Report on the

Shelby County
Board of Education

Shelby County, Alabama

October 1, 2017 through September 30, 2018

Filed: September 27, 2019

Department of
Examiners of Public Accounts

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Rachel Laurie Riddle, Chief Examiner

19-326

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Rachel Laurie Riddle
Chief Examiner

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

Dear Madam:

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

Sworn to and subscribed before me this the 11 day of September, 20 19.

Notary Public 4-16-22

Respectfully submitted,

Matthew Robinson
Examiner of Public Accounts

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Department of
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SUMMARY

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

The Shelby County Board of Education (the "Board") is governed by a five-member body elected by the citizens of Shelby County. The members and administrative personnel in charge of governance of the Board are listed in Exhibit 16. The Board is the governmental agency that provides general administration and supervision for Shelby County public schools, preschool through high school, with the exception of schools administered by cities having a city board of education.

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

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

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

Board members and administrative personnel, as reflected on Exhibit 16, were invited to discuss the results of this report at an exit conference. Individuals in attendance were: Chief School Financial Officer: John Gwin; and Board Members: Aubrey Miller, Peg Hill, Jane Hampton, Jimmy Bice, and David Bobo. Also in attendance were representatives from the Department of Examiners of Public Accounts: Nikki Morrison, Audit Manager, and Matthew Robinson, Examiner. The results of this report were also discussed with following individuals over the telephone: Former Chief School Financial Officer: Gary McCombs; and Superintendent: Randy Fuller.

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Independent Auditor's Report

Independent Auditor's Report

Members of the Shelby County Board of Education,
Superintendent and Chief School Financial Officer
Columbiana, Alabama

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Shelby County Board of Education, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Shelby County Board of Education's basic financial statements as listed in the table of contents as Exhibits 1 through 8.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Emphasis of Matter

As discussed in Note 14 to the financial statements, in the fiscal year ended September 30, 2018, the Shelby County Board of Education adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement Number 75, ***Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions***, as amended by GASB Statement Number 85, ***Omnibus 2017***. Our opinion on the basic financial statements is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), Schedule of the Employer's Proportionate Share of the Collective Net Pension Liability, the Schedule of the Employer's Contributions – Pension, the Schedule of the Employer's Proportionate Share of the Collective Net Other Postemployment Benefits (OPEB) Liability, the Schedule of the Employer's Contributions – OPEB, and the Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual, (Exhibits 9 through 14), be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Shelby County Board of Education's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 15), as required by Title 2 U. S. ***Code of Federal Regulations*** Part 200, ***Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*** (*Uniform Guidance*), is presented for the purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with ***Government Auditing Standards***, we have also issued our report dated September 3, 2019, on our consideration of the Shelby County Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Shelby County Board of Education's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with ***Government Auditing Standards*** in considering the Shelby County Board of Education's internal control over financial reporting and compliance.

Rachel Laurie Riddle

Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

September 3, 2019

Management's Discussion and Analysis
(Required Supplementary Information)

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

Introduction

This section of the Shelby County Board of Education's comprehensive annual financial report presents Management's Discussion and Analysis (MD&A) of the Board of Education's overall financial position and operating results of the fiscal year ended on September 30, 2018, Please read it in conjunction with the Board's financial statements and notes, which follow this analysis.

The MD&A is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement 34; *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the model contained in GASB Statement No. 34, and these comparisons are included.

The Board and its Superintendent have the responsibility for operating, maintaining and servicing the needs of 30 school sites including 15 Elementary/Intermediate Schools, 6 Middle Schools, 7 High Schools, a Career Technical Education Center, and 1 Special Needs School. All schools are accredited by the Southern Association of Colleges and Schools. In addition, the Board operates a Central Office, an Instructional Services Center, an Operations Department, and a Student Transportation Facility.

At the beginning of the 2018-2019 school term, the Board employed 1,536 teachers, counselors, librarians, other professionals; and 1213 support workers, serving a student population of 20,606. The Shelby County School System is the 7th largest system in the State and continues to be acknowledged as one of the fastest growing.

Financial highlights - Significant Items to Note

Major Local tax revenues increased 3.39% when compared to the previous year. State funds decreased 1.4% compared to the last year because of an increase of $3.8 million in required matching funds for the foundation program. The Board is required to fund the equivalent of 10 mills of property tax revenue into the State foundation program along with State funds. With the continual increases in property values and growth, this caused the amount the State was required to fund to decrease. Management communicated with department leaders and stakeholders of the decrease in State funds and the new commitments to local funds.

Management reduced outstanding warrants payable by $10.94 million.

The Board's General Fund Balance decreased during the year by $1.30 million primarily for investments in capital improvements.

Using the Financial Statements - An Overview for the User

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

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

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

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

Operations and maintenance includes salaries and benefits for maintenance and custodial staff, utilities, security services, maintenance supplies, maintenance equipment, maintenance services, and depreciation of maintenance vehicles and equipment.

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

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

Interest and Fiscal Charges includes interest, but not principal payments, on long-term debt issues and other expenses related to the issuance and continuance of debt issues.

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

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

The *statement of net position* (on page 2) is most closely related to a balance sheet. It presents information on all of the board's assets and deferred outflows (what it owns) and liabilities and deferred inflows (what it owes), with the difference between the two reported as net position. The net position reported in this statement represents the accumulation of changes in net position for the current fiscal year and all fiscal years in the past combined. Over time, the increases or decreases in net position reported in this statement may serve as a useful indicator of whether the financial position of the school board is improving or deteriorating.

The *statement of activities* (on page 4) is most closely related to an income statement. It presents information showing how the Board's net position changed during the current fiscal year only. All of the current year's revenues and expenses are accounted for in the *statement of activities* regardless of when cash is received or paid. This statement shows gross expenses and offsetting program revenues to arrive at net cost information for each major expense function or activity of the Board. By showing the change in net position for the year, the reader may be able to determine whether the Board's financial position has improved or deteriorated over the course of the current fiscal year. The change in net position may be financial or non-financial in nature. Non-financial factors which may have an impact on the Board's financial condition include: age and condition of facilities, mandated educational programs for which little or no funding is provided, and increases or decreases in funding from state and federal governments, to name a few.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Board used fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The reporting model still requires the School Board to present financial statements on a fund basis, but with some modifications. All of the funds of the School Board can be classified into two categories: governmental funds and fiduciary funds.

Governmental Funds Governmental *fund financial statements* begin on page 6. These statements account for basically the same governmental activities reported in the *government-wide financial statements*. Until now, fund information has been reported in the aggregate by type of fund. As required under the reporting model, the *fund financial statements* presented herein displayed information on each of the Board's most important governmental funds or *major funds*. This is required in order to better assess the School Board's accountability for significant governmental programs or certain dedicated revenue. The Board's *major funds* are the General Fund and Special Revenue Fund.

The *fund financial statements* are still measured on the modified-accrual basis of accounting as reported in previous fiscal years, where revenues, expenditures are recorded when they become measurable and available. As a result, the *fund financial statements* focus more on the near term use and availability of spendable resources. The information provided in these statements is useful in determining the Board's immediate financial needs. This is in contrast to the accrual-based *government-wide financial statements*, which focus more on overall long-term availability of spendable resources. The relationship between governmental activities reported in the *government-wide financial statements* and the governmental funds reported in the *fund financial statements* are reconciled on pages 8 and 11 of these financial statements. These reconciliations are useful to readers in understanding the long-term impact of the Board's short-term financing decisions.

Fiduciary Funds. The Board is the trustee, or fiduciary, for some of its booster and parent organization activity funds, which are under the control, and administration of its schools. Fiduciary funds also include the balances of agency funds, such as accounts payable clearing and payroll clearing funds. All of the Board's fiduciary activities are reported in a separate *Statement of Fiduciary Net Position* on page 13 of this section. These funds are not available to the Board to finance its operations, and therefore are not included in the *government-wide financial statements*. The Board is responsible for ensuring that the assets reported by these funds are used for their intended purposes.

Notes to the Basic Financial Statements. The *notes to the basic financial statements* provide additional information that is essential for the statements to fairly represent the Board's financial position, and its operations. The notes contain important information that is not part of the basic financial statements. However, the notes are an integral part of the statements, not an appendage to them. The *notes to the basic financial statements* begin on page 15 in this section.

After the presentation of the *basic financial statements,* the reporting model requires additional *required supplemental information* to be presented following the notes to the basic financial statements. The required supplementary information beginning on page 56 provides a comparison of the original adopted budget to the final amended budget of the Board's General Fund, which is then further compared to the actual operating results for the fiscal year. The comparison of this data allows users to assess management's ability to project and plan for its operations throughout the year.

Analysis of the School Board's Overall Financial Position

Over time, net position may serve as a useful indicator of a government's financial position. Refer to Table 1 when reading the following analysis of net position. The Board's liabilities and deferred inflows exceeded assets and deferred outflows by $181.57 million at September 30, 2018. This reflected a decrease in net position of $156.29 million over the previous year. This decrease is due to the implementation of GASB Standard 75 where the Board was required to show its proportionate share of Other Post-Employment Benefit (OPEB) Liability from the Retirement Systems of Alabama.

- Of this figure, $134.21 million reflects the Board's investment in capital assets (e.g. land, buildings, improvements other than buildings, furniture and equipment, and transportation equipment), less accumulated depreciation and debt related to the acquisition of the assets. Since these capital assets are used in governmental activities, this portion of net position is not available for future spending or funding of operations.
- Restricted net position accounts for $6.26 million of total net position. Restricted net position is reported separately to show the external legal constraints from debt covenants and enabling legislation that limit the Board's ability to use net position for day-to-day operations.
- The balance of unrestricted net position was ($322.04) million primarily due to pension and OPEB liabilities with the adoption of GASB Statement 68 and GASB Statement 75.

Table 1: Summary of Net Position
September 30, 2018
(in Millions)

	09/30/2019 Governmental Activities	09/30/2017 Governmental Activities	Increase (Decrease)
Assets			
Current and Other Assets	$101.96	$106.80	$ (4.84)
Capital Assets	317.78	317.91	(0.13)
Total Assets	419.74	424.71	(4.97)
Deferred Outflows of Resources	30.97	29.92	1.05
Liabilities			
Current and Other Liabilities	18.41	16.52	1.89
Non-Current (Long-Term) Liabilities	501.67	377.35	124.32
Total Liabilities	520.08	393.87	126.21
Deferred Inflow of Resources	112.20	86.04	26.16
Net Position			
Invested in Capital Assets, Net of Related Debt	134.21	127.84	6.37
Restricted	6.26	6.61	(0.35)
Unrestricted	(322.04)	(159.73)	(162.31)
Total Net Position	$(181.57)	$ (25.28)	$(156.29)

At the end of the current fiscal year, the Board is able to report positive balances in all categories of net position except unrestricted net position of the Board.

Considering all GAAP accruals, the Board's financial position has decreased $156.29 million in net position.

The results of this fiscal year's operations as a whole are reported in detail in the *Statement of Activities* on page 4. Table 2 condenses the results of operations for the fiscal year into a format where the reader can easily see the total revenues of the School Board for the year. It also shows the impact the operations had on changes in net position as of September 30, 2018.

