

Report on the

Marion County Board of Education

Marion County, Alabama

October 1, 2017 through September 30, 2018

Filed: June 28, 2019



Department of Examiners of Public Accounts

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Rachel Laurie Riddle, Chief Examiner



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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 Marion County Board of Education, Marion County, Alabama, for the period October 1, 2017 through September 30, 2018.

Sworn to and subscribed before me this
the 12 day of June, 2019.
Quanna Dugua
Notary Public

Respectfully submitted,

Laremy McNeill
Laremy McNeill
Examiner of Public Accounts

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Department of
Examiners of Public Accounts

SUMMARY

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

The Marion County Board of Education (the “Board”) is governed by a five-member body elected by the citizens of Marion 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 Marion County public schools, preschool through high school, with the exception of schools administered by the Winfield 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: Ann West, Superintendent; Clint Green, Chief School Financial Officer; Board Members: Belinda McRae, Daryl Weatherly, Joyce Fowler and Beverly Burlison. Also in attendance was a representative from the Department of Examiners of Public Accounts: Laremy McNeill, Examiner of Public Accounts.

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Independent Auditor's Report

Independent Auditor's Report

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also 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 Marion 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 11 to the financial statements, during the fiscal year ended September 30, 2018, the Marion County Board of Education 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*. Our opinion on the basic financial statements is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Management has omitted the Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Marion County Board of Education's basic financial statements. The 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 purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2019, on our consideration of the Marion 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 Marion 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 Marion County Board of Education's internal control over financial reporting and compliance.



Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

June 6, 2019

Basic Financial Statements

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Statement of Net Position
September 30, 2018

	Governmental Activities
<u>Assets</u>	
Cash	\$ 12,309,420.66
Investments	15,126.43
Ad Valorem Property Taxes Receivable	1,958,863.97
Receivables (Note 4)	636,697.99
Inventories	72,903.24
Capital Assets (Note 5):	
Nondepreciable	1,209,396.73
Depreciable, Net	33,716,176.17
Total Assets	<u>49,918,585.19</u>
<u>Deferred Outflows of Resources</u>	
Employer Pension Contribution	2,025,153.85
Proportionate Share of Collective Deferred Outflows Related to Net Pension Liability	1,759,000.00
Employer OPEB Contribution	770,974.00
Total Deferred Outflows of Resources	<u>4,555,127.85</u>
<u>Liabilities</u>	
Unearned Revenue	45,410.16
Salaries and Benefits Payable	2,249,541.93
Long-Term Liabilities:	
Portion Payable Within One Year:	
Bonds Payable	78,517.06
Portion Payable After One Year:	
Bonds Payable	294,991.57
Net Pension Liability	25,242,000.00
Net OPEB Liability	23,713,775.00
Total Liabilities	<u>51,624,235.72</u>
<u>Deferred Inflows of Resources</u>	
Unavailable Revenue - Property Taxes	1,958,863.97
Proportionate Share of Collective Deferred Inflows Related to Net Pension Liability	2,933,000.00
Proportionate Share of Collective Deferred Inflows Related to OPEB Liability	2,732,908.00
Total Deferred Inflows of Resources	<u>7,624,771.97</u>
<u>Net Position</u>	
Net Investment in Capital Assets	34,552,064.27
Restricted for:	
Capital Projects	2,254,177.71
Other Purposes	383,499.06
Unrestricted	<u>(41,965,035.69)</u>
Total Net Position	<u>\$ (4,775,294.65)</u>

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

Statement of Activities
For the Year Ended September 30, 2018

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<u>Governmental Activities</u>			
Instruction	\$ 20,181,287.21	\$ 715,674.16	\$ 15,316,205.90
Instructional Support	4,559,100.03	124,473.41	3,742,143.47
Operation and Maintenance	2,623,857.85	235,722.03	1,627,419.53
Auxiliary Services:			
Student Transportation Services	2,119,305.54	47,434.06	1,698,100.09
Food Services	2,223,747.04	1,584,479.41	109,322.80
General Administrative and Central Support	1,245,355.88	2,628.34	844,937.69
Interest and Fiscal Charges	21,745.10		
Other Expenses	1,073,972.30	350,559.50	458,241.80
Total Governmental Activities	<u>\$ 34,048,370.95</u>	<u>\$ 3,060,970.91</u>	<u>\$ 23,796,371.28</u>

General Revenues:

Taxes:

Property Taxes for General Purposes

Local Sales Tax

Other Taxes

Grants and Contributions Not Restricted
for Specific Programs

Investment Earnings

Gain on Disposition of Capital Assets

Miscellaneous

Total General Revenues

Changes in Net Position

Net Position - Beginning of Year, Restated (Note 11)

Net Position - End of Year

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

		Net (Expenses) Revenues and Changes in Net Position	
<u>Capital Grants and Contributions</u>		<u>Total Governmental Activities</u>	
\$	415,398.75	\$	(3,734,008.40)
			(692,483.15)
	318,732.90		(441,983.39)
			(77,983.12)
	295,788.27		(529,944.83)
			(397,789.85)
	96,991.08		75,245.98
			(265,171.00)
<u>\$</u>	<u>1,126,911.00</u>		<u>(6,064,117.76)</u>

2,325,213.70
1,721,823.95
133,538.48
349,276.13
59,061.74
21,797.16
1,540,942.25
<u>6,151,653.41</u>
87,535.65
<u>(4,862,830.30)</u>
<u>\$ (4,775,294.65)</u>

