Special Education Grants to States	10,199
Student Support and Academic Enrichment	10,000
ROTC	6,835

State Sources:

State Contracts	58,776
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Local Sources:

Sales Tax	26,011
Ad Valorem Taxes	1,706,077
Other Tags and Taxes	17,397
Other	63,790
Total	<u>\$ 1,927,781</u>

Accounts payable and accrued liabilities:

Accounts payable	\$ 59,617
Accrued interest payable	23,602
Salaries and employee benefits payable	<u>956,973</u>
Total	<u>\$ 1,040,192</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

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:				
Federal Sources:				
State Department of Education:				
Child Nutrition Funds		\$ 28,696		\$ 28,696
Special Education Grants to States		10,199		10,199
Student Support and Academic Enrichment		10,000		10,000
ROTC				
State Sources:		6,835		6,835
State Contracts	\$ 58,776			58,776
Local Sources:				
Sales Tax	26,011			26,011
Ad Valorem Taxes	858,854		\$ 847,223	1,706,077
Other Tags and Taxes	17,397			17,397
Other	20,595	5,695	37,500	63,790
Total	<u>\$ 981,633</u>	<u>\$ 61,425</u>	<u>\$ 884,723</u>	<u>\$ 1,927,781</u>
Accounts payable and accrued liabilities:				
Accounts payable	\$ 16,887	\$ 42,730		\$ 59,617
Salaries and benefits payable	929,678	27,295		956,973
Totals	<u>\$ 946,565</u>	<u>\$ 70,025</u>	<u>\$ 0</u>	<u>\$ 1,016,590</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

NOTE 6. CAPITAL ASSETS

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

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land and land improvements	\$ 683,800			\$ 683,800
Total capital assets not being depreciated	<u>683,800</u>	\$ 0	\$ 0	<u>683,800</u>
Capital assets being depreciated:				
Land improvements-exhaustible	3,277,239			3,277,239
Buildings	39,410,640			39,410,640
Building improvements	3,096,010	167,164	173,774	3,089,400
Equipment and furniture	390,811	12,890		403,701
Vehicles	550,284	99,767		650,051
Total capital assets being depreciated	<u>46,724,984</u>	<u>279,821</u>	<u>173,774</u>	<u>46,831,031</u>
Less accumulated depreciation for:				
Land improvements-exhaustible	384,800	163,862		548,662
Buildings	4,155,222	788,213		4,943,435
Building improvements	214,336	111,864	34,755	291,445
Equipment and furniture	159,466	26,475		185,941
Vehicles	157,733	60,923		218,656
Total accumulated depreciation	<u>5,071,557</u>	<u>1,151,337</u>	<u>34,755</u>	<u>6,188,139</u>
Total capital assets being depreciated, net	<u>41,653,427</u>	<u>(871,516)</u>	<u>139,019</u>	<u>40,642,892</u>
Total governmental activities capital assets, net	<u>\$ 42,337,227</u>	<u>\$ (871,516)</u>	<u>\$ 139,019</u>	<u>\$ 41,326,692</u>

Depreciation expense was charged to governmental functions as follows:

Instructional services	\$ 1,068,442
Instructional support	600
Operation and maintenance services	10,327
Student transportation	56,790
Food services	9,158
General administrative	5,463
Other expenditures	557
Total governmental activities depreciation expense	<u>\$ 1,151,337</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

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

In fiscal year 2018, the Board reported deferred outflows of resources and deferred inflows of resources as follows:

	<u>September 30, 2018</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Employer pension contribution	\$ 761,988	
Proportionate share of collective deferred outflows related to net pension liability	885,000	
Employer OPEB contribution	283,733	
Proportionate share of collective deferred inflows related to net pension liability		\$ 954,000
Proportionate share of collective deferred inflows related to OPEB liability		999,367
Unavailable revenue - property taxes		1,673,466
Total	<u>\$ 1,930,721</u>	<u>\$ 3,626,833</u>

Deferred inflows of resources of \$1,673,466 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 \$761,988 employer pension contributions and employer's share of collective deferred outflows, \$885,000 and inflows, \$954,000 related to net pension liability. The Board also reported \$283,733 employer OPEB contributions and employer's share of collective deferred inflows of \$999,367 in accordance with GASB 75. The net effect of these inflows and outflows related to the pension and OPEB 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, pursuant to the *Code of Alabama 1975, Chapter 25* (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 which consists of 15 trustees. The plan is administered by the Retirement Systems of Alabama (RSA). The *Code of Alabama 1975, Title 16, Chapter 25* 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.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

NOTE 8. DEFINED BENEFIT PENSION PLAN - Continued

Benefits provided

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

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 TRS members are eligible for retirement after age 62 with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the TRS are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. Members are eligible for disability retirement if they have 10 years of creditable service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits equal to the annual earnable compensation of the member as reported to the Plan for the preceding year ending June 30 are paid to a qualified beneficiary.