Table 2: Summary of Changes in Net Position from Operating Results
September 30, 2018
(in Millions)

	09/30/2019 Governmental Activities	09/30/2017 Governmental Activities
Revenues		
Program Revenues:		
Charges for Services	$ 21.09	$ 20.65
Operating Grants and Contributions	120.83	121.73
Capital Grants and Contributions	6.60	6.23
General Revenues:		
Local Property Taxes	58.44	56.96
Local Sales Taxes	10.46	9.66
Other Taxes Including Alcoholic Beverage Tax	0.70	0.64
Other	4.90	5.14
Total Revenue	223.02	221.01
Expenses		
Instructional Services	114.57	112.66
Instructional Support Services	36.12	35.77
Operation and Maintenance Services	19.68	19.44
Auxiliary Services	27.00	26.26
General Administration and Central Support	5.16	5.51
Interest and Fiscal Charges	7.43	8.03
Other	4.41	4.92
Total Expenses	214.37	212.59
Excess (Decrease) in Net Position	8.65	8.42
Net Position - Beginning	(190.22)	(33.70)
Net Position - Ending	$(181.57)	$ (25.28)

The Board's net position increased $8.65 million during the current fiscal year due to growth in property tax and controlling Operations and Administrative expenditures. The beginning net position changed to $(190.22) million due to the implementation of GASB Standard 75.

Governmental Activities - As shown in Table 2, the cost of services rendered from the Board's governmental activities for the year ended September 30, 2018 was $214.37 million. It is important to note that not all of these costs were borne by the taxpayers of Shelby County:

- Some of the cost, $21.09 million, was paid by users who benefited from services provided during the year, such as school lunches, summer school, and local school fees and charges and drivers education instruction.
- State and federal governments subsidized certain programs with grants and contributions totaling $127.43 million.
- Other general revenue sources, such as interest earnings, sale of surplus property, etc., provided for $4.90 million in revenues.
- $69.60 million of the Board's total costs of $214.37 million was financed by district taxpayers.

Table 3 is a condensed statement taken from the *Statement of Activities* on page 4 showing the total cost for providing identified services for seven major Board activities. Total cost of services is compared to the net cost of providing these services. The net cost of services is the remaining cost of services after subtracting grants and charges for services that the School Board used to offset the program's total cost. In other words, the net cost shows the financial burden that was placed on Shelby County for each of these activities. This information allows citizens to consider the cost of each program in comparison to the benefits they believe are provided.

Table 3: Net Cost of Governmental Activities

(in millions)

	9/30/2018		9/30/2017	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instructional services	$ 114.57	$ 18.16	$ 112.66	$ 15.68
Instructional support services	36.12	19.46	35.77	19.68
Operation and maintenance services	19.68	10.44	19.44	10.64
Auxiliary services	27.00	5.03	26.26	4.21
General administration and central support	5.16	4.88	5.51	5.22
Interest and fiscal charges	7.43	7.43	8.03	8.03
Other	4.41	0.45	4.92	0.52
Total	$ 214.37	$ 65.85	$ 212.59	$ 63.98

Financial Analysis of School Board Funds

As noted earlier, the Board uses fund accounting to control and manage resources in order to ensure compliance with finance-related legal requirements. Using funds to account for resources for particular purposes helps the reader to determine whether the Board is being accountable for the resources provided by taxpayers and other entities It may also help to provide more insight into the Board's overall financial health. The following analysis of the Board's funds should be read in reference to the *fund financial statements,* which begins on page 6.

Governmental Funds - The focus of the Board's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Board's financial requirements. (Note that the relationship between the *fund financial statements* and the *government-wide financial statements* are reconciled on pages 8 and 11) The financial performance of the Board as a whole is reflected in its governmental funds as well. At the end of the fiscal year, the Board's governmental funds reported combined ending fund balances $25.37 million.

General Fund – The general fund is the primary operating fund of the Board. The general fund unassigned fund balance amount is $10.20 million that is available as of the end of the fiscal year for spending on future operations. An additional $260 thousand was designated as non-spendable for inventories. The general fund had $754 thousand designated as assigned fund balance for encumbrances and specific purposes. General accepted accounting principles (GAAP) requires fund financial statements to be presented using the modified accrual basis of accounting. Daily financial transactions are recorded using the modified cash or budgetary basis of accounting. In order for the Board's financial transactions to be presented in accordance with GAAP, certain adjustments were necessary. Exhibit #13 shows the Board's general fund balance in the amount $29.34 million using the budgetary basis but using the GAAP basis the general fund balance is only $11.21 million (See Exhibit #13.) The reasons for the difference are due to the $15.33 million accrual for salaries and fringe benefit expenditures to be paid out in the subsequent fiscal year and the deferral of $2.84 million in local tax revenue received but unrecognizable until the subsequent fiscal year. Considering all GAAP adjustments, the general fund balance reflected a net decrease of $1.30 million. This decrease in General Fund balance was primarily due to increases in instructional functions paid with the increased local match for the foundation program.

Special Revenue Fund – The special revenue fund ended the year with a $9.30 million fund balance presented in the following categories: $570 thousand was designated as non-spendable fund balance for inventories. $2.62 million was considered restricted for the child nutrition program and other purposes and $6.11 million fund balance assigned to local schools.

Fiduciary Funds – The Fiduciary Fund or Agency-Type financial statements appear on pages 13 and 14. The Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position are presented, as the Board serves as the custodian of these funds, which are held in school accounts.

Budgetary Highlights of Major Funds

State Law requires the Board to prepare and submit an annual budget to the State Superintendent of Education. The annual budget for FY2018 was due on or before October 1, 2017.

The Board passed the FY2018 Budget on August 24, 2017. Over the course of the year, the Board revised the annual operating budget twice: January 25, 2018 and June 12, 2018. For purposes of this budgetary analysis, only the General Fund is discussed in accordance with the reporting model.

General Fund - The comparison of general fund original budget to the final amended budget is on page 63. The differences between the original and the amended budget were due to changes that are briefly summarized as follows:

In the first budget amendment, the Board approved updates to beginning fund balances, which included Title funds and IDEA. The Amendment also included revenue in lieu of taxes, GAP coverage insurance, Current Unit Funds, Legal Fees, and Additions to CNP equipment. The Amendment added approval of grants such as the Job Coach Grant, National Board Teacher Supplement Grants, Career Ready Indicators Grant, Middle School Programming Initiative Grants, and the Supporting Families Initiative.

In the second budget amendment, the Board approved a reduction of the Child Nutrition Program flow through, adjustments to salaries, new State Grants, and additions for new capital projects

Capital Assets and Debt Administration

Capital Assets – The Board's investment in capital assets for its governmental activities for the year ended September 30, 2018, amounted to a decrease of $130 thousand, net of accumulated depreciation. The Board's investment in capital assets includes, land at estimated historical cost, buildings and improvements at estimated historical cost, equipment and furniture at estimated historical cost, equipment under capital lease, and construction in progress, and is shown in Table 4.

Table 4: Capital Assets (net of accumulated depreciaton)
(in Millions)

Governmental Activities

	2018	2017	Increase (Decrease)
Land and land improvements	$ 20.75	$ 20.45	$ 0.30
Construction in progress	9.66	3.10	6.56
Buildings and improvements	272.80	278.75	(5.95)
Vehicles	9.79	10.86	(1.07)
Equipment	4.72	4.62	0.10
Assets Under Capital Lease	0.05	0.12	(0.07)
Total	$ 317.77	$ 317.90	$ (0.13)

Long-Term Debt – At year-end, the Board had $501.66 million in Warrants Payable, PSCA Capital Improvement Bonds, Capital Leases, and Compensated Absences, Net Pension Liability, and Other Post Employment Benefit Liabilities. Net OPEB Liability is a new category added to Governmental Activities due to the adoption of GASB Statement 75. Net Pension Liability and Net OPEB Liability is Shelby County's proportionate share of the debt held by the Retirement Systems of Alabama. Table 5 provides a synopsis of the board's activities related to long-term debt.

Table 5: Long Term Debt
(in Millions)

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental Activities:				
Bonds and Warrants Payable	$ 195.78	$ -	$ (10.94)	$ 184.84
Capital Leases	0.07	0.02	(0.04)	0.05
Compensated Absences	1.18	0.01	-	1.19
Net Pension Liability	180.31	-	(15.11)	165.20
Net OPEB Liability	169.84	-	(19.46)	150.38
Total Long Term Debt	$ 547.18	$ 0.03	$ (45.55)	$ 501.66

Compensated Absences – Employee vacations and compensatory time increased by $13,564.06 for the fiscal year ended September 30, 2018.

Economic Factors and Future Years' Budgets

The following are currently known economic factors for Shelby County going into the 2017-2018 fiscal year.

Economic Conditions - As of September 2018, Shelby County continues to lead the State with the lowest unemployment rate of 2.7 %. The State average is 3.8% compared to a national figure of 3.7%. Large retailer and grocery chains continue to locate within the county. Major retail areas on the U.S. 280 corridor and the I-65 corridor provide a strong sales tax base.

Sales Taxes - Sales Tax increased 8.45% compared to the previous year.

Population Growth/Housing/Income – According to the July 2018 U.S. Census Bureau estimates, the population of Shelby County was 215,707. The homeownership rate is approximately 79.6% and the median value of a home in the county is $199,500. Median household income estimates are $74,063.00.

At the time these financial statements were prepared and audited, the School Board was aware of the following circumstances that could significantly affect the School Board's financial health in the future.

Student Enrollment - Adjusted Average Daily Membership (ADM) as of the forty-day report for the 2018-2019 school year was 20,608.10. The ten-year figures of growth based on 40 Day ADM are indicated below. Shelby County has seen growth in its ADM since the split from Alabaster in 2013 and Pelham in 2014.

Fiscal Year	40 Day ADM	Increase/(Decrease)
2019	20,608.10	15.00
2018	20,593.10	273.00
2017	20,320.10	93.39
2016	20,226.71	197.21
2015	20,029.50	237.32
2014	19,792.18	(2,823.37)
2013	22,615.55	(5,816.65)
2012	28,432.20	260.25
2011	28,171.95	393.75
2010	27,778.20	656.20

Establishment of Independent City School Districts: In addition to the Shelby County School System, there are six municipal school systems partially or completely within Shelby County. They are Alabaster City Schools, Pelham City Schools, Birmingham City Schools, Hoover City Schools, Vestavia Hills City Schools, and Leeds City Schools. Alabama law allows a city with a population of 5,000 or more to form a separate school system within its jurisdiction. Countywide property and sales taxes are apportioned based on students served. The State Department of Education calculates this percentage.

Estimated Capital Needs: As of September 30, 2018, the Board's capital plans for the next three years included $7,790,000 in estimated needs.

Proration of State Funds: Provisions of the Alabama State Constitution prohibit the State from engaging in deficit financing (spending more than actual revenues). The following are the most recent years and percentages of declared proration.

Fiscal Year	**Proration Percentage**
2010-11	3.00%
2009-10	9.50%
2008-09	11.0%
2002-03	4.40%
2000-01	6.20%

Medical and Retirement Costs: Employee health insurance is provided through the Public Education Employees' Health Insurance Program (PEEHIP). The past five years of retirement and PEEHIP rates are listed below.

Fiscal Year	Employer Retirement Contribution Percentage	Employer Monthly Premium Cost
2019 Tier I	12.41%	800.00
2019 Tier II	11.35%	800.00
2018 Tier I	12.24%	800.00
2018 Tier II	11.01%	800.00
2017 Tier I	12.01%	800.00
2017 Tier II	10.82%	800.00
2016 Tier I	11.94%	780.00
2016 Tier II	10.84%	780.00
2015 Tier I	11.71%	780.00
2015 Tier II	11.08%	780.00

Foundation Program Allocations:

Final FY2019 State funds are $121,182,872.00.