Balance Sheet
Governmental Funds
September 30, 2018

	General Fund	Special Revenue Fund
<u>Assets</u>		
Cash	\$ 8,418,644.26	\$ 1,373,996.06
Investments		15,126.43
Ad Valorem Property Taxes Receivable	1,958,863.97	
Receivables (Note 4)	176,652.96	460,045.03
Advance to Other Funds	262,602.63	
Inventories		72,903.24
Total Assets	<u>10,816,763.82</u>	<u>1,922,070.76</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>		
<u>Liabilities</u>		
Advance From Other Funds		
Unearned Revenues		45,410.16
Salaries and Benefits Payable	2,176,401.47	73,140.46
Total Liabilities	<u>2,176,401.47</u>	<u>118,550.62</u>
<u>Deferred Inflows of Resources</u>		
Unavailable Revenue - Property Taxes	1,958,863.97	
Total Deferred Inflows of Resources	<u>1,958,863.97</u>	
<u>Fund Balances</u>		
Nonspendable:		
Inventories		72,903.24
Restricted for:		
Capital Projects		
Child Nutrition		310,595.82
Assigned to:		
Operating Reserve	3,707,018.84	
Local Schools		1,420,021.08
Unassigned	2,974,479.54	
Total Fund Balances	<u>6,681,498.38</u>	<u>1,803,520.14</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 10,816,763.82</u>	<u>\$ 1,922,070.76</u>

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

Capital Projects Fund	Total Governmental Funds
\$ 2,516,780.34	\$ 12,309,420.66 15,126.43 1,958,863.97 636,697.99 262,602.63 72,903.24
<u>2,516,780.34</u>	<u>15,255,614.92</u>
262,602.63	262,602.63 45,410.16 2,249,541.93
<u>262,602.63</u>	<u>2,557,554.72</u>
	<u>1,958,863.97</u> <u>1,958,863.97</u>
	72,903.24
2,254,177.71	2,254,177.71 310,595.82 3,707,018.84 1,420,021.08 2,974,479.54
<u>2,254,177.71</u>	<u>10,739,196.23</u>
<u>\$ 2,516,780.34</u>	<u>\$ 15,255,614.92</u>

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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) \$ 10,739,196.23

Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1)
are different because:

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

The Cost of Capital Assets is	\$ 56,516,507.04	
Accumulated Depreciation is	<u>(21,590,934.14)</u>	
		34,925,572.90

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.	851,153.85
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Deferred outflows and inflows of resources related to OPEB obligations are applicable to future periods and, therefore, are not reported in the governmental funds.	(1,961,934.00)
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Long-term liabilities, including bonds payable, pension and OPEB obligations 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	\$ 78,517.06	
Noncurrent Portion of Long-Term Debt	<u>49,250,766.57</u>	
		<u>(49,329,283.63)</u>

Total Net Position - Governmental Activities (Exhibit 1)	<u><u>\$ (4,775,294.65)</u></u>
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The accompanying Notes to the Financial Statements are an integral part of this statement.

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

	General Fund	Special Revenue Fund
<u>Revenues</u>		
State	\$ 20,954,061.59	\$
Federal	171,143.27	3,870,840.56
Local	4,277,289.88	3,016,329.85
Other	329,999.85	46,620.84
Total Revenues	25,732,494.59	6,933,791.25
<u>Expenditures</u>		
Current:		
Instruction	15,687,785.62	3,093,685.89
Instructional Support	3,968,160.20	489,049.79
Operation and Maintenance	1,722,002.00	329,192.89
Auxiliary Services:		
Student Transportation Services	1,821,008.81	27,444.91
Food Services		2,108,279.08
General Administrative and Central Support	945,897.75	290,227.72
Other	409,229.05	658,172.74
Capital Outlay	265,914.41	21,217.00
Debt Service:		
Principal Retirement		
Interest and Fiscal Charges		
Total Expenditures	24,819,997.84	7,017,270.02
Excess (Deficiency) of Revenues Over Expenditures	912,496.75	(83,478.77)
<u>Other Financing Sources (Uses)</u>		
Indirect Cost	11,026.82	
Transfers In	279,687.56	550,562.80
Other Financing Sources	128,534.60	
Sale of Capital Assets	22,333.00	
Transfers Out	(550,562.80)	(279,687.56)
Total Other Financing Sources (Uses)	(108,980.82)	270,875.24
Net Changes in Fund Balances	803,515.93	187,396.47
Fund Balances - Beginning of Year	5,877,982.45	1,616,123.67
Fund Balances - End of Year	\$ 6,681,498.38	\$ 1,803,520.14

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

Capital Projects Fund	Total Governmental Funds
\$ 1,124,521.00	\$ 22,078,582.59
	4,041,983.83
194,768.00	7,488,387.73
	376,620.69
<u>1,319,289.00</u>	<u>33,985,574.84</u>
	18,781,471.51
	4,457,209.99
446,004.90	2,497,199.79
	1,880,982.49
32,528.77	2,108,279.08
	1,236,125.47
	1,067,401.79
840,897.50	1,128,028.91
	75,245.98
75,245.98	75,245.98
21,745.10	21,745.10
<u>1,416,422.25</u>	<u>33,253,690.11</u>
	11,026.82
	830,250.36
	128,534.60
	22,333.00
	<u>(830,250.36)</u>
	161,894.42
(97,133.25)	893,779.15
	11,026.82
2,351,310.96	9,845,417.08
<u>\$ 2,254,177.71</u>	<u>\$ 10,739,196.23</u>