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 \$761,988 for the year ended September 30, 2018.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

NOTE 8. DEFINED BENEFIT PENSION PLAN - Continued**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At September 30, 2018 the Board reported a liability of \$8,721,000 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, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2016. The Board's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2017 the Board's proportion was .088729%, which was an increase of .001911% from its proportion measured as of September 30, 2016.

For the year ended September 30, 2018, the Board recognized pension expense of \$906,885. At September 30, 2018 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	\$ 374,000
Changes of assumptions	520,000	
Net difference between projected and actual earnings on pension plan investments	0	521,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	365,000	59,000
Employer contributions subsequent to the measurement date	<u>761,988</u>	<u>0</u>
Total	<u>\$ 1,646,988</u>	<u>\$ 954,000</u>

The amount of \$761,988 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	(in thousands)
2019	\$ 72
2020	\$ 131
2021	\$ (140)
2022	\$ (130)
2023	\$ (2)
Thereafter	\$ 0

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

NOTE 8. DEFINED BENEFIT PENSION PLAN - Continued

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	

The actuarial assumptions used in the actuarial valuation as of September 30, 2016, were based on the results of an investigation of the economic and demographic experience for the TRS based upon participant data as of September 30, 2015. The Board of Control accepted and approved these changes in September 2016 which became effective at the beginning of fiscal year 2016.

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

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

	Target Allocation	Long-Term Expected Rate of Return*
Fixed income	17.00%	4.40%
U.S. large stocks	32.00%	8.00%
U.S. mid stocks	9.00%	10.00%
U.S. small stocks	4.00%	11.00%
International developed market stocks	12.00%	9.50%
International emerging market stocks	3.00%	11.00%
Alternatives	10.00%	10.10%
Real estate	10.00%	7.50%
Cash	3.00%	1.50%
Total	100.00%	

*Includes assumed rate of inflation of 2.50%

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

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	\$12,029	\$8,721	\$5,922

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2017. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2017. The auditor's report dated August 20, 2018 on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense for the sum of all participating entities as of September 30, 2017 along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov/index.php/employers/financial-reports/gasb-68-reports/.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

NOTE 9. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description

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

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

Benefits provided

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

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

Benefits provided - continued

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

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

Contributions

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

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

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

At September 30, 2018, the Board reported a liability of \$7,883,770 for its proportionate share of net OPEB liability. The net OPEB liability was measured as of September 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2016. The Board's proportion of the net OPEB liability was based on a projection of the Board's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At September 30, 2017, the Board's proportion was 0.106144%, which was a decrease of 0.002059% from its proportion measured as of September 30, 2016.

For the year ended September 30, 2018, the System recognized pension expense of \$449,687, with no special funding situations. At September 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 0	\$ 0
Changes of assumptions	0	818,571
Net difference between projected and actual earnings on OPEB plan investments	0	41,974
Changes in proportion and differences between employer contributions and proportionate share of contributions	0	138,822
Employer contributions subject to measurement date	<u>283,733</u>	<u>0</u>
Total	<u>\$ 283,733</u>	<u>\$ 999,367</u>

The \$283,733 reported as deferred outflows of resources related to OPEB resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year ended September 30:</u>	
2019	(193,551)
2020	(193,551)
2021	(193,551)
2022	(193,551)
2023	(183,058)
Thereafter	(42,105)

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

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

Actuarial Assumptions

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

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

*Includes 3.00% wage inflation

**Compounded annually, net of investment expense, and includes inflation

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

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

The decremental assumptions used in the valuation were selected based on the actuarial experience study prepared as of September 20, 2015, submitted to and adopted by the Teachers' Retirement System of Alabama Board on September 13, 2016.