Contacting the School Board's Financial Management

This financial report is designed to provide citizens, taxpayers, investors and creditors with a general overview of the School Board's finances and to show the School Board's accountability for the money it receives. If you have any questions about this report or need additional financial information contact one of the financial managers listed below during regular work hours Monday – Friday; 8:00 a.m. to 4:00 p.m. central time.

John Gwin, CPA
Chief School Financial Officer
jgwin@shelbyed.org

Joann Gates, MBA
Coordinator of Finance
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Basic Financial Statements

Statement of Net Position
September 30, 2018

	Governmental Activities
Assets	
Cash and Cash Equivalents	$ 39,661,554.24
Investments	307,861.96
Ad Valorem Property Taxes Receivable	52,657,500.00
Receivables (Note 4)	8,490,375.75
Accrued Interest Receivable	8,587.70
Inventories	831,316.77
Capital Assets (Note 5):	
Nondepreciable	22,006,523.50
Depreciable, Net	295,772,847.76
Total Assets	419,736,567.68
Deferred Outflows of Resources	
Loss on Refunding of Debt	974,883.45
Employer Pension Contribution	13,632,456.29
Proportionate Share of Collective Deferred Outflows Related to Net Pension Liability	11,118,000.00
Employer Other Postemployment Benefits (OPEB) Contribution	5,241,735.00
Total Deferred Outflows of Resources	30,967,074.74
Liabilities	
Accounts Payable	486,834.40
Unearned Revenues	450,253.65
Salaries and Benefits Payable	16,062,489.26
Accrued Interest Payable	1,413,827.60
Long-Term Liabilities:	
Portion Due or Payable Within One Year	11,351,211.47
Portion Due or Payable After One Year	490,313,973.24
Total Liabilities	520,078,589.62
Deferred Inflows of Resources	
Gain on Refunding of Debt	22,959.41
Unavailable Revenue - Property Taxes	52,657,500.00
Revenue Received in Advance - Motor Vehicle Taxes	2,836,245.61
Proportionate Share of Collective Deferred Inflows Related to Net Pension Liability	34,205,000.00
Proportionate Share of Collective Deferred Inflows Related to Net OPEB Liability	22,470,502.00
Total Deferred Inflows of Resources	$ 112,192,207.02

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

	Governmental Activities
Net Position	
Net Investment in Capital Assets	$ 134,211,463.30
Restricted for:	
Debt Service	2,653,516.65
Capital Projects	415,267.56
Other Purposes	3,191,592.86
Unrestricted	(322,038,994.59)
Total Net Position	$ (181,567,154.22)

Statement of Activities
For the Year Ended September 30, 2018

			Program Revenues
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**
Governmental Activities			
Instruction	$ 114,574,163.19	$ 6,708,268.90	$ 84,600,349.49
Instructional Support	36,115,887.88	1,354,294.29	15,298,338.76
Operation and Maintenance	19,680,269.32	832,686.27	8,376,025.82
Auxiliary Services:			
Student Transportation	15,167,778.27	427,792.42	10,495,563.00
Food Service	11,829,180.92	8,811,977.22	760,801.35
General Administrative	5,164,696.44	115,139.05	171,506.03
Interest and Fiscal Charges	7,428,941.53		
Other Expenses	4,409,505.96	2,835,965.56	1,126,087.53
Total Governmental Activities	$ 214,370,423.51	$ 21,086,123.71	$ 120,828,671.98

General Revenues:

Taxes:

Property Taxes for General Purposes

Property Taxes for Specific Purposes

Sales Tax

Alcohol Beverage Tax

Other Taxes

Grants and Contributions Not Restricted for Specific Programs

Investment Earnings

Miscellaneous

Total General Revenues

Changes in Net Position

Net Position - Beginning of Year, as Restated (Note 14)

Net Position - End of Year

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

Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position Total Governmental Activities
$ 5,101,422.25	$ (18,164,122.55)
	(19,463,254.83)
34,209.75	(10,437,347.48)
1,465,366.00	(2,779,056.85)
	(2,256,402.35)
	(4,878,051.36)
	(7,428,941.53)
	(447,452.87)
$ 6,600,998.00	(65,854,629.82)
	51,549,767.27
	6,889,281.88
	10,462,666.39
	232,153.55
	465,748.52
	75,000.00
	201,279.23
	4,621,908.96
	74,497,805.80
	8,643,175.98
	(190,210,330.20)
	$ (181,567,154.22)

Balance Sheet
Governmental Funds
September 30, 2018

	General Fund	Special Revenue Fund
Assets		
Cash and Cash Equivalents	$ 26,995,128.84	$ 8,635,249.25
Investments		307,861.96
Ad Valorem Property Taxes Receivable	52,657,500.00	
Receivables (Note 4)	1,881,869.85	1,704,116.07
Interfund Receivables	720,385.75	
Inventories	260,335.23	570,981.54
Total Assets	82,515,219.67	11,218,208.82
Liabilities, Deferred Inflows of Resources and Fund Balances		
Liabilities		
Accounts Payable	386,084.04	100,750.36
Interfund Payables		720,385.75
Unearned Revenues	93,242.29	357,011.36
Salaries and Benefits Payable	15,328,335.56	734,153.70
Total Liabilities	15,807,661.89	1,912,301.17
Deferred Inflows of Resources		
Unavailable Revenue - Property Taxes	52,657,500.00	
Revenue Received in Advance - Motor Vehicle Taxes	2,836,245.61	
Total Deferred Inflows of Resources	55,493,745.61	
Fund Balances		
Nonspendable	260,335.23	570,981.54
Restricted for:		
Debt Service		
Capital Projects		
Child Nutrition		2,483,657.33
Other Purposes		136,953.99
Assigned to:		
Local Schools		6,114,314.79
Other Purposes	754,367.13	
Unassigned	10,199,109.81	
Total Fund Balances	11,213,812.17	9,305,907.65
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 82,515,219.67	$ 11,218,208.82

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

Other Governmental Funds	Total Governmental Funds
$ 4,031,176.15	$ 39,661,554.24
	307,861.96
	52,657,500.00
822,901.36	4,408,887.28
	720,385.75
	831,316.77
4,854,077.51	98,587,506.00
	486,834.40
	720,385.75
	450,253.65
	16,062,489.26
	17,719,963.06
	52,657,500.00
	2,836,245.61
	55,493,745.61
	831,316.77
4,067,344.25	4,067,344.25
786,733.26	786,733.26
	2,483,657.33
	136,953.99
	6,114,314.79
	754,367.13
	10,199,109.81
4,854,077.51	25,373,797.33
$ 4,854,077.51	$ 98,587,506.00

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

Total Fund Balances - Governmental Funds (Exhibit 3)		$ 25,373,797.33
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The Cost of Capital Assets is	$ 455,005,223.31	
Accumulated Depreciation is	(137,225,852.05)	317,779,371.26
Long-term receivables do not provide current financial resources and, therefore, are not reported as receivables in the funds.		4,090,076.17
Losses on refunding of debt are reported as deferred outflows of resources and are not available to pay for current-period expenditures and, therefore, are deferred on the Statement of Net Position.		974,883.45
Gains on refunding of debt are reported as deferred inflows of resources and are not due and payable in the current and, therefore, are not shown as liabilities in the funds.		(22,959.41)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.		(9,454,543.71)
Deferred outflows and inflows of resources related to Other Postemployment Benefits (OPEB) obligations are applicable to future periods and, therefore, are not reported in the governmental funds.		(17,228,767.00)
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	$ 11,351,211.47	
Noncurrent Portion of Long-Term Debt	490,313,973.24	(501,665,184.71)
Interest on long-term debt is not accrued in the funds but rather is recognized as an expenditure when due.		
Accrued Interest Payable	$ 1,413,827.60	
		(1,413,827.60)
Total Net Position - Governmental Activities (Exhibit 1)		$ (181,567,154.22)

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

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

	General Fund	Special Revenue Fund
Revenues		
State	$ 112,938,561.84	$
Federal	159,698.28	11,786,351.12
Local	62,516,636.88	16,371,223.36
Other	379,972.61	377,600.94
Total Revenues	175,994,869.61	28,535,175.42
Expenditures		
Current:		
Instruction	101,430,601.62	12,382,301.85
Instructional Support	32,987,564.37	3,110,674.34
Operation and Maintenance	18,565,752.88	1,186,040.59
Auxiliary Services:		
Student Transportation	13,532,262.19	405,516.55
Food Service		11,931,451.19
General Administrative	4,851,881.90	255,341.50
Other	3,474,981.60	1,050,658.23
Capital Outlay	1,593,337.13	504,576.46
Debt Service:		
Principal Retirement		40,167.79
Interest and Fiscal Charges		4,688.34
Debt Issuance Costs/Other Debt Service		2,987.26
Total Expenditures	176,436,381.69	30,874,404.10
Excess (Deficiency) of Revenues Over Expenditures	(441,512.08)	(2,339,228.68)
Other Financing Sources (Uses)		
Indirect Cost	1,048,774.37	
Long-Term Debt Issued		21,165.62
Transfers In	2,193,605.04	4,451,552.70
Other Financing Sources	350,045.00	58,364.15
Sale of Capital Assets	3,230.00	42.00
Transfers Out	(4,451,552.70)	(2,193,605.04)
Total Other Financing Sources (Uses)	(855,898.29)	2,337,519.43
Net Changes in Fund Balances	(1,297,410.37)	(1,709.25)
Fund Balances - Beginning of Year	12,511,222.54	9,307,616.90
Fund Balances - End of Year	$ 11,213,812.17	$ 9,305,907.65

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

Other Governmental Funds		Total Governmental Funds
$ 6,336,415.00		$ 119,274,976.84
		11,946,049.40
14,053,401.43		92,941,261.67
1,396.72		758,970.27
20,391,213.15		224,921,258.18
		113,812,903.47
		36,098,238.71
95,085.17		19,846,878.64
		13,937,778.74
		11,931,451.19
		5,107,223.40
		4,525,639.83
6,728,666.16		8,826,579.75
9,864,378.66		9,904,546.45
8,099,706.06		8,104,394.40
9,137.50		12,124.76
24,796,973.55		232,107,759.34
(4,405,760.40)		(7,186,501.16)
		1,048,774.37
		21,165.62
		6,645,157.74
		408,409.15
		3,272.00
		(6,645,157.74)
		1,481,621.14
(4,405,760.40)		(5,704,880.02)
9,259,837.91		31,078,677.35
$ 4,854,077.51		$ 25,373,797.33

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

Net Changes in Fund Balances - Total Governmental Funds (Exhibit 5)		$ (5,704,880.02)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the period.		
Capital Outlays	$ 8,826,579.75	
Depreciation Expense	(8,905,819.51)	
		(79,239.76)
Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the Statement of Activities, but rather constitute long-term liabilities in the Statement of Net Position.		(21,165.62)
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.		9,904,546.45
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 by this amount.		
Proceeds from Sale of Capital Assets	$ (3,272.00)	
Loss on Disposition of Capital Assets	(296,353.35)	
		(299,625.35)

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

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

Accrued Interest Payable, Current Year Increase/(Decrease)	$	(53,268.09)	
Compensated Absences, Current Year Increase/(Decrease) in Noncurrent Portion		13,564.06	
Amortization of Bond Discounts/Premiums/Gain or Loss on Refunding/Issuance Costs (Prepaid Insurance)		(634,309.54)	
Pension Expense, Current Year Increase/(Decrease)		(9,169,785.55)	
OPEB Expense, Current Year Increase/(Decrease)		2,684,191.00	
			7,159,608.12

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

Donated Assets	$	249,572.00	
Reduction in Separation Agreement Receivable		(2,565,639.84)	
			(2,316,067.84)
Change in Net Position of Governmental Activities (Exhibit 2)			$ 8,643,175.98

Statement of Fiduciary Net Position
September 30, 2018

	Private-Purpose Trust Funds	Agency Funds
Assets		
Cash and Cash Equivalents	$ 517.07	$ 1,047,622.06
Investments	11,000.00	
Receivables	125.44	2,575.00
Total Assets	11,642.51	1,050,197.06
Liabilities		
Due to External Organizations		1,050,197.06
Total Liabilities		$ 1,050,197.06
Net Position	$ 11,642.51	

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

Statement of Changes in Fiduciary Net Position
For the Year Ended September 30, 2018

	Private-Purpose Trust Funds
Additions	
Earnings on Investments	$ 134.68
Total Additions	134.68
Changes in Net Position	134.68
Net Position - Beginning of Year	11,507.83
Net Position - End of Year	$ 11,642.51

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

Note 1 – Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

The Board reports the following major governmental funds:

- ***General Fund*** – The General Fund is the primary operating fund of the Board. It is used to account for all financial resources except those required to be accounted for in another fund. The Board primarily receives revenues from the Education Trust Fund (ETF) and local taxes. Amounts appropriated from the ETF were allocated to the school board on a formula basis.