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) \$ 893,779.15

Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) are different because:

Capital outlays to purchase or build capital assets are reported in 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	\$ 1,128,028.91	
Depreciation Expense	<u>(1,340,902.02)</u>	(212,873.11)

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. 75,245.98

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	\$ (22,333.00)	
Gain on Disposition of Capital Assets	<u>21,797.16</u>	(535.84)

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

Pension Expense, Current Year (Increase)/Decrease	\$ (34,209.53)	
OPEB Expense, Current Year (Increase)/Decrease	<u>(633,871.00)</u>	<u>(668,080.53)</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ 87,535.65

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

Statement of Fiduciary Net Position
September 30, 2018

	Private-Purpose Trust Funds
<u>Assets</u>	
Cash and Cash Equivalents	\$ 14,959.46
Total Assets	<u>14,959.46</u>
<u>Net Position</u>	
Held in Trust for Other Purposes	<u>\$ 14,959.46</u>

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
<u>Additions</u>	
Interest	\$ 53.82
Total Additions	<u>53.82</u>
Changes in Net Position	53.82
Net Position - Beginning of Year	<u>14,905.64</u>
Net Position - End of Year	<u><u>\$ 14,959.46</u></u>

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

Notes to the Financial Statements

For the Year Ended September 30, 2018

Note 1 – Summary of Significant Accounting Policies

The financial statements of the Marion 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.

Notes to the Financial Statements

For the Year Ended September 30, 2018

Fund Financial Statements

The fund financial statements provide information about the Board's funds, including fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The 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.

- ◆ **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 type:

Fiduciary Fund Type

- ◆ **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.

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the Board gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available 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 Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balances

1. Deposits and Investments

Cash includes cash on hand and demand deposits.

Statutes authorize the Board to invest in obligations of the U. S. Treasury, obligations of any state of the United States, general obligations of any Alabama county or city board of education secured by the pledged of the three-mill school tax and certificates of deposit. The Board's investments, which consist only of certificates of deposit, are reported at cost.

Notes to the Financial Statements

For the Year Ended September 30, 2018

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.

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 included in cash in the financial statements are considered restricted assets because they are maintained separately and their use is limited. The Capital Projects, Fleet Renewal and Bonds and Warrants funding sources are used to report proceeds that are restricted for use in various construction projects and the purchase of school buses.

5. Capital Assets

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

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

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

	Capitalization Threshold	Estimated Useful Life
Land Improvements	\$50,000	20 years
Buildings	\$50,000	25 – 50 years
Building Improvements	\$50,000	5 – 30 years
Equipment and Furniture	\$ 5,000	5 – 20 years
Vehicles	\$ 5,000	8 – 15 years
Equipment Under Capital Lease	\$ 5,000	5 – 20 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.

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

8. Deferred Inflows of Resources

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

Notes to the Financial Statements

For the Year Ended September 30, 2018

9. Net Position/Fund Balances

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

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

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

- A. Nonspendable fund balances include amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Examples of nonspendable fund balance reserves for which fund balance shall not be available for financing general operating expenditures include: inventories, prepaid items, and long-term receivables.
- B. Restricted fund balances consist of amounts that are subject to externally enforceable legal restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation.
- C. Committed fund balances consist of amounts that are subject to a purpose constraint imposed by formal action or resolution of the Board, which is the highest level of decision-making authority, before the end of the fiscal year and that require the same level of formal action to remove or modify the constraint.
- D. Assigned fund balances consist of amounts that are intended to be used by the Board for specific purposes. The Board or its designee makes the 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.

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

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

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be the policy of the Board to consider restricted amounts to have been reduced first. When an expenditure is incurred for the purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the Board that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

E. Pensions

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

F. 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 the 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.

Notes to the Financial Statements

For the Year Ended September 30, 2018

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, sales taxes 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. 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 Marion 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

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.

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

Note 4 – Receivables

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

	General Fund	Special Revenue Fund	Total
Receivables:			
Taxes	\$138,495.47	\$	\$138,495.47
Interest		8.03	8.03
Intergovernmental	38,157.49	460,037.00	498,194.49
Total Receivables	<u>\$176,652.96</u>	<u>\$460,045.03</u>	<u>\$636,697.99</u>

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

Note 5 – Capital Assets

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

	Balance 10/01/2017	Additions	Retirements	Balance 09/30/2018
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 411,148.00	\$	\$	\$ 411,148.00
Construction in Progress	515,313.73	282,935.00		798,248.73
Total Capital Assets, Not Being Depreciated	926,461.73	282,935.00		1,209,396.73
Capital Assets Being Depreciated:				
Building and Building Improvements	47,872,808.67	496,422.41		48,369,231.08
Land Improvements – Exhaustible	443,931.90			443,931.90
Equipment and Vehicles	6,681,202.83	348,671.50	(535,927.00)	6,493,947.33
Total Capital Assets Being Depreciated	54,997,943.40	845,093.91	(535,927.00)	55,307,110.31
Less Accumulated Depreciation for:				
Building and Building Improvements	(15,600,293.20)	(1,083,247.64)		(16,683,540.84)
Land Improvements – Exhaustible	(223,401.77)	(20,383.30)		(243,785.07)
Equipment and Vehicles	(4,961,728.31)	(237,271.08)	535,391.16	(4,663,608.23)
Total Accumulated Depreciation	(20,785,423.28)	(1,340,902.02)	535,391.16	(21,590,934.14)
Total Capital Assets, Being Depreciated, Net	34,212,520.12	(495,808.11)	(535.84)	33,716,176.17
Total Governmental Activities Capital Assets, Net	\$ 35,138,981.85	\$ (212,873.11)	\$ (535.84)	\$ 34,925,572.90