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

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

Actuarial Assumptions - Continued

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

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
Fixed Income	30.00%	4.40%
U.S. Large Stocks	38.00%	8.00%
U.S. Mid Stocks	8.00%	10.00%
U.S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	15.00%	9.50%
Cash	5.00%	1.50%
Total	<u>100.00%</u>	

* Geometric mean, includes 2.5% inflation

Discount Rate

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

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

Sensitivity of the Board's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates

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

	1% Decrease (6.75% decreasing to 4% for pre-Medicare, 4% for Medicare Eligible, and 1% for Optional Plans)	Current Healthcare Trend Rate (7.75% decreasing to 5% for pre-Medicare, 5% for Medicare Eligible, and 2% for Optional Plans)	1% Increase (8.75% decreasing to 6% for pre- Medicare, 6% for Medicare Eligible, and 3% for Optional Plans)
Net OPEB Liability	\$ 6,365,209	\$ 7,883,770	\$ 9,843,130

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

	1% Decrease (3.63%)	Current Discount Rate (4.63%)	1% Increase (5.63%)
Net OPEB Liability	\$9,529,838	\$7,883,770	\$6,571,648

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is located in the Trust's financial statements for the fiscal year ended September 30, 2017. The supporting actuarial information is included in the GASB Statement No. 74 Report for PEEHIP prepared as of September 30, 2017. Additional financial and actuarial information is available at www.rsa-al.gov.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

NOTE 10. LONG-TERM OBLIGATION**Long-Term Obligation Activity**

Long-term liability balances and activity for the year ended September 30, 2018 were as follows:

	Beginning Balance	Additions/ Reductions	Ending Balance	Amounts Due Within One Year
Warrants Payable				
Series 2015 Warrants	\$ 2,615,000	\$ (165,000)	\$ 2,450,000	\$ 170,000
Unamortized premium	101,986	(8,274)	93,712	8,274
Series 2016 Warrants	1,850,000	(50,000)	1,800,000	50,000
Unamortized premium	140,633	(8,610)	132,023	8,610
Qualified Zone Academy Warrants	1,533,334	(133,334)	1,400,000	133,334
Total warrants payable	6,240,953	(365,218)	5,875,735	370,218
Regions Equipment Finance	334,070	(71,840)	262,230	74,010
Net pension liability	9,399,000	(678,000)	8,721,000	
Net OPEB liability		7,883,770	7,883,770	
Governmental activities long-term debt	<u>\$ 15,974,023</u>	<u>\$ 6,768,712</u>	<u>\$ 22,742,735</u>	<u>\$ 444,228</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, 2018

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
2019	\$ 170,000	\$ 75,363	\$ 50,000	\$ 63,200	\$ 133,334
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	133,333
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>2,450,000</u>	\$ <u>509,236</u>	\$ <u>1,800,000</u>	\$ <u>742,250</u>	\$ <u>1,400,000</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
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>13,901</u>	\$ <u>262,230</u>	\$ <u>276,131</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

NOTE 11. INTERFUND BALANCES AND ACTIVITY

Interfund balances (reported as "Due from other funds" and "Due to other funds" in the Balance Sheet) at September 30, 2018, consist of the following:

Interfund receivable to General Fund from other special revenue funds	\$ 171,626
Interfund receivable to General Fund from the General Fund	78,249
<i>Total due to General Fund</i>	<u>249,875</u>
Interfund receivable to Special Revenue Fund from other special revenue funds	44,445
Interfund receivable to Special Revenue Fund from the General Fund	34,382
<i>Total due to Special Revenue Fund</i>	<u>78,827</u>
Interfund receivable to Capital Projects Fund from Capital Projects Fund	<u>27,684</u>
Total interfund balances	<u>\$ 356,386</u>

Interfund transfers for the fiscal year ended September 30, 2018, consist of the following:

Transfers to General Fund from:	
Special Revenue Fund for local school operating expenses	\$ <u>87,926</u>
Transfers to Special Revenue Fund from:	
General Fund for Child Nutrition	118,162
General Fund for local school operating expenses	3,267
Special Revenue Fund for local school operating expenses	244,190
Total transfers to Special Revenue Fund	<u>365,619</u>
Transfers to Capital Projects Fund from:	
General Fund for operating expenses	<u>16,807</u>
Total interfund transfers	<u>\$ 470,352</u>

NOTE 12. 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, 2018

NOTE 12. 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 13. 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 June 12, 2018, and noted none affecting the current financial statements. This date approximates the date the financial statements were available to be issued.