- ***Special Revenue Fund*** – This fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Various federal and local funding sources are included in this fund. Some of the significant federal funding sources include the federal funds that are received for Special Education, Title I, and the Child Nutrition Program in addition to various smaller grants, which are required to be spent for the purposes of the applicable federal grants. Also included in this fund are the public and non-public funds received by the local schools which are generally not considered restricted or committed.

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

Governmental Fund Types

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

- ***Capital Projects Fund*** – This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlay, including the acquisition or construction of capital facilities and other capital assets.

The Board reports the following fiduciary fund types:

Fiduciary Fund Types

- ***Private-Purpose Trust Funds*** – These funds are used to report all trust agreements under which principal and income benefit individuals, private organizations, or other governments.

- ***Agency Funds*** – These funds are used to report assets held by the Board in a purely custodial capacity. The Board collects these assets and transfers them to the proper individual, private organizations, or other government.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. 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 grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

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

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

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

D. Assets, Deferred Outflow of Resources, Liabilities, Deferred Inflow of Resources and Net Position/Fund Balances

1. Deposits and Investments

Cash and Cash Equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

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

Investments are reported at fair value, based on quoted market prices, except for money market investments and repurchase agreements, which are reported at amortized cost, and certificates of deposit which are reported at cost. The Board reports all money market investments – U. S. Treasury bills and bankers' acceptances having a remaining maturity at time of purchase of one year or less – at amortized cost.

2. Receivables

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

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

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

Receivables from external parties are amounts that are being held in a trustee or agency capacity by the fiduciary funds.

3. Inventories

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

4. Restricted Assets

Certain funds received from the State Department of Education for capital projects and improvements, which are included in Cash and Cash Equivalents on the financial statements, as well as certain resources set aside for repayment of debt, are considered restricted assets because they are maintained separately, and their use is limited. The Debt Service Fund is used to report resources set aside to pay the principal and interest on debt as it becomes due.

5. Capital Assets

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

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

	Capitalization Threshold	Estimated Useful Life
Land	$1.00 or more	N/A
Construction in Progress	$1.00 or more	N/A
Land Improvements – Exhaustible	$50,000	20 years
Buildings	$50,000	50 years
Building Improvements	$50,000	7 – 30 years
Equipment and Furniture	$ 5,000	5 – 20 years
Vehicles	$ 5,000	8 – 10 years
Assets Under Capital Lease	$ 5,000	15 – 30 years

6. Deferred Outflows of Resources

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

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond/Warrant premiums and discounts are deferred and amortized over the life of the debt. Bond/Warrants payable are reported net of the applicable bond/warrant premium or discount. Bond/Warrant issuance costs are reported as an expense in the period incurred.

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

8. Compensated Absences

The Board's vacation leave policy consists of the following: All administrative and supervisory personnel who are employed for twelve months are entitled to earn one day vacation leave per month. Unused leave days may be carried over to the next year. The Board will pay for a maximum of 15 days unused vacation leave upon resignation or retirement.

9. Deferred Inflows of Resources

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

10. Net Position/Fund Balances

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

- ***Net Investment in Capital Assets*** – Capital assets minus accumulated depreciation and outstanding principal balances on debt attributable to the acquisition, construction or improvement of those assets plus or minus any deferred outflows of resources and deferred inflows of resources that are attributable to those assets or related debt. Any significant unspent related debt proceeds and any deferred outflows or inflows at year-end related to capital assets are not included in this calculation.

- ***Restricted*** **–** Constraints imposed on net position by external creditors, grantors, contributors, laws or regulations of other governments, or law through constitutional provision or enabling legislation.

- ***Unrestricted*** **–** Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted portion of net position. Assignments and commitments of unrestricted net position should not be reported on the face of the Statement of Net Position.

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

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

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

- ***Committed*** – Committed fund balances consist of amounts that are subject to a purpose constraint imposed by formal action of the Board before the end of the fiscal year and that require the same level of formal action to remove the constraint.

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

- ***Unassigned*** – Unassigned fund balances include all spendable amounts not contained in the other classifications. This portion of the total fund balance in the General Fund is available to finance operating expenditures.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be the policy of the Board to consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the Board that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts. The Board of Education along with the Superintendent and the Chief School Financial Officer will periodically review all restricted, committed, and assigned fund balances. The Chief School Financial Officer will prepare and submit an annual report of all restricted, committed, and assigned funds for the Board of Education.

E. Pensions

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

F. Postemployment Benefits Other Than Pensions (OPEB)

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

Note 2 – Stewardship, Compliance, and Accountability

Budgets

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

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

Note 3 – Deposits and Investments

A. Deposits

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

B. Investments in Cash with Fiscal Agents

Cash with Fiscal Agent is included with Cash and Cash Equivalents.

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

The Board authorizes the investment of surplus funds in the manner prescribed by the law and approved administrative guidelines.

As of September 30, 2018, the Board had the following investments and maturities classified as Cash with Fiscal Agent which are included with Cash and Cash Equivalents on the financial statements:

Investments	Fair Value
Investments Held by State of Alabama	$ 711,968.21
Regions Trust Fidelity Investments	
Money Market Treasury Only Funds	1,889,939.30
Total	$2,601,907.51

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

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. State law requires that pre-funded public obligations, such as any bonds or other obligations of any state of the United States of America or of any agency instrumentality or local governmental unity of any such state that the Board invests in be rated in the highest rating category of Standard & Poor's Corporation and Moody's Investor Services, Inc. The Board does not have a formal investment policy requiring investments to be rated in the highest rating category. As of September 30, 2018, the Board's investments in the Fidelity Investments Money Market Treasury Only Funds were rated AAA-mf by Moody's Investor Services, Inc.

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

Concentrations of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

Note 4 – Receivables

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

	General Fund	Special Revenue Fund	Other Governmental Funds	Total
Governmental Funds:				
Accounts	$ 18,684.05	$ 83,584.50	$	$ 102,268.55
Intergovernmental	1,854,888.73	1,620,284.00	822,858.30	4,298,031.03
Other	8,297.07	247.57	43.06	8,587.70
Total Receivables	$1,881,869.85	$1,704,116.07	$822,901.36	$4,408,887.28

The government-wide financial statements also report a Separation Agreement receivable of $4,090,076.17. This amount includes $571,942.49 of Series 2006 Special School Tax Warrants maturing February 1, 2031 due from the Alabaster City School Board per the Separation Agreement dated June 27, 2013. Also included is $3,518,133.68 of Series 2011 Capital Outlay School Warrants maturing February 1, 2024 due from the Pelham City School Board per the Separation Agreement dated June 5, 2014.

Note 5 – Capital Assets

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

	Balance 10/01/2017	Additions/ Reclassifications (*)	Retirements/ Reclassifications (*)	Balance 09/30/2018
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	$ 12,560,501.47	$ 30,597.35	$ (249,500.00)	$ 12,341,598.82
Construction in Progress	3,109,384.54	7,666,850.10	(1,111,309.96)	9,664,924.68
Total Capital Assets Not Being Depreciated	15,669,886.01	7,697,447.45	(1,360,809.96)	22,006,523.50
Capital Assets Being Depreciated:				
Land Improvements – Exhaustible	14,979,966.31	1,090,524.40		16,070,490.71
Buildings	325,453,111.24			325,453,111.24
Building Improvements	52,059,579.49	270,357.56		52,329,937.05
Equipment and Furniture	13,178,800.96	727,882.52	(824,263.53)	13,082,419.95
Vehicles	25,815,282.59	386,794.36	(209,668.69)	25,992,408.26
Assets Under Capital Lease	170,610.74	14,455.42	(114,733.56)	70,332.60
Total Capital Assets Being Depreciated	431,657,351.33	2,490,014.26	(1,148,665.78)	432,998,699.81
Less Accumulated Depreciation for:				
Land Improvements – Exhaustible	(7,089,311.00)	(572,415.87)		(7,661,726.87)
Buildings	(84,241,837.85)	(4,843,528.74)		(89,085,366.59)
Building Improvements	(14,519,334.68)	(1,374,639.03)		(15,893,973.71)
Equipment and Furniture	(8,566,977.20)	(664,857.13)	871,726.17	(8,360,108.16)
Vehicles	(14,954,291.28)	(1,440,418.70)	188,701.83	(16,206,008.15)
Assets Under Capital Lease	(46,820.96)	(9,960.04)	38,112.43	(18,668.57)
Total Accumulated Depreciation	(129,418,572.97)	(8,905,819.51)	1,098,540.43	(137,225,852.05)
Total Capital Assets Being Depreciated, Net	302,238,778.36	(6,415,805.25)	(50,125.35)	295,772,847.76
Total Governmental Activities Capital Assets, Net	$ 317,908,664.37	$ 1,281,642.20	$(1,410,935.31)	$ 317,779,371.26

(*) Included in the "Additions" and "Retirements" columns above are reclassifications totaling $270,357.56 from Construction in Progress to Building Improvements and $840,952.40 from Construction in Progress to Land Improvements.

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

	Current Year Depreciation Expense
Governmental Activities:	
Instruction	$4,921,449.92
Instructional Support	1,407,148.61
Operation and Maintenance	141,166.69
Auxiliary Services:	
Student Transportation	1,394,372.63
Food Service	1,028,082.01
General Administrative	6,491.82
Other	7,107.83
Total Depreciation Expense – Governmental Activities	$8,905,819.51

Note 6 – Defined Benefit Pension Plan

A. Plan Description

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

B. Benefits Provided

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

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

C. Contributions

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

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

Participating employers' contractually required contribution rate for the year ended September 30, 2018 was 12.24% of annual pay for Tier 1 members and 11.01% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the Board were $13,632,456.29 for the year ended September 30, 2018.

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

At September 30, 2018, the Board reported a liability of $165,195,000.00 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2016. The Board's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2017, the Board's proportion was 1.680774%, which was an increase of 0.015263% from its proportion measured as of September 30, 2016.