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

	Current Year Depreciation Expense
Governmental Activities:	
Instruction	\$1,001,590.49
Instructional Support	3,602.10
Operation and Maintenance	96,229.04
Auxiliary Services:	
Food Service	66,234.62
Student Transportation Services	167,649.46
General Administrative and Central Support	5,596.31
Total Depreciation Expense – Governmental Activities	\$1,340,902.02

Notes to the Financial Statements

For the Year Ended September 30, 2018

Note 6 – Defined Benefit Pension Plan

A. Plan Description

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

B. Benefits Provided

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

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

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

C. Contributions

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

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

Participating employers' contractually required contribution rate for the year ended September 30, 2018, was 12.24% of annual pay for Tier 1 members and 11.01% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the Board were \$2,025,153.85 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 \$25,242,000.00 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 .256824%, which was an increase of .002985% from its proportion measured as of September 30, 2016.

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

For the year ended September 30, 2018, the Board recognized pension expense of \$2,059,000.00. At September 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$	\$1,082,000.00
Changes of assumptions	1,507,000.00	
Net difference between projected and actual earnings on pension plan investments		1,509,000.00
Changes in proportion and differences between employer contributions and proportionate share of contributions	252,000.00	342,000.00
Employer contributions subsequent to the measurement date	2,025,153.85	
Total	<u>\$3,784,153.85</u>	<u>\$2,933,000.00</u>

The \$2,025,153.85 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	\$(355,000)
2020	\$ 174,000
2021	\$(529,000)
2022	\$(452,000)
2023	\$ (12,000)
Thereafter	\$

Notes to the Financial Statements

For the Year Ended September 30, 2018

E. Actuarial Assumptions

The net pension liability was determined by an actuarial valuation as of September 30, 2016, and rolled forward in accordance with GASB Statement Number 67 to the measurement date of September 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Investment Rate of Return (*)	7.75%
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%.		

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

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	\$34,817,000	\$25,242,000	\$17,142,000

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.

Notes to the Financial Statements

For the Year Ended September 30, 2018

Note 7 – Other Postemployment Benefits (OPEB)

A. Plan Description

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

The PEEHIP was established in 1983 pursuant to the provisions of the *Code of Alabama 1975*, Section 16-25A, (Act Number 83-455, Acts of Alabama), to provide a uniform plan of health insurance for active and retired employees of state and local educational institutions which provide instruction at any combination of grades K-14 (collectively, eligible employees), and to provide a method for funding the benefits related to the plan. The four-year universities participate in the plan with respect to their 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.

Notes to the Financial Statements

For the Year Ended September 30, 2018

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.

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

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

For employees who retired after December 30, 2011, the employer contribution to the health insurance premium set forth by the PEEHIB for each retiree class is reduced by 4% for each year of service less than 25 and increased by 2% for each year over 25, subject to adjustment by the PEEHIB for changes in Medicare premium costs required to be paid by a retiree. In no case does the employer contribution of the health insurance premium exceed 100% of the total health insurance premium cost for the retiree. For employees who retired after December 31, 2011, who are not covered by Medicare, regardless of years of service, the employer contribution to the health insurance premium set forth by the PEEHIB for each retiree class is reduced by a percentage equal to 1% multiplied by the difference between the Medicare entitlement age and the age of the employee at the time of retirement as determined by the PEEHIB. This reduction in the employer contribution ceases upon notification to the PEEHIB of the attainment of Medicare coverage.

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

At September 30, 2018, the Board reported a liability of \$23,713,775.00 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2016. The Board's proportion of the net OPEB liability was based on a projection of the Board's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At September 30, 2017, the Board's proportion was .319273%, which was a decrease of .002143% from its proportion measured as of September 30, 2016.

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

For the year ended September 30, 2018, the Board recognized OPEB expense of \$1,404,845.00, 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	\$	\$2,462,199.00
Net difference between projected and actual earnings on OPEB plan investments		126,254.00
Changes in proportion and differences between Employer contributions and proportionate share of contributions		144,455.00
Employer contributions subsequent to the measurement date	770,974.00	
Total	<u>\$770,974.00</u>	<u>\$2,732,908.00</u>

The \$770,974.00 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 the OPEB expense as follows:

Year Ending	
September 30, 2019	\$(529,968)
2020	\$(529,968)
2021	\$(529,968)
2022	\$(529,968)
2023	\$(498,404)
Thereafter	\$(114,632)

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

E. Actuarial Assumptions

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

Inflation	2.75%
Projected Salary Increases (1)	3.25% - 5.00%
Long-Term Investment Rate of Return (2)	7.25%
Municipal Bond Index Rate at the Measurement Date	3.57%
Municipal Bond Index Rate at the Prior Measurement Date	2.93%
Projected Year for Fiduciary Net Position (FNP) to be Depleted	2042
Single Equivalent Interest Rate the Measurement Date	4.63%
Single Equivalent Interest Rate the Prior Measurement Date	4.01%
Healthcare Cost Trend Rate:	
Pre-Medicare Eligible	7.75%
Medicare Eligible	5.00%
Ultimate Trend Rate:	
Pre-Medicare Eligible	5.00%
Medicare Eligible	5.00%
Year of Ultimate Trend Rate	2022
(1) Includes 3.00% wage inflation.	
(2) Compounded annually, net of investment expense and includes inflation.	