NOTE 14. PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made to record beginning deferred outflow of resources for fiscal year 2017 OPEB contributions in the amount of \$257,672 and to record beginning proportionate share of net OPEB liability in the amount of \$8,691,122 based on GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

For the Year Ended September 30, 2018

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
State sources	\$ 8,459,539	\$ 8,692,723	\$ 8,758,936	\$ 66,213
Federal sources			19,794	19,794
Local sources	2,104,198	2,288,960	2,380,945	91,985
Other sources	107,770	109,805	131,266	21,461
Total revenues	<u>10,671,507</u>	<u>11,091,488</u>	<u>11,290,941</u>	<u>199,453</u>
Expenditures:				
Instructional services	6,185,638	6,408,889	6,343,544	65,345
Instructional support services	1,355,476	1,423,179	1,452,574	(29,395)
Operation and maintenance services	1,447,074	1,469,403	1,384,104	85,299
Auxillary services:				
Student transportation	432,363	454,455	441,874	12,581
General administrative services	854,156	842,778	838,265	4,513
Other expenditures	411,357	408,682	383,877	24,805
Total expenditures	<u>10,686,064</u>	<u>11,007,386</u>	<u>10,844,238</u>	<u>163,148</u>
Excess (deficiency) of revenues over expenditures	<u>(14,557)</u>	<u>84,102</u>	<u>446,703</u>	<u>362,601</u>
Other financing sources (uses):				
Indirect cost	102,036	110,850	73,144	(37,706)
Transfers in	25,000	25,000	87,926	62,926
Transfers out	(156,628)	(156,628)	(172,452)	(15,824)
Total other financing sources (uses)	<u>(29,592)</u>	<u>(20,778)</u>	<u>(11,382)</u>	<u>9,396</u>
NET CHANGE IN FUND BALANCES	(44,149)	63,324	435,321	371,997
Fund balances - beginning	1,053,808	1,187,630	1,187,630	0
Fund balances - ending	<u>\$ 1,009,659</u>	<u>\$ 1,250,954</u>	<u>\$ 1,622,951</u>	<u>\$ 371,997</u>

Satsuma City Board of Education

**BUDGETARY COMPARISON SCHEDULE
SPECIAL REVENUE FUND**

For the Year Ended September 30, 2018

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Federal sources	\$ 1,051,912	\$ 1,159,482	\$ 1,073,246	\$ (86,236)
Local sources	991,106	991,106	1,443,604	452,498
Other sources	27,100	27,100	16,740	(10,360)
Total revenues	<u>2,070,118</u>	<u>2,177,688</u>	<u>2,533,590</u>	<u>355,902</u>
Expenditures:				
Instructional services	622,858	684,490	736,077	(51,587)
Instructional support services	522,777	564,403	979,006	(414,603)
Operation and maintenance services	6,830	6,830	9,375	(2,545)
Auxillary services:				
Student transportation	53,228	53,274	62,812	(9,538)
Food service	633,697	666,581	697,941	(31,360)
General administrative services	132,602	133,687	118,262	15,425
Other expenditures	42,001	45,183	29,838	15,345
Total expenditures	<u>2,013,993</u>	<u>2,154,448</u>	<u>2,633,311</u>	<u>(478,863)</u>
Excess (deficiency) of revenues over expenditures	<u>56,125</u>	<u>23,240</u>	<u>(99,721)</u>	<u>(122,961)</u>
Other financing sources (uses):				
Transfers in	156,628	166,628	365,619	198,991
Transfers out	(25,000)	(35,000)	(297,900)	(262,900)
Total other financing sources (uses)	<u>131,628</u>	<u>131,628</u>	<u>67,719</u>	<u>(63,909)</u>
NET CHANGE IN FUND BALANCES	187,753	154,868	(32,002)	(186,870)
Fund balances - beginning	514,202	699,834	716,347	16,513
Fund balances - ending	<u>\$ 701,955</u>	<u>\$ 854,702</u>	<u>\$ 684,345</u>	<u>\$ (170,357)</u>