For the year ended September 30, 2018, the Board recognized pension expense of $4,463,000. 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	$	$ 7,082,000.00
Changes of assumptions	9,860,000.00	
Net difference between projected and actual earnings on pension plan investments		9,877,000.00
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,258,000.00	17,246,000.00
Employer contributions subsequent to the measurement date	13,632,456.29	
Total	$24,750,456.29	$34,205,000.00

The $13,632,456.29 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending:	
September 30, 2019	$(11,344,000.00)
2020	$ (4,031,000.00)
2021	$ (4,481,000.00)
2022	$ (3,125,000.00)
2023	$ (106,000.00)
Thereafter	$

E. Actuarial Assumptions

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

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

(*) Net of pension plan investment expense

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

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

	Target Allocation	Long-Term Expected Rate of Return (*)
Fixed Income	17.00%	4.40%
U. S. Large Stocks	32.00%	8.00%
U. S. Mid Stocks	9.00%	10.00%
U. S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	12.00%	9.50%
International Emerging Market Stocks	3.00%	11.00%
Alternatives	10.00%	10.10%
Real Estate	10.00%	7.50%
Cash	3.00%	1.50%
Total	100.00%	

(*) Includes assumed rate of inflation of 2.50%.

F. Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, 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.

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

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

	1% Decrease (6.75%)	Current Rate (7.75%)	1% Increase (8.75%)
Board's proportionate share of collective net pension liability	$227,856,000	$165,195,000	$112,188,000

H. Pension Plan Fiduciary Net Position

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

Note 7 – Other Postemployment Benefits (OPEB)

A. Plan Description

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

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

B. Benefits Provided

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

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

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

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

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

C. Contributions

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

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

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

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

At September 30, 2018, the Board reported a liability of $150,379,066.00 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2016. The Board’s proportion of the collective net OPEB liability was based on a projection of the Board’s long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At September 30, 2017, the Board’s proportion was 2.024645%, which was a decrease of .089817% from its proportion measured as of September 30, 2016.

For the year ended September 30, 2018, the Board recognized OPEB expense of $7,925,926, with no special funding situations. At September 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	$	$15,613,845.00
Net difference between projected and actual earnings on OPEB plan investments		800,631.00
Changes in proportion and differences between employer contributions and proportionate share of contributions		6,056,026.00
Employer contributions subsequent to the measurement date	5,241,735.00	
Total	$5,241,735.00	$22,470,502.00

The $5,241,735.00 reported as deferred outflows of resources related to OPEB resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2019.

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

Year Ending:	
September 30, 2019	$(4,343,537)
2020	$(4,343,537)
2021	$(4,343,537)
2022	$(4,343,537)
2023	$(4,143,379)
Thereafter	$ (952,975)

E. Actuarial Assumptions

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

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

([1]) Includes 3.00% wage inflation.
([2]) Compounded annually, net of investment expense, and includes inflation.

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

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

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

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

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

The long-term expected rate of return on the OPEB plan investments is determined based on the allocation of assets by asset class and by the mean and variance of real returns. The target asset allocation and best estimates of expected geometric real rates of return for each major asset class is summarized below:

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	100.00%	

(*) Geometric mean, includes 2.5% inflation

F. Discount Rate

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

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

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

	1% Decrease (6.75% Decreasing to 4% for Pre-Medicare, 4% for Medicare Eligible, and 1% for Optional Plans)	Current Healthcare Trend Rate (7.75% Decreasing to 5% for Pre-Medicare, 5% for Medicare Eligible, and 2% for Optional Plans)	1% Increase (8.75% Decreasing to 6% for Pre-Medicare, 6% for Medicare Eligible, and 3% for Optional Plans)
Board's proportionate share of collective net OPEB liability	$121,413,255	$150,379,066	$187,752,899

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

	1% Decrease (3.63%)	Current Rate (4.63%)	1% Increase (5.63%)
Board's proportionate share of the collective net OPEB Liability	$181,777,006	$150,379,066	$125,350,986

H. OPEB Plan Fiduciary Net Position

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

Note 8 – Construction and Other Significant Commitments

As of September 30, 2018, the Board was obligated under the following significant construction contracts:

	Total Amount Paid	Total Contract Amount
Classroom Additions at Chelsea High and Paving at Chelsea High and Chelsea Middle	$4,199,617.26	$4,324,972.33
Kitchen Renovations at Calera Intermediate and Paving at Calera Intermediate and Calera Elementary	1,387,233.49	1,422,803.58
Renovations at Shelby County Instructional Services Center	1,836,942.72	2,085,026.17
Interior Renovations at Vincent Elementary	116,267.75	120,314.12
HVAC Renovations at Montevallo Elementary	129,620.00	133,200.00
New Elevator at Chelsea Middle	175,934.50	181,324.00
Football Field Restroom Facility at Chelsea Middle	37,758.22	132,485.00
Access Road and Dropoff at Chelsea Middle		97,000.00
Gym Renovations at Montevallo High	571,909.02	627,599.00
Total	$8,455,282.96	$9,124,724.20

Note 9 – Lease Obligations

Capital Leases

The Board is obligated under certain leases accounted for as capital leases. Assets under capital leases totaled $70,332.60 at September 30, 2018. If the Board completes the lease payments according to the schedule below, which is the stated intent of the Board, ownership of the leased equipment will pass to the Board. Until that time, the leased equipment will be identified separately on the balance sheet. The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of September 30, 2018.

Fiscal Year Ending	Governmental Activities
September 30, 2019	$34,589.33
2020	13,699.53
2021	6,095.70
Total Minimum Lease Payments	54,384.56
Less: Amount Representing Interest	(4,803.78)
Present Value of Net Minimum Lease Payments	$49,580.78

Note 10 – Long-Term Debt

The Board, as part of a pooled warrant issuance with other school systems within the State of Alabama, issued Capital Improvement Pool Warrants, Series 2008, Series 2009-B, Series 2009-C, 2011-B, 2012-A, 2013-D, 2014-A, 2015-B and 2016-A in anticipation of their Public School Fund allocations, which are received from the Alabama Department of Education. Series 2008 and Series 2009-C was partially refunded by the issuance of the Capital Improvement Pool Refunding Bonds, Series 2015-B. The Alabama Department of Education withholds the required debt service payments from the Board's Public School Fund allocation. The proceeds from these warrants provided funds for the acquisition, construction, and renovation of school facilities.

On March 8, 2006, the Board issued Special Tax School Warrants, Series 2006, in the amount of $50,000,000.00. At issuance, the Board received $50,377,470.04 in net proceeds, $50,000,000.00 in principal, $870,415.75 in premiums and $44,178.14 in interest. Underwriters discount of $375,000 and insurance premiums of $162,123.85 were taken from the proceeds. The proceeds from these warrants provided funds for the construction of Calera High School, Helena Middle School, and other renovations of school facilities.

On April 9, 2009, the Board issued Capital Outlay School Warrants, Series 2009 in the amount of $68,050,000.00 to currently refund the Series 1998-A, 1998-B, 1999-A and 1999-B capital outlay warrants, to currently refund the 2004 Sale/Lease Back Transaction, to pay other miscellaneous fees, and to pay issuance costs for the Series 2009 Warrants. The Board's share of the ten mill countywide ad valorem tax is pledged for principal and interest payments. On February 1, 2018, the Board made the final payment on these Warrants.

On December 16, 2009, the Alabama Public School and College Authority issued Capital Improvement Pool Qualified School Construction Bonds Series 2009-D (Tax Credit Bonds) with a tax credit rate of 5.76% and interest rate of 1.865% on behalf of various Boards of Education in the State. The Board had a 0.76% participation in the bonds resulting in the Board's share of principal, issuance costs and net proceeds of $1,107,000, $9,744.46 and $1,097,255.54, respectively. The Board is required to make sinking fund deposits of $37,243.19 on December 15 in each year for fifteen years so that such deposits and any interest earned thereon shall be used to pay the principal of the bonds upon maturity and are pledged to pay the debt service requirements of the bonds. The sinking fund deposits and interest payments are payable from and secured by a pledge of the Board's allocable share of Public School Capital Outlay Funds.

On June 2, 2011, the Alabama Public School and College Authority issued Capital Improvement Pool Qualified Zone Academy Bonds, Series 2011-A on behalf of various Boards of Education in the State. The Authority will lend the Board a portion of the proceeds of the bonds. The Board's share of the bonds, issuance costs, and net proceeds were $900,000.00, $3,367.30 and $896,632.70 respectively. The Board is required to make sinking fund deposits of $41,925.97 on May 1 of each year for fifteen years so that such deposits and any interest earned thereon shall be used to pay the principal of the bonds upon maturity and are pledged to pay the debt service requirements of the bonds. The sinking fund deposits and interest payments are payable from and secured by a pledge of the Board's allocable share of Public School Capital Outlay Funds.

On October 6, 2011, the Board issued Capital Outlay School Warrants (Ten Mill County Tax) Series 2011 in the amount of $117,070,000.00. The proceeds in the amount of $120,354,163.30 including a premium of $3,264,163.30 were used to partially advance refund the Series 2009 Warrants in the escrow amount of $31,061,277.18, pay for underwriting discount $1,053,630.00, cost of issuance $219,000.00 and the remainder of $88,000,256.12 to construct new Helena High School, Forest Oaks Elementary School, classroom additions and modernization of schools in all Shelby County School Zones.

On March 14, 2012, the Alabama Public School and College Authority, on behalf of various Boards of Education in the pool, issued $79,340,000 in Capital Improvement Pool Refunding Bonds Series 2012-A ("Series 2012-A") with interest rates ranging from 4.00% to 5.00% to refund and retire on a current basis $79,340,000 of outstanding Capital Improvement Pool Bonds Series 2002-A ("Series 2002-A") with interest rates of 5.00%. The Board had 7.789% participation in the bonds, resulting in the Board's share of the principal, issuance costs, and premium of $4,478,495.70, $15,867.18 and $809,909.01, respectively. The Alabama Department of Education withholds the required debt service payments from the Board's Public School Fund allocation.

On October 15, 2013, the Alabama Public School and College Authority, on behalf of various Boards of Education in the pool, issued $23,985,000 in Capital Improvement Pool Bonds Series 2013-D ("Series 2013-D") with interest rates ranging from 2.00% to 4.125% to finance loans to local boards of education. Loans of the proceeds of the Pool Bonds to be made to local boards are payable solely out of and secured by the capital outlay funds allocated to participating school boards from the Public School Fund. The Board had 11.299% participation in the bonds, resulting in the Board's share of the principal, issuance costs, and premium of $2,710,169.49, $76,257.65 and $17,876.07, respectively. The Alabama Department of Education withholds the required debt service payments from the Board's Public School Fund allocation.

On May 28, 2014, the Alabama Public School and College Authority, on behalf of various Boards of Education in the pool, issued $80,065,000 in Capital Improvement Pool Refunding Bonds Series 2014-A ("Series 2014-A") with interest rates ranging from 2.00% to 5.00% to refund and retire on an advance basis $55,075,000 of outstanding Capital Improvement Bonds Series 2005 ("Series 2005") with interest rates ranging from 3.00% to 4.50% and $37,810,000 of outstanding Capital Improvement Bonds Series 2006 ("Series 2006") with interest rates ranging from 4.00% to 5.00%. The Board had 11.52% participation in the bonds, resulting in the Board's share of the principal, issuance costs, and premium of $9,223,662.69, $26,866.29 and $1,374,004.42, respectively. The Alabama Department of Education withholds the required debt service payments from the Board's Public School Fund allocation.