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

There were no ad hoc postemployment benefit changes, including ad hoc cost of living adjustments for 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.

Notes to the Financial Statements

For the Year Ended September 30, 2018

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 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		

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

F. Discount Rate

The discount rate (also known as the Single Equivalent Interest Rate (SEIR), as described by GASB Statement Number 74) used to measure the total OPEB liability at September 30, 2017, was 4.63%. The discount rate used to measure the total OPEB liability at the prior measurement date was 4.01%. Premiums paid to the 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 expected 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 PEEHIB'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	\$19,146,060	\$23,713,775	\$29,607,379

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

The following table presents the Board’s proportionate share of the collective net OPEB liability of the Trust calculated using the discount rate of 4.63%, as well as what the 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 collective net OPEB liability	\$28,665,020	\$23,713,775	\$19,767,014

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 – Long-Term Debt

During fiscal year 2002, the Board, as part of a pooled bond issuance with other school systems within the State of Alabama, issued Capital Improvement Pool Bonds, Series 2001A and Series 2002A, in anticipation of their Public School Fund allocations, which are received from the Alabama Department of Education. The Alabama Department of Education withholds the required debt service payments from the Board’s Public School Fund allocation. The proceeds from these bonds provided funds for the acquisition, construction and renovation of school facilities. The Board also, as part of a pooled bond issuance with other school systems within the State of Alabama, issued Capital Improvement Pool Refunding Bonds, Series 2009-B, in the fiscal year ending September 30, 2010, to provide funds for the refunding of a portion of the Capital Improvement Pool Bonds, Series 2001-A. The Capital Improvement Pool Refunding Bonds, Series 2009-B, were retired in fiscal year 2018. In fiscal year 2011, the Board, as part of a pooled bond issuance with other school systems within the State of Alabama, issued Capital Improvement Pool Refunding Bonds, Series 2011-B, to provide funds for the refunding of the remaining portion of the Capital Improvement Pool Bonds, Series 2001-A.

In fiscal year 2012, the Board, as part of a pooled bond issuance with other school systems within the State of Alabama, issued Capital Improvement Pool Refunding Bonds, Series 2012-A, to provide funds for the refunding of the Capital Improvement Pool Bonds, Series 2002-A.

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

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

	Debt Outstanding 10/01/2017, as Restated (*)	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 09/30/2018	Amounts Due Within One Year
Governmental Activities:					
Bonds Payable:					
Series 2009-B Capital Improvement Pool Refunding Bonds	\$ 10,044.87	\$	\$ (10,044.87)	\$	\$
Series 2011-B Capital Improvement Pool Refunding Bonds	36,260.00			36,260.00	9,930.00
Series 2012-A Capital Improvement Pool Refunding Bonds	402,449.74		(65,201.11)	337,248.63	68,587.06
Total Bonds Payable	448,754.61		(75,245.98)	373,508.63	78,517.06
Other Liabilities:					
Net Pension Liability	27,481,000.00		(2,239,000.00)	25,242,000.00	
Net OPEB Liability	25,816,895.00		(2,103,120.00)	23,713,775.00	
Total Other Liabilities	53,297,895.00		(4,342,120.00)	48,955,775.00	
Total Governmental Activities Long-Term Liabilities	\$53,746,649.61	\$	\$(4,417,365.98)	\$49,329,283.63	\$78,517.06
(*) The beginning balance was restated due to the implementation of GASB Statement Number 75 as discussed in Note 11.					

Payments on the Capital Improvement Pool Bonds, Series 2009B, 2011B, and 2012A are made by the bonds and warrants fund with Public School Funds withheld from the Board's allocation from the Alabama Department of Education.

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

Fiscal Year Ending	Capital Outlay PSCA		Total Principal and Interest Requirements to Maturity
	Principal	Interest	
September 30, 2019	\$ 78,517.06	\$16,536.22	\$ 95,053.28
2020	84,856.40	12,524.63	97,381.03
2021	89,109.40	8,191.72	97,301.12
2022	79,526.26	3,638.59	83,164.85
2023	20,272.24	1,143.62	21,415.86
2024	21,227.27	318.40	21,545.67
Totals	\$373,508.63	\$42,353.18	\$415,861.81

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

Pledged Revenues

The Board issued Series 2011-B Refunding Capital Improvement Pool Bonds which are pledged to be repaid from their allocation of public school funds received from the State of Alabama. The proceeds were used to refund the remaining portion of the 2001-A Capital Improvement Pool Bonds. Future revenues in the amount of \$40,064.00 are pledged to repay the principal and interest on the bonds at September 30, 2018. Pledged funds in the amount of \$1,813.00 were used to pay the interest on the bonds during the fiscal year ended September 30, 2018. This amount represents less than 1 percent of the Board's public school fund allocation for pooled bond payments. The Series 2011-B bonds will mature in fiscal year 2021.