Satsuma City Board of Education

NOTES TO THE BUDGETARY COMPARISON SCHEDULE

For the Year Ended September 30, 2018

**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>11,290,941</u>	\$ <u>2,533,590</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	\$ <u><u>11,290,941</u></u>	\$ <u><u>2,533,590</u></u>
Uses/outflows of resources		
Actual amounts (budgetary basis) available for expenditures shown as total expenditures on the budgetary comparison schedule	\$ 10,844,238	\$ 2,633,311
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>98,514</u>	<u>(25,276)</u>
Total expenditures are reported on the statement of revenues, expenditures and changes in fund balances - governmental funds.	\$ <u><u>10,942,752</u></u>	\$ <u><u>2,608,035</u></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	2016	2015	2014
Board's proportion of net pension liability	0.088729%	0.086818%	0.086181%	0.087614%
Board's proportionate share of the net pension liability	\$ 8,721,000	\$ 9,399,000	\$ 9,019,000	\$ 7,959,000
Board's covered-employee payroll*	\$ 5,919,812	\$ 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	147.32%	168.95%	164.86%	142.72%
Plan fiduciary net position as a percentage of the total pension liability	71.50%	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 2018, the measurement period is October 1, 2016 through September 30, 2017.

Satsuma City Board of Education

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

For the Year Ended September 30,

	2018	2017	2016	2015
Contractually required contribution	\$ 761,988	\$ 694,885	\$ 652,347	\$ 615,112
Contributions in relation to the contractually required contribution	<u>761,988</u>	<u>694,885</u>	<u>652,347</u>	<u>615,112</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Board's covered-employee payroll*	\$ 6,373,140	\$ 5,919,812	\$ 5,563,112	\$ 5,470,807
Contributions as a percentage of covered-employee payroll	11.96%	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 2018, the measurement period is October 1, 2017 through September 30, 2018.

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

Satsuma City Board of Education

SCHEDULE OF THE BOARD'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY**ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST**

For the Year Ended September 30,

	<u>2017</u>
Board's proportion of net OPEB liability	0.106144%
Board's proportionate share of the net OPEB liability	\$ 7,883,770
Board's covered-employee payroll	\$ 5,919,812
Board's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	133.18%
Plan fiduciary net position as a percentage of the total OPEB liability	15.37%

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

SCHEDULE OF BOARD CONTRIBUTIONS**ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST**

For the Fiscal Year Ended September 30,

	<u>2018</u>
Contractually required contribution	\$ 283,733
Contributions in relation to the contractually required contribution	<u>283,733</u>
Contribution deficiency (excess)	<u>\$ 0</u>
Board's covered-employee payroll	\$ 6,449,246
Contributions as a percentage of covered-employee payroll	4.40%

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

September 30, 2018

Changes in Actuarial Assumptions

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

Recent Plan Changes

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

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

Method and Assumptions Used in Calculations of Actuarially Determined Contributions

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

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2018

<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	\$ 370,860
Special Education Preschool Grants	84.173	196	4,635
<i>Subtotal Special Education Cluster</i>			<u>375,495</u>
Title I Grants to Local Educational Agencies	84.010	196	249,273
Career and Technical Education - Basic Grants to States	84.048	196	3,291
Supporting Effective Instruction State Grant	84.367	196	36,958
Student Support and Academic Enrichment Program	84.424	196	10,000
Total U.S.Department of Education passed through Alabama State Department of Education			<u>675,017</u>
Passed through Alabama Department of Early Childhood Education:			
Preshool Development Grants	84.419A		9,721
KEA Assessment Grant	84.419A		7,809
Total U.S.Department of Education passed through Alabama Department of Early Childhood Education			<u>17,530</u>
Passed through City of Chickasaw Board of Education:			
Career and Technical Education - Basic Grants to States	84.048A		10,073
Total U.S.Department of Education passed through City of Chickasaw Board of Education			<u>10,073</u>
Total U.S. Department of Education			<u>702,620</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	35,387
National School Lunch Program	10.555	196	255,997
Food Distribution Program (N)	10.555	196	29,967
<i>Subtotal Child Nutrition Cluster</i>			<u>321,351</u>
State Administrative Expenses for Child Nutrition	10.560	196	2,202
Total U.S. Department of Agriculture passed through Alabama State Department of Education			<u>323,553</u>
<u>U.S. DEPARTMENT OF DEFENSE</u>			
Direct Programs:			
ROTC Language and Cultural Training Grants	12.357		66,867
Total Expenditures of Federal Awards			<u>\$ 1,093,040</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, 2018

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, 2018. 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.

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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, 2018, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements and have issued our report thereon dated June 12, 2019.

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 preceding 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
June 12, 2019

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, 2018. 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, 2018.

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
June 12, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2018

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:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
	Child Nutrition Cluster:
10.553	School Breakfast Program
10.555	National School Lunch Program

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, 2018

No findings noted.