On May 5, 2015, the Alabama Public School and College Authority, on behalf of various Boards of Education in the pool, issued $47,610,000 in Capital Improvement Pool Refunding Bonds Series 2015-B ("Series 2015-B") with interest rates ranging from 3.00% to 5.00% to partially refund $29,790,000 of outstanding Capital Improvement Bonds Series 2008 ("Series 2008") with interest rates ranging from 3.25% to 4.25% and $22,415,000 of outstanding Capital Improvement Bonds Series 2009-C ("Series 2009-C") with interest rates ranging from 3.00% to 4.00%. The Board had 11.55% participation in the bonds, resulting in the Board's share of the principal, issuance costs, and premium of $5,499,363.22, $31,394.67 and $1,075,413.77, respectively. The Alabama Department of Education withholds the required debt service payments from the Board's Public School Fund allocation.

On January 12, 2015, the Board issued $350,000 Capital Outlay School Warrants, Series 2014, (One Mill) for the purpose of constructing athletic complex and facilities at Helena High School at 3.15% interest rate will expire February 1, 2025.

On May 4, 2016, the Board issued Public School Warrants (Sales Tax) Series 2016 in the amount of $36,700,000.00. The proceeds and the escrow balance from prior 2006 debt service in the amount of $43,119,165.60 including a premium of $5,564,558.60 were used to partially refunded the Series 2006 Warrants in the escrow amount of $37,145,412.81, pay for underwriting discount $330,300.00, cost of issuance $122,250.00, and the premium in the amount of $5,521,202.79 will be used to construct 20 new classrooms at Chelsea High School and land and building improvements at various schools in Shelby County.

On June 30, 2016, the Alabama Public School and College Authority, on behalf of various Boards of Education in the pool, issued $29,245,000 in Capital Improvement Pool Bonds Series 2016-A (“Series 2016-A”) with interest rates ranging from 2.50% to 5% to finance loans to local boards of education. Loans of the proceeds of the Pool Bonds to be made to local boards are payable solely out of and secured by the capital outlay funds allocated to participating school boards from the Public School Fund. The Board had 4.843% participation in the bonds, resulting in the Board’s share of the principal, issuance costs, underwriters discount, discount and premium of $1,416,222.78, $7,506.50, $8,370.58, $6,934.38 and $154,327.29, respectively. The Alabama Department of Education withholds the required debt service payments from the Board’s Public School Fund allocation.

On February 16, 2017, the Board issued Series 2017 Public School Warrants in the amount of $5,165,000.00. The proceeds in the amount of $5,343,446.30 of which included principal amount of $5,165,000.00, premium of $224,931.30, and underwriting discount of $46,485.00 for the purpose of purchasing new school buses.

On May 18, 2017, The Board issued $2,000,000.00 Series 2017 Qualified Zone Academy Warrant with interest rates at 0.00% for the purpose of rehabilitating or repairing the school facilities in various qualified zone schools in Shelby County. The Board is required to make annual sinking fund payments in the amount of $200,000.00. On the Final maturity date, all monies and investments held in the Warrant Sinking Fund will be applied to payment of the principal amount of the Warrant. The Series 2017 Qualified Zone Academy Warrant will mature February 1, 2027.

The Board is obligated under certain leases accounted for as capital leases. These capital leases were obtained to purchase various equipment and to finance certain capital improvements.

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

	Debt Outstanding 10/01/2017	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 09/30/2018	Amounts Due Within One Year
Governmental Activities:					
Warrants Payable:					
CO School Warrant, Series 2014	$ 288,868.07	$	$ (32,313.61)	$ 256,554.46	$ 33,331.47
CO School Refunding Warrants:					
Series 2009	3,870,000.00		(3,870,000.00)		
Series 2011	112,855,000.00		(820,000.00)	112,035,000.00	5,170,000.00
PSCA CO Pool Warrants:					
Series 2008	310,362.55		(310,362.55)		
Series 2009-B	1,321,402.00		(1,125,935.05)	195,466.95	195,466.95
Series 2009-C	249,351.69		(122,078.43)	127,273.26	127,273.26
Series 2011-B	2,751,578.27			2,751,578.27	753,534.81
Series 2012-A	2,185,819.40		(354,125.85)	1,831,693.55	372,515.88
Series 2013-D	2,374,011.29		(117,514.12)	2,256,497.17	120,338.98
Series 2014-A	7,123,949.17		(744,833.55)	6,379,115.62	775,667.61
Series 2015-B	5,499,363.22			5,499,363.22	244,878.18
Series 2016-A	1,367,070.24		(47,215.50)	1,319,854.74	49,636.80
QSCB Series 2009-D	774,777.59			774,777.59	
QZAB Series 2011-A	852,598.77			852,598.77	
QZAB Series 2017	2,000,000.00			2,000,000.00	
Special Tax Series 2006	605,000.00		(30,000.00)	575,000.00	30,000.00
Public School Warrants, Series 2016	35,350,000.00		(1,840,000.00)	33,510,000.00	1,910,000.00
Public School Warrants, Series 2017	5,165,000.00		(450,000.00)	4,715,000.00	460,000.00
Sub-Total Warrants Payable	184,944,152.26		(9,864,378.66)	175,079,773.60	10,242,643.94
Unamortized Discount	(6,499.17)		348.17	(6,151.00)	(348.17)
Unamortized Premium	10,844,739.82		(1,076,688.56)	9,768,051.26	957,598.75
Total Warrants Payable, Net	195,782,392.91		(10,940,719.05)	184,841,673.86	11,199,894.52
Other Liabilities:					
Capital Leases Contracts Payable	68,582.95	21,165.62	(40,167.79)	49,580.78	31,330.54
Compensated Absences	1,186,300.01	13,564.06		1,199,864.07	119,986.41
OPEB Liability	169,838,603.00		(19,459,537.00)	150,379,066.00	
Pension Liability	180,308,000.00		(15,113,000.00)	165,195,000.00	
Total Other Liabilities	351,401,485.96	34,729.68	(34,612,704.79)	316,823,510.85	151,316.95
Total Governmental Activities Long-Term Liabilities	$547,183,878.87	$34,729.68	$(45,553,423.84)	$501,665,184.71	$11,351,211.47

Payments on the Series 2006, 2016, 2017 warrants payable are made by the Debt Service Fund with sales tax. Payments on the Series 2009, Series 2011 (Ten Mill), and Series 2014 (One Mill) warrants payable are made by the Debt Service Fund with property taxes. Payments on the Capital Improvement Pool Bonds 2008, 2009-B, 2009-C, 2009-D, 2011-B, 2012-A, 2013-D, 2014-A, 2015-B and 2016-A are made with Public School Funds which are part of the Board's allocation from the Alabama Department of Education. Payments on the obligations under capital leases will be made by local school funds.

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

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

Fiscal Year Ending	Warrants Payable Principal	Warrants Payable Interest	Capital Lease Contracts Payable Principal	Capital Lease Contracts Payable Interest	Total Principal and Interest Requirements to Maturity
September 30, 2019	$ 10,242,643.94	$ 7,737,010.47	$31,330.54	$3,258.79	$ 18,014,243.74
2020	10,741,260.71	7,279,497.22	12,400.90	1,298.61	18,034,457.44
2021	11,205,584.18	6,804,846.14	5,849.34	246.37	18,016,526.03
2022	10,033,834.82	6,311,398.54			16,345,233.36
2023	10,185,915.22	5,820,415.97			16,006,331.19
2024-2028	57,021,634.37	21,446,875.57			78,468,509.94
2029-2033	38,881,333.81	9,665,566.71			48,546,900.52
2034-2038	15,637,566.55	4,558,484.98			20,196,051.53
2039-2041	11,130,000.00	811,012.50			11,941,012.50
Totals	$175,079,773.60	$70,435,108.10	$49,580.78	$4,803.77	$245,569,266.25

<u>Deferred Gain/Loss on Refunding, Discounts and Premiums</u>

The Board has a deferred loss on refunding and a premium in connection with the issuance of its Capital Outlay School Warrants, Series 2011, which partially refunded the Capital Outlay School Refunding Warrants, Series 2009. The deferred loss is being amortized over the remaining life of the Capital Outlay Refunding Warrants, Series 2009 and the premium is being amortized using the straight-line method over a period of thirty years.

The Board has a deferred gain on refunding and a premium in connection with the issuance of the PSCA Capital Improvement Pool Warrants, Series 2012-A, which refunded the Capital Improvement Pool Warrants, Series 2002-A. The deferred gain on refunding and premium are being amortized using the straight-line method over a period of ten years.

The Board has a deferred loss on refunding and a premium in connection with the issuance of its Capital Outlay School Refunding Warrants, Series 2009. The deferred loss on refunding and premium are being amortized using the straight-line method over a period of nine years. The Board has a premium in connection with the issuance of its PSCA Capital Improvement Pool Warrants, Series 2008, which is being amortized using straight-line method over a period of twenty years.

The Board has a deferred loss on refunding and a premium in connection with the issuance of its PSCA Capital Improvement Refunding Pool Warrants, Series 2009-B. The deferred loss on refunding and premium are being amortized over the remaining life of the Series 2001-A, and 1999-D, which was 9.5 years.

The Board has a premium for the PSCA Capital Improvement Pool Warrants, Series 2009-C which is being amortized using the straight-line method over a period of twenty years.

The Board has a deferred loss on refunding and a premium in connection with the issuance of its PSCA Capital Improvement Pool Warrants, Series 2011-B. The deferred loss on refunding and premium are being amortized using the straight-line method over a period of ten years.

The Board has a premium in connection with the issuance of its PSCA Capital Improvement Pool Warrants, Series 2013-D, which are being amortized over a period of twenty years.

The Board has a deferred loss on refunding and a premium in connection with the issuance of its PSCA Capital Improvement Pool Warrants, Series 2014-A, which refunded the Capital Improvement Pool Warrants, Series 2005 and Series 2006. The deferred loss on refunding and premium are being amortized using the straight-line method over a period of twelve years.

The Board has a deferred loss on refunding and a premium in connection with the issuance of its PSCA Capital Improvement Pool Warrants, Series 2015-B, which partially refunded the Capital Improvement Pool Warrants, Series 2008, and Series 2009-C. The deferred loss on refunding and premium are being amortized using the straight-line method over a period of fourteen years.

The Board has a deferred loss on the current refunding and a premium in connection with the issuance of its Public School Warrants, Series 2016, which partially refunded the Special Tax School Warrants, Series 2006. The deferred loss on the current refunding and premium are being amortized using the straight-line method over a period of 14.83 years.

The Board has a premium and a discount in connection with the issuance of its PSCA Capital Improvement Pool Warrants, Series 2016-A, which are being amortized over a period of 19.92 years.

The Board has a premium in connection with the issuance of the $5,165,000 Public School Warrants, Series 2017, are being amortized using the straight-line method over a period of 10 years.