The Board issued Series 2012-A Refunding Capital Improvement Pool Bonds which are pledged to be repaid from their allocation of public school funds received from the State of Alabama. The proceeds were used to refund the 2002-A Capital Improvement Pool Bonds. Future revenues in the amount of \$375,797.81 are pledged to repay the principal and interest on the bonds at September 30, 2018. Pledged funds in the amount of \$83,269.03 were used to pay principal and interest on the bonds during the fiscal year ended September 30, 2018. This amount represents 9.78 percent of the Board's public school fund allocation for pooled bond payments. The series 2012-A bonds will mature in fiscal year 2024.

Prior Year Defeasance of Debt

In prior years, the Board defeased the certificates of participation relating to the Qualified Zone Academy Bonds (QZAB), Series 2005. The Board deposited funds into an irrevocable trust with an escrow agent to provide for the future debt service payments on the QZAB certificates when they mature on July 12, 2021. Accordingly, the trust account assets and the liability for the defeased debt are not included on the Board's financial statements. At September 30, 2018, the total of \$1 million of the QZAB certificates outstanding is considered defeased.

Notes to the Financial Statements

For the Year Ended September 30, 2018

Note 9 – Risk Management

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

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

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

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

Note 10 – Interfund Transactions

Advances To/From Other Funds

The amounts of Advances to and from Other Funds at September 30, 2018, were as follows:

	Advances from Other Funds <u>Capital Projects</u> Fund	Totals
<u>Advance to Other Funds:</u>		
General Fund	\$262,602.63	\$262,602.63
Totals	<u>\$262,602.63</u>	<u>\$262,602.63</u>

Interfund Transfers

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

	<u>Transfers Out</u>		
	General Fund	Special Revenue Fund	Total
<u>Transfer In:</u>			
General Fund	\$	\$279,687.56	\$279,687.56
Special Revenue Fund	550,562.80		550,562.80
Totals	<u>\$550,562.80</u>	<u>\$279,687.56</u>	<u>\$830,250.36</u>

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

Notes to the Financial Statements

For the Year Ended September 30, 2018

Note 11 – Restatements

In fiscal year 2018, the Marion County Board of Education adopted the 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 objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. Implementation of this statement required a restatement to beginning net position. The adoption of this statement has a significant impact on the Marion County Board of Education’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 of \$25,041,838.00.

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	\$ 20,179,007.70
<u>Restatements Due to GASB Statement Number 75, as Amended:</u>	
Net OPEB Liability Due to Adoption of GASB Statement Number 75	(25,041,838.00)
Governmental Activities Net Position, September 30, 2017, as Restated	<u>\$ (4,862,830.30)</u>

Required Supplementary Information

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

	2018	2017
Employer's proportion of the collective net pension liability	0.256824%	0.253839%
Employer's proportionate share of the collective net pension liability	\$ 25,242	\$ 27,481
Employer's covered payroll during the measurement period (*)	\$ 16,955	\$ 16,116
Employer's proportionate share of the collective net pension liability as a percentage of its covered payroll	148.88%	170.52%
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 Statement Number 82). For fiscal year 2018, the measurement period is October 1, 2016 through September 30, 2017.

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



2016	2015
0.256631%	0.256477%
\$ 26,858	\$ 23,300
\$ 16,238	\$ 16,261
165.40%	143.29%
67.51%	71.01%

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

	2018	2017
Contractually required contribution	\$ 2,025	\$ 2,010
Contributions in relation to the contractually required contribution	<u>\$ 2,025</u>	<u>\$ 2,010</u>
Contribution deficiency (excess)	\$	\$
Employer's covered payroll	\$ 16,814	\$ 16,955
Contributions as a percentage of covered payroll	12.04%	11.85%

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



<u>2016</u>		<u>2015</u>	
\$	1,908	\$	1,894
<hr/>			
\$	1,908	\$	1,894
<hr/>			
\$		\$	
\$	16,116	\$	16,238
	11.84%		11.66%

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

	2018
Employer's proportion of the collective net OPEB liability	0.319273%
Employer's proportionate share of the collective net OPEB liability	\$ 23,714
Employer's covered-employee payroll during the measurement period (*)	\$ 16,955
Employer's proportionate share of the collective net OPEB liability as a percentage of its covered-employee payroll	139.86%
Plan fiduciary net position as a percentage of the total OPEB liability	15.37%

(*) Employer's covered 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	\$ 771
Contributions in relation to the contractually required contribution	<u>\$ 771</u>
Contribution deficiency (excess)	\$
Employer's covered-employee payroll	\$ 16,814
Contributions as a percentage of covered-employee payroll	4.59%

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

Notes to Required Supplementary Information for OPEB
For the Year Ended September 30, 2018