	Deferred Loss on Refunding	Deferred Gain on Refunding	Discount	Premium
Total Deferred Gain/Loss on Refunding, Discount and Premium	$7,031,300.44	$65,598.22	$6,934.38	$16,340,012.98
Amount Amortized Prior Years	5,607,826.34	36,079.01	435.21	5,495,273.16
Balance Gain/Loss on Refunding, Discount and Premium	1,423,474.10	29,519.21	6,499.17	10,844,739.82
Current Year Amortized	448,590.65	6,559.80	348.17	1,076,688.56
Balance Deferred Gain/Loss on Refunding, Discount and Premium	$ 974,883.45	$22,959.41	$6,151.00	$ 9,768,051.26

Pledged Revenues

The Board issued Series 2008-A, 2008-B, 2008-C, 2009-B, 2009-C, 2011-B, 2012-A, 2013-D, 2014-A, 2015-B and 2016-A. The Board also issued Capital Improvement Pool Warrants, Series 2009-D Capital Improvement Pool Qualified School Construction Bonds and Series 2011-A Capital Improvement Pool Qualified Zone Academy Bonds. These are all are pledged to be repaid from their allocation of public school funds received from the State of Alabama. The proceeds are to be used for the acquisition, construction and renovation of school facilities. Future revenues in the amount of $27,016,044.35 are pledged to repay the principal and interest on the warrants at September 30, 2018. Proceeds of the public school fund in the amount of $4,871,049.00 were received by the Board during the fiscal year ended September 30, 2018, of which $3,885,310.21 was used to pay principal, interest and fees on the warrants. The Series 2008-A, 2008-B and 2008-C Warrants matured in fiscal year 2018. The Series 2009-B, Series 2009-C, Series 2009-D, Series 2011-A, Series 2011-B, Series 2012-A, Series 2013-D, Series 2014-A, Series 2015-B and Series 2016-A warrants will mature in fiscal years 2019, 2019, 2026, 2026, 2021, 2024, 2033, 2026, 2029 and 2036 respectively.

The Board issued Series 2006 Special Tax School Warrants for the purpose of constructing a new high school in Calera, a new middle school in Helena, and classroom additions to various schools. The Board pledged to repay the special tax school warrants from the Board's portion of the proceeds of a sales tax levied the by Shelby County Commission pursuant to the provisions of Act Number 81-461, Acts of Alabama, as amended by Act Number 96-505, Acts of Alabama. Future revenues in the amount of $766,531.38 are pledged to repay the principal and interest on the warrants at September 30, 2018. Proceeds of the sales tax in the amount of $10,462,666.39 were received by the Board during the fiscal year ended September 30, 2018, of which $30,000.00 were used to pay principal and interest on the warrants. The Special Tax School Warrants will mature in fiscal year 2031.

The Board issued Series 2009 Capital Outlay School Warrants for the purpose of current refunding the Board's Series 1998-A, 1998-B, 1999-A and 1999-B Capital Outlay School Warrants and to current refund 2004 Sale/Lease Back Transaction. The Board pledged to repay the capital outlay warrants from their share of the 10 mill county ad valorem tax. Proceeds of the 10 mill tax in the amount of $20,437,050.19 were received by the Board during the fiscal year ended September 30, 2018, of which $3,974,537.52 was used to pay principal and interest on the warrants. The Series 2009 warrants matured in year 2018.

The Board issued $117,070,000.00 Capital Outlay School Warrants, Series 2011 for the purpose of constructing two new schools, classroom additions, and school modernization throughout Shelby County School Zones. The Board pledged to repay with the ten mill county ad valorem tax. Future revenues in the amount of $166,073,055.25 are pledged to repay the remaining principal and interest on the warrants at September 30, 2018. Proceeds of the ten mill tax in the amount of $20,437,050.19 were received by the Board during fiscal year ended September 30, 2018, of which $6,047,562.50 was used to pay principal and interest on the warrants. The Capital Outlay School Warrants Series 2011 will expire in fiscal year 2041.

The Board issued $350,000.00 Capital Outlay School Warrants, Series 2014 for the purpose of renovating, constructing and equipping an athletic complex and related facilities. The Board pledged to repay with the one mill county ad valorem tax (Section 269C as amended by Amendment Number 111 of the Constitution of 1901, as amended). Future revenues in the amount of $289,881.97 are pledged to repay the principal and interest on the warrants at September 30, 2018. Proceeds from the one mill tax in the amount of $2,043,704.96 were received by the Board during the fiscal year ended September 30, 2018, of which $41,411.99 was used to pay principal and interest on the warrants. The Capital Outlay School Warrants Series 2014 will expire in fiscal year 2025.

The Board issued Series 2016 Public School Warrants for the purpose of partially redeeming the Series 2006 Warrants and the remainder used to construct 20 new classrooms at Chelsea High School and land and building improvements at various schools in Shelby County. The Board pledged to repay the public school warrants from the Board's portion of the proceeds of a sales tax levied by Shelby County Commission pursuant to the provisions of Act Number 81-461, Acts of Alabama, as amended by Act Number 96-505, Acts of Alabama. Future revenues in the amount of $43,947,825.00 are pledged to repay the principal and interest on the warrants at September 30, 2018. Proceeds of the sales tax in the amount of $10,462,666.39 were received by the Board during the fiscal year ended September 30, 2018, of which $3,383,650.00 were used to pay principal and interest on the warrants. The Public School Warrants will mature in fiscal year 2031.

The Board issued Series 2017 Public School Warrants for the purpose of purchasing new school buses. The Board pledged to repay the public school warrants from the Board's portion of the proceeds of a sales tax levied by Shelby County Commission pursuant to the provisions of Act Number 81-461, Acts of Alabama, as amended by Act Number 96-505, Acts of Alabama. Future revenues in the amount of $5,421,543.75, are pledged to repay the principal and interest on the warrants at September 30, 2018. Proceeds of the sales tax in the amount of $10,462,666.39 were received by the Board during the fiscal year ended September 30, 2018, of which none were used to pay the principal and interest on the warrants. The Public School Warrants will mature in fiscal year 2027.

The Board issued $2,000,000.00 Series 2017 Qualified Zone Academy Warrant for the purpose of rehabilitating or repairing the school facilities in various qualified zone schools in Shelby County. The Board pledged to repay with the one mill county ad valorem tax (Section 269C as amended by Amendment Number 111 of the Constitution of 1901, as amended). Future revenues in the amount of $2,000,000.00 are pledged to repay the principal and interest on the warrants at September 30, 2018. Proceeds from the one mill tax in the amount of $2,043,704.96 were received by the Board during the fiscal year ended September 30, 2018, of which no amount was used to pay principal and interest on the warrants. However, $200,000.00 was transferred into a sinking fund to contribute towards the principal amount at maturity. The Series 2017 Qualified Zone Academy Warrant will expire in fiscal year 2027.

Note 11 – Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board has insurance for its buildings and contents through the State Insurance Fund (SIF) part of the State of Alabama, Department of Finance, Division of Risk Management, which operates as a common risk management and insurance program for state owned properties and county boards of education. The Board pays an annual premium based on the amount of coverage requested. The SIF is self-insured. The SIF has a $7,500,000 cumulative loss annual deductible and a $3,500,000 specific loss deductible for all perils except wind, and a $10,000,000 specific loss deductible for wind losses. Excess insurance covers claims exceeding the deductible with a $250,000,000 limit for named wind storms and a $2,000,000,000 limit for all other perils. Second event wind coverage for $19,000,000 in excess of $1,000,000 is purchased to provide additional protection for the SIF. The Board purchases errors and omissions insurance 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. Automobile insurance is purchased from Rux Carter Insurance Agency Auto Owners Insurance Company with medical payments limited to $5,000.00 per person and a combined liability of $500,000.00 per occurrence. Employee health insurance is provided through the Public Education Employees' Health Insurance Fund (PEEHIF), administered by the Public Education Employees' Health Insurance Board (PEEHIB). The Fund was established to provide a uniform plan of health insurance for current and retired employees of state educational institutions and is self-sustaining. Monthly premiums for employee and dependent coverage are determined annually by the plan's actuary and are based on anticipated claims in the upcoming year, considering any remaining fund balance on hand available for claims. The Board contributes a specified amount monthly to the PEEHIF for each employee of state educational institutions. The Board's contribution is applied against the employees' premiums for the coverage selected and the employee pays any remaining premium.

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

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

Note 12 – Interfund Transactions

Interfund Receivables/Payables

The amounts due to/from other funds at September 30, 2018, were as follows:

	Interfund Payables Special Revenue Fund	Totals
Interfund Receivables:		
General Fund	$720,385.75	$720,385.75
Totals	$720,385.75	$720,385.75

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

	Transfers Out		
	General Fund	Special Revenue Fund	Totals
Transfers In:			
General Fund	$	$2,193,605.04	$2,193,605.04
Special Revenue Fund	4,451,552.70		4,451,552.70
Totals	$4,451,552.70	$2,193,605.04	$6,645,157.74

The Board typically used transfers to fund ongoing operating subsidies and to recoup certain expenditures paid on-behalf of the local schools. The Board is also required to transfer funds into the Special Revenue Fund to pay for CNP staff fringe benefits and raises.

Note 13 – Subsequent Events

The Board has approved the following significant construction contracts since October 1, 2018:

	Contract Amount
Chelsea High School Weight Room Building	$ 387,049.00
HVAC Controls	305,395.00
Partial Reroofing at Oak Mountain Intermediate and Bus Shop	334,400.00
New Drop off Access Road for Chelsea Middle	97,000.00
Plumbing and HVAC Renovations at Oak Mountain High	199,600.00
New Synthetic Turf and Track at Helena High	1,172,706.00
Reroofing at Chelsea Middle and Calera Intermediate	444,400.00
Reroofing at Montevallo Middle and Montevallo High	381,799.00
Total	$3,322,349.00

Note 14 – Restatements

In fiscal year 2018, the Board adopted Governmental Accounting Standards Board (GASB) Statement Number 75, ***Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions***, as amended by GASB Statement Number 85, ***Omnibus 2017***. The provisions of this statement establish accounting and financial reporting requirements for governmental; employers who provide Other Postemployment Benefits (OPEB) to their employees through a trust. Implementation of this statement requires a restatement to beginning net position. The adoption of this statement has a significant impact on the Board's financial statements. For fiscal year 2018, the Board made prior period adjustments due to the adoption of GASB Statement Number 75, which required the restatement of the September 30, 2017, net position in governmental activities. The result is a decrease in net position at October 1, 2017 of $164,923,642.00.

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

	Governmental Activities
Governmental Activities Net Position, September 30, 2017, as Previously Reported	$ (25,286,688.20)
Effect of Accounting Change on Capital Assets:	
Proportionate Share of Collective Net OPEB Liability	(169,838,603.00)
Deferred Outflows of Resources	4,914,961.00
Governmental Activities Net Position, September 30, 2017, as Restated	$(190,210,330.20)

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Required Supplementary Information

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

		2018		2017
Employer's proportion of the collective net pension liability		1.680774%		1.665511%
Employer's proportionate share of the collective net pension liability	$	165,195	$	180,308
Employer's covered payroll during the measurement period (*)	$	111,458	$	106,171
Employer's proportionate share of the collective net pension liability as a percentage of its covered-employee payroll		148.21%		169.83%
Plan fiduciary net position as a percentage of the total collective pension liability		71.50%		67.93%

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

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

	2016	2015
	1.700285%	1.866222%
	$ 177,947	$ 169,538
	$ 107,701	$ 118,415
	165.22%	143.17%
	67.51%	71.01%

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

		2018		2017
Contractually required contribution	$	13,632	$	13,157
Contributions in relation to the contractually required contribution	$	13,632	$	13,157
Contribution deficiency (excess)	$		$	
Employer's covered payroll	$	113,728	$	111,458
Contributions as a percentage of covered payroll		11.99%		11.80%

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

2016		2015	
$	12,522	$	12,544
$	12,522	$	12,544
$		$	
$	106,171	$	107,701
	11.79%		11.65%

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

		2018
Employer's proportion of the collective net OPEB liability		2.024645%
Employer's proportionate share of the collective net OPEB liability (asset)	$	150,379
Employer's covered-employee payroll during the measurement period (*)	$	111,458
Employer's proportionate share of the collective net OPEB liability (asset) as a percentage of its covered-employee payroll		134.92%
Plan fiduciary net position as a percentage of the total collective OPEB liability		15.37%

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

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

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

		2018
Contractually required contribution	$	5,241
Contributions in relation to the contractually required contribution	$	(5,241)
Contribution deficiency (excess)	$	
Employer's covered-employee payroll	$	113,728
Contributions as a percentage of covered-employee payroll		4.61%

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

Changes in Actuarial Assumptions

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

Recent Plan Changes

Effective January 1, 2017, Medicare eligible medical and prescription drug benefits are provided through the Medicare Advantage Part D (MAPD) plan.