Changes in Actuarial Assumptions

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

Recent Plan Changes

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>
<u>Revenues</u>			
State	\$ 20,595,277.25	\$ 20,896,674.81	\$ 20,954,061.59
Federal	9,312.52	9,312.52	171,143.27
Local	3,967,260.57	3,920,699.61	4,269,799.39
Other	8,213.19	283,601.72	329,999.85
Total Revenues	<u>24,580,063.53</u>	<u>25,110,288.66</u>	<u>25,725,004.10</u>
<u>Expenditures</u>			
Current:			
Instruction	15,279,320.91	15,489,251.80	15,693,181.50
Instructional Support	3,918,225.22	3,970,014.07	4,000,555.21
Operation and Maintenance	1,741,356.37	1,709,702.86	1,722,003.15
Auxiliary Services:			
Student Transportation Services	1,691,024.56	1,695,594.77	1,814,457.14
General Administrative and Central Support	977,354.38	959,596.14	947,502.41
Other	445,529.63	450,158.37	414,051.54
Capital Outlay	145,814.50	431,482.60	265,914.41
Total Expenditures	<u>24,198,625.57</u>	<u>24,705,800.61</u>	<u>24,857,665.36</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>381,437.96</u>	<u>404,488.05</u>	<u>867,338.74</u>
<u>Other Financing Sources (Uses)</u>			
Indirect Cost	117,941.70	117,276.42	11,026.82
Transfers In			279,687.56
Other Financing Sources		123,015.00	128,534.60
Sale of Capital Assets		18,000.00	22,333.00
Transfers Out	(678,625.35)	(499,342.63)	(550,562.80)
Total Other Financing Sources (Uses)	<u>(560,683.65)</u>	<u>(241,051.21)</u>	<u>(108,980.82)</u>
Net Changes in Fund Balances	(179,245.69)	163,436.84	758,357.92
Fund Balances - Beginning of Year	<u>7,947,995.30</u>	<u>7,893,529.00</u>	<u>7,947,995.30</u>
Fund Balances - End of Year	<u>\$ 7,768,749.61</u>	<u>\$ 8,056,965.84</u>	<u>\$ 8,706,353.22</u>

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	\$	\$ 20,954,061.59
		171,143.27
(1)	7,490.49	4,277,289.88
		329,999.85
	<u>7,490.49</u>	<u>25,732,494.59</u>
(2)	(5,395.88)	15,687,785.62
(2)	(32,395.01)	3,968,160.20
(2)	(1.15)	1,722,002.00
(2)	6,551.67	1,821,008.81
(2)	(1,604.66)	945,897.75
(2)	(4,822.49)	409,229.05
		265,914.41
	<u>(37,667.52)</u>	<u>24,819,997.84</u>
	<u>45,158.01</u>	<u>912,496.75</u>
		11,026.82
		279,687.56
		128,534.60
		22,333.00
		(550,562.80)
		<u>(108,980.82)</u>
	45,158.01	803,515.93
(3)	<u>(2,070,012.85)</u>	<u>5,877,982.45</u>
	<u>\$ (2,024,854.84)</u>	<u>\$ 6,681,498.38</u>

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

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

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

- (1) The Board budgets for sales tax revenues as it is received, rather than on the modified accrual basis (GAAP).
- (2) The Board budgets salaries as they are actually paid, rather than on the modified accrual basis.

Net Increase in Fund Balance - Budget to GAAP

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

\$ 7,490.49

37,667.52

\$ 45,158.01

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

	Budgeted Amounts		Actual Amounts Budgetary Basis
	Original	Final	
Revenues			
Federal	\$ 3,835,340.10	\$ 4,142,914.66	\$ 3,870,840.56
Local	2,816,041.09	2,831,752.77	3,016,329.85
Other	75,184.88	60,000.00	46,620.84
Total Revenues	<u>6,726,566.07</u>	<u>7,034,667.43</u>	<u>6,933,791.25</u>
Expenditures			
Current:			
Instruction	2,884,172.15	3,193,323.34	3,093,685.89
Instructional Support	438,209.97	545,501.50	489,049.79
Operation and Maintenance	339,009.47	316,785.80	329,192.89
Auxiliary Services:			
Student Transportation Services	21,412.02	27,305.45	27,444.91
Food Services	2,169,480.07	1,999,874.89	2,111,056.28
General Administrative and Central Support	296,721.36	298,583.99	290,227.72
Other	629,001.47	631,324.79	658,172.74
Capital Outlay		23,000.00	21,217.00
Total Expenditures	<u>6,778,006.51</u>	<u>7,035,699.76</u>	<u>7,020,047.22</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(51,440.44)</u>	<u>(1,032.33)</u>	<u>(86,255.97)</u>
Other Financing Sources (Uses)			
Transfers In	828,625.35	649,342.63	550,562.80
Transfers Out	(150,000.00)	(150,000.00)	(279,687.56)
Total Other Financing Sources (Uses)	<u>678,625.35</u>	<u>499,342.63</u>	<u>270,875.24</u>
Net Changes in Fund Balances	627,184.91	498,310.30	184,619.27
Fund Balances - Beginning of Year	<u>1,618,782.02</u>	<u>1,618,782.02</u>	<u>1,692,041.33</u>
Fund Balances - End of Year	<u>\$ 2,245,966.93</u>	<u>\$ 2,117,092.32</u>	<u>\$ 1,876,660.60</u>

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	\$	\$ 3,870,840.56
		3,016,329.85
		46,620.84
		<u>6,933,791.25</u>
		3,093,685.89
		489,049.79
		329,192.89
		27,444.91
(1)	(2,777.20)	2,108,279.08
		290,227.72
		658,172.74
		21,217.00
	<u>(2,777.20)</u>	<u>7,017,270.02</u>
	<u>2,777.20</u>	<u>(83,478.77)</u>
		550,562.80
		<u>(279,687.56)</u>
		<u>270,875.24</u>
	2,777.20	187,396.47
(2)	<u>(75,917.66)</u>	<u>1,616,123.67</u>
	<u>\$ (73,140.46)</u>	<u>\$ 1,803,520.14</u>

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

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

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

- (1) The Board budgets for salaries and benefits only to the extent they are expected to be paid in the current fiscal period, rather than on the modified accrual basis (GAAP).

Net Increase in Fund Balance - Budget to GAAP

- (2) The amount reported as "fund balance" on the budgetary basis of accounting derives from the basis of accounting used in preparing the Board's budget. This amount differs from the fund balance reported in the Statement of Revenues, Expenditures and Changes in Fund Balances (Exhibit 5) because of the cumulative effect of transactions such as those described above.

\$ 2,777.20

\$ 2,777.20

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Supplementary Information

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

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number
<u>U. S. Department of Agriculture</u>	
<u>Passed Through Alabama Department of Education</u>	
Child Nutrition Cluster:	
National School Lunch Program:	
Cash Assistance	10.555
Non-Cash Assistance (Commodities)	10.555
Sub-Total National School Lunch Program	
School Breakfast Program	10.553
Total Child Nutrition Cluster	
Total U. S. Department of Agriculture	
<u>U. S. Department of Education</u>	
<u>Direct Program</u>	
Impact Aid	84.041
<u>Passed Through Alabama Department of Education</u>	
Career and Technical Education - Basic Grants to States	84.048
Title I Grants to Local Educational Agencies (M)	84.010
Special Education Cluster:	
Special Education - Grants to States	84.027
Special Education - Preschool Grants	84.173
Sub-Total Special Education Cluster	
Education for Homeless Children and Youth	84.196
Student Support and Academic Enrichment Program	84.424
Rural Education	84.358
Supporting Effective Instruction State Grants	84.367
<u>Passed Through Alabama Department of Early Childhood Education</u>	
Preschool Development Grants	84.419
Total U. S. Department of Education	
<u>Social Security Administration</u>	
<u>Passed Through Alabama Department of Education</u>	
Social Security - Disability Insurance	96.001

Total Expenditures of Federal Awards

(M) = Major Program

N/A = Not Applicable or Not Available

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

<u>Pass-Through Grantor's Identifying Number</u>	<u>Total Federal Expenditures</u>
N/A	\$ 956,189.61
N/A	<u>115,918.57</u>
	1,072,108.18
N/A	<u>233,950.72</u>
	<u>1,306,058.90</u>
	<u>1,306,058.90</u>
N/A	8,403.81
N/A	73,107.00
N/A	1,451,349.15
N/A	885,022.19
N/A	<u>12,752.65</u>
	897,774.84
N/A	9,739.28
N/A	24,064.48
N/A	60,754.00
N/A	209,492.37
N/A	<u>57,719.68</u>
	<u>2,792,404.61</u>
N/A	<u>1,240.00</u>
	<u>\$ 4,099,703.51</u>

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

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal grant activity of the Marion 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 Marion County Board of Education, it is not intended to and does not present the financial position and changes in net position of the Marion 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 Marion County Board of Education has elected not 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. Jim Atkinson	President	2018
Hon. Belinda McRae	Vice-President	2022
Hon. Daryl Weatherly	Member	2020
Hon. Joyce Fowler	Member	2022
Hon. Beverly Burleson	Member	2018
<u>Administrative Personnel</u>		
Hon. Ryan Hollingsworth	Superintendent	June 30, 2018
Mrs. Ann West	Interim Superintendent	2020
Mr. Clint Green	Chief School Financial Officer	

***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 Marion County Board of Education,
Superintendent and Chief School Financial Officer
Hamilton, 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 activities the Marion 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 Marion County Board of Education's basic financial statements, and have issued our report thereon dated June 6, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Marion 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 Marion County Board of Education's internal control. Accordingly, we do not express an opinion on the effectiveness of the Marion 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

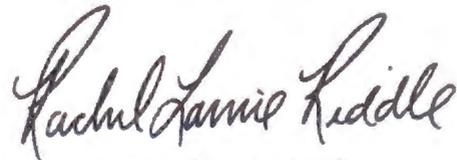
***Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance With
Government Auditing Standards***

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Marion County Board of Education's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

June 6, 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 Marion County Board of Education,
Superintendent and Chief School Financial Officer
Hamilton, Alabama

Report on Compliance for Each Major Federal Program

We have audited the Marion 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 Marion County Board of Education's major federal program for the year ended September 30, 2018. The Marion 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 with each of the Marion County Board of Education's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U. S. ***Code of Federal Regulations*** Part 200, ***Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*** (*Uniform Guidance*). Those standards and the *Uniform Guidance* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Marion 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 the major federal program. However, our audit does not provide a legal determination of Marion County Board of Education's compliance.

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

Opinion on Each Major Federal Program

In our opinion, the Marion 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 its major federal program for the year ended September 30, 2018.

Report on Internal Control Over Compliance

Management of the Marion 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 Marion 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 an opinion on compliance for the 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 Marion County Board of Education's internal control over compliance.

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

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

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

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

Department of Examiners of Public Accounts

Montgomery, Alabama

June 6, 2019

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2018

Section I – Summary of Examiner's Results

Financial Statements

Type of opinion issued: 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 Number	Name of Federal Program or Cluster
84.010	Title I Grants to Local Educational Agencies

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

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2018

Section II – Financial Statement Findings (GAGAS)

Ref. No.	Type of Finding	Finding/Noncompliance	Questioned Costs
		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.	