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

Method and Assumptions Used in Calculations of Actuarially Determined Contributions

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

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

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

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis
Revenues			
State	$ 110,691,332.00	$ 111,586,453.87	$ 112,938,561.84
Federal	139,200.00	139,200.00	159,698.28
Local	61,369,196.15	62,051,690.03	62,340,773.85
Other	208,059.00	308,059.00	379,972.61
Total Revenues	172,407,787.15	174,085,402.90	175,819,006.58
Expenditures			
Current:			
Instruction	100,920,419.00	101,302,775.03	100,316,384.39
Instructional Support	31,617,422.31	32,426,308.07	32,781,493.57
Operation and Maintenance	18,083,260.00	18,240,658.00	18,538,785.65
Auxiliary Services:			
Student Transportation	13,236,579.00	13,370,752.00	13,458,974.01
General Administrative	5,121,229.00	5,194,470.00	4,839,306.28
Other	3,301,841.87	3,544,825.33	3,424,029.63
Capital Outlay	745,066.00	1,190,453.00	1,593,337.13
Total Expenditures	173,025,817.18	175,270,241.43	174,952,310.66
Excess (Deficiency) of Revenues Over Expenditures	(618,030.03)	(1,184,838.53)	866,695.92
Other Financing Sources (Uses)			
Indirect Cost	1,083,542.09	1,077,344.88	1,048,774.37
Transfers In	2,090,697.00	2,434,739.95	2,193,605.04
Other Financing Sources		12,000.00	350,045.00
Sale of Capital Assets	10,000.00	10,000.00	3,230.00
Transfers Out	(4,523,762.74)	(4,641,989.88)	(4,451,552.70)
Total Other Financing Sources (Uses)	(1,339,523.65)	(1,107,905.05)	(855,898.29)
Net Change in Fund Balances	(1,957,553.68)	(2,292,743.58)	10,797.63
Fund Balances - Beginning of Year	22,594,162.43	29,327,850.01	29,327,850.01
Fund Balances - End of Year	$ 20,636,608.75	$ 27,035,106.43	$ 29,338,647.64

Explanation of differences:

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

Budget to GAAP Differences	Actual Amounts GAAP Basis
$	$ 112,938,561.84
	159,698.28
175,863.03	62,516,636.88
	379,972.61
175,863.03	175,994,869.61
1,114,217.23	101,430,601.62
206,070.80	32,987,564.37
26,967.23	18,565,752.88
73,288.18	13,532,262.19
12,575.62	4,851,881.90
50,951.97	3,474,981.60
	1,593,337.13
1,484,071.03	176,436,381.69
(1,308,208.00)	(441,512.08)
	1,048,774.37
	2,193,605.04
	350,045.00
	3,230.00
	(4,451,552.70)
	(855,898.29)
(1,308,208.00)	(1,297,410.37)
(16,816,627.47)	12,511,222.54
$ (18,124,835.47)	$ 11,213,812.17
$ (1,308,208.00)	

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

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis
Revenues			
Federal	$ 11,603,234.02	$ 12,127,402.29	$ 11,786,351.12
Local	15,252,632.54	15,239,416.40	16,371,223.36
Other	426,296.89	425,787.49	377,600.94
Total Revenues	27,282,163.45	27,792,606.18	28,535,175.42
Expenditures			
Current:			
Instruction	11,075,286.29	11,342,057.85	12,382,301.85
Instructional Support	2,668,039.05	2,826,675.49	3,110,674.34
Operation and Maintenance	961,146.00	961,146.00	1,186,040.59
Auxiliary Services:			
Student Transportation	371,109.90	373,339.80	405,516.55
Food Service	12,571,391.17	12,112,280.60	11,911,427.01
General Administrative	336,305.55	313,068.74	255,341.50
Other	2,007,554.40	2,031,369.15	1,050,658.23
Capital Outlay	232,500.00	366,711.92	504,576.46
Debt Service:			
Principal Retirement	20,900.00	20,900.00	40,167.79
Interest and Fiscal Charges	1,735.00	1,735.00	4,688.34
Debt Issuance Costs/Other Debt Service	1,450.00	1,450.00	2,987.26
Total Expenditures	30,247,417.36	30,350,734.55	30,854,379.92
Excess (Deficiency) of Revenues Over Expenditures	(2,965,253.91)	(2,558,128.37)	(2,319,204.50)
Other Financing Sources (Uses)			
Long-Term Debt Issued			21,165.62
Transfers In	5,265,637.74	5,311,719.93	4,451,552.70
Other Financing Sources	51,639.50	51,639.50	58,364.15
Sale of Capital Assets			42.00
Transfers Out	(2,832,572.00)	(3,104,470.00)	(2,193,605.04)
Total Other Financing Sources (Uses)	2,484,705.24	2,258,889.43	2,337,519.43
Net Change in Fund Balances	(480,548.67)	(299,238.94)	18,314.93
Fund Balances - Beginning of Year	9,041,823.71	11,131,681.45	10,021,746.42
Fund Balances - End of Year	$ 8,561,275.04	$ 10,832,442.51	$ 10,040,061.35

Explanation of differences:

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

Budget to GAAP Differences	Actual Amounts GAAP Basis
$	$ 11,786,351.12
	16,371,223.36
	377,600.94
	28,535,175.42
	12,382,301.85
	3,110,674.34
	1,186,040.59
	405,516.55
20,024.18	11,931,451.19
	255,341.50
	1,050,658.23
	504,576.46
	40,167.79
	4,688.34
	2,987.26
20,024.18	30,874,404.10
(20,024.18)	(2,339,228.68)
	21,165.62
	4,451,552.70
	58,364.15
	42.00
	(2,193,605.04)
	2,337,519.43
(20,024.18)	(1,709.25)
(714,129.52)	9,307,616.90
$ (734,153.70)	$ 9,305,907.65
$ (20,024.18)	

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Supplementary Information

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

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Total Federal Expenditures
U. S. Department of Agriculture			
Passed Through Alabama Department of Education			
Child Nutrition Cluster:			
School Breakfast Program	10.553	N/A	$ 898,016.05
National School Lunch Program:			
Cash Assistance	10.555	N/A	3,246,025.47
Non-Cash Assistance (Commodities)	10.555	N/A	545,014.02
Sub-Total National School Lunch Program			3,791,039.49
Summer Food Service Program for Children	10.559	N/A	37,713.76
Sub-Total Child Nutrition Cluster (M)			4,726,769.30
State Administrative Expenses for Child Nutrition	10.560	N/A	31,261.49
Fresh Fruit and Vegetable Program	10.582	N/A	170,596.84
Total U. S. Department of Agriculture			4,928,627.63
U. S. Department of Education			
Passed Through Alabama Department of Education			
Special Education Cluster:			
Special Education - Grants to States	84.027	N/A	3,932,597.71
Special Education - Preschool Grants	84.173	N/A	65,347.04
Sub-Total Special Education Cluster			3,997,944.75
Title I Grants to Local Educational Agencies	84.010	N/A	1,903,093.88
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	N/A	71,365.48
Career and Technical Education - Basic Grants to States	84.048	N/A	168,440.00
Education for Homeless Children and Youth	84.196	N/A	18,731.12
English Language Acquisition State Grants	84.365	N/A	107,689.43
Supporting Effective Instruction State Grant	84.367	N/A	431,128.33
Student Support and Academic Enrichment Program	84.424	N/A	45,456.61
Passed Through Alabama Department of Rehabilitation Services			
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	N/A	90,480.43
Passed Through Alabama Department of Early Childhood Education			
Preschool Development Grant	84.419	N/A	93,500.00
Total U. S. Department of Education			6,927,830.03
Sub-Total Forward			$ 11,856,457.66

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

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Total Federal Expenditures
Sub-Total Brought Forward			$ 11,856,457.66
Social Security Administration			
Passed Through Alabama Department of Education			
Social Security - Disability Insurance	96.001	N/A	5,960.00
U. S. Department of Health and Human Services			
Passed Through Alabama Department of Mental Health			
Developmental Disabilities Basic Support and Advocacy Grant	93.630	N/A	7,098.64
Other Federal Assistance			
U. S. Department of Defense			
Direct Program			
ROTC - Army	N/A	N/A	74,524.69
ROTC - Navy	N/A	N/A	79,213.59
Total U. S. Department of Defense			153,738.28
Total Expenditures of Federal Awards			$ 12,023,254.58

(M) = Major Program
N/A = Not Applicable/Not Available

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

Note 1 – Basis of Presentation

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

Note 2 – Summary of Significant Accounting Policies

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

Additional Information

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

Board Members		**Term Expires**
Hon. Aubrey Miller	President	2022
Hon. Peg Hill	Vice-President	2020
Hon. Jane Hampton	Member	2022
Hon. Jimmy Bice	Member	2024
Hon. David Bobo	Member	2024
Administrative Personnel		
Hon. Randy Fuller	Superintendent	December 31, 2018
Gary McCombs	Assistant Superintendent of Finance/Chief School Financial Officer	June 30, 2018
John Gwin	Assistant Superintendent of Finance/Chief School Financial Officer	Indefinite

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

Independent Auditor's Report

Members of the Shelby County Board of Education,
Superintendent and Chief School Financial Officer
Columbiana, Alabama

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards*** issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Shelby County Board of Education as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Shelby County Board of Education's basic financial statements, and have issued our report thereon dated September 3, 2019.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Rachel Laurie Riddle

Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

September 3, 2019

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

Independent Auditor's Report

Members of the Shelby County Board of Education,
Superintendent and Chief School Financial Officer
Columbiana, Alabama

Report on Compliance for Each Major Federal Program

We have audited the Shelby County Board of Education's compliance with the types of compliance requirements described in the ***OMB Compliance Supplement*** that could have a direct and material effect on the Shelby County Board of Education's major federal program for the year ended September 30, 2018. The Shelby County Board of Education's major federal program is identified in the Summary of Examiner's Results Section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of the Shelby County Board of Education's major federal program 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 Shelby County Board of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

Opinion on the Major Federal Program

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

Report on Internal Control Over Compliance

Management of the Shelby County Board of Education is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Shelby County Board of Education's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major program and to test and report on internal control over compliance in accordance with the *Uniform Guidance,* but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Shelby County Board of Education's internal control over compliance.

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

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

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

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

Rachel Laurie Riddle

Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

September 3, 2019

Section I – Summary of Examiner's Results

Financial Statements

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

Federal Awards

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

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.553, 10.555 and 10.559	Child Nutrition Cluster

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

Section II – Financial Statement Findings (GAGAS)

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

Section III – Federal Awards Findings and Questioned Costs

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