

Report on the

Baldwin County Board of Education

Baldwin County, Alabama

October 1, 2018 through September 30, 2019

Filed: May 29, 2020



Department of Examiners of Public Accounts

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Rachel Laurie Riddle, Chief Examiner



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

Dear Madam:

An audit was conducted on the Baldwin County Board of Education, Baldwin County, Alabama, for the period October 1, 2018 through September 30, 2019, by Examiners, Misty Medders, Miranda L. Bonner and Amy Jones. I, Misty Medders, served as Examiner-in-Charge on the engagement, and under the authority of the *Code of Alabama 1975*, Section 41-5A-19, I hereby swear and submit this report to you on the results of the audit.

Respectfully submitted,

Misty Medders
Examiner of Public Accounts

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Department of **Examiners of Public Accounts**

SUMMARY

Baldwin County Board of Education October 1, 2018 through September 30, 2019

The Baldwin County Board of Education (the “Board”) is governed by a seven-member body elected by the citizens of Baldwin County. The members and administrative personnel in charge of governance of the Board are listed on Exhibit 14. The Board is the governmental agency that provides general administration and supervision for Baldwin County public schools, preschool through high school.

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.

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, 2019.

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

Board members and administrative personnel, as reflected on Exhibit 14, were invited to discuss the results of this report at an exit conference held at the Baldwin County Board of Education. Individuals in attendance were: Eddie Tyler, Superintendent; and John Wilson, Chief School Financial Officer. Representing the Department of Examiners of Public Accounts was Miranda L. Bonner, Examiner. The following board members participated in the exit conference via teleconference: Andrea Lindsey, Norma Lynch, Cecil Christenberry, Tony Myrick, JaNay Dawson, and Shannon Cauley.

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Independent Auditor's Report

Independent Auditor's Report

Members of the Baldwin County Board of Education,
Superintendent and Chief School Financial Officer
Bay Minette, 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 Baldwin County Board of Education, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Baldwin County Board of Education's basic financial statements as listed in the table of contents as Exhibits 1 through 6.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Baldwin County Board of Education, as of September 30, 2019, 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.

Other Matters

Required Supplementary Information

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

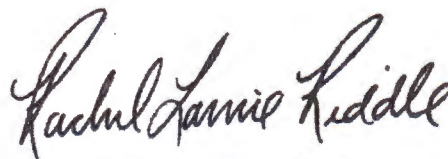
Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Baldwin County Board of Education's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 13), as required by Title 2 U. S. ***Code of Federal Regulations*** Part 200, ***Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*** (*Uniform Guidance*), is presented for the purpose 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 financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 5, 2020, on our consideration of the Baldwin 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 Baldwin 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 Baldwin 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

May 5, 2020

Management's Discussion and Analysis
(Required Supplementary Information)

**BALDWIN COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2019**

The Baldwin County Board of Education's (the "Board") discussion and analysis presents the overall financial position and operating results of the fiscal year that ended September 30, 2019. The Management's Discussion and Analysis (MD&A) reflects an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

Financial Highlights

The Board's Net Position increased by \$18,958,399 in FY 2019. The activities revenues overall were \$395,913,946 in FY2019 and \$372,933,097 in FY2018 resulting in an increase of \$22,980,849 or 6.2% more than prior year. Local ad valorem and sales tax increased by 7% and .71% respectively. The FY 2019 expenditures increased from 2018 by 14%. Refer to Table 2 for specific details of each category. Overall, there was a significant change in Net Position as a result of recent changes in GASB reporting requirements. Refer to Table 1 for specific details on changes in Net Position.

The General Fund revenues and other sources of funds did not exceed expenditures in FY2019. Net change in fund balance was \$-17,705,532. However, the General Fund on the full accrual basis reflects a fund balance of \$ 98,818,694 which exceeds the State required fund balance of one month, in comparison to the previous year's General Fund balance of \$116,524,226.

Overview of the Financial Statement and Use of This Report

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

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

**BALDWIN COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2019**

**Required Components of Annual Financial Report
Figure 1**

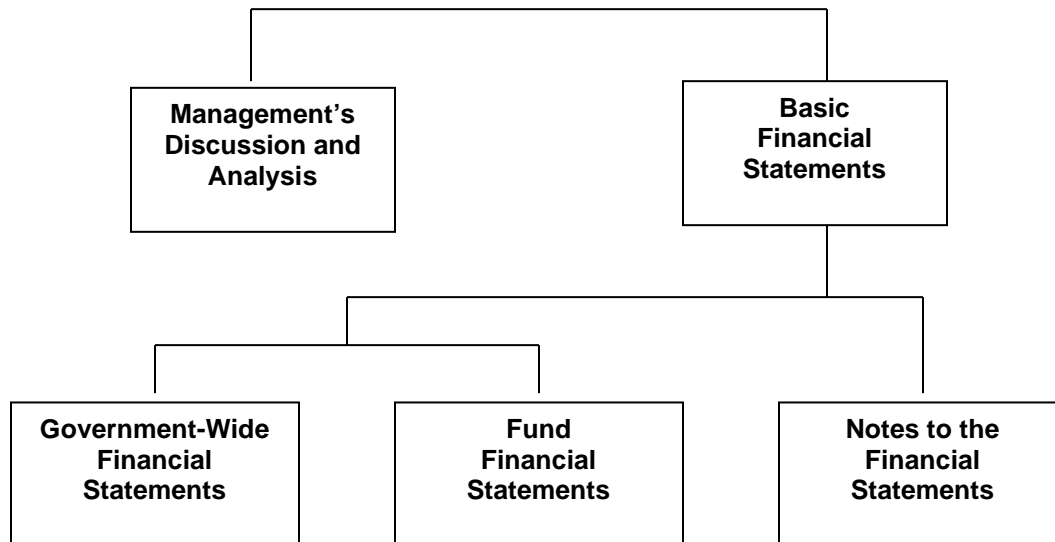


Figure 1 depicts the major features of the Board's financial statements. The focus of the financial statements is on the Board as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis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

Government-Wide Financial Statements

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

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

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

**BALDWIN COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2019**

Fund Financial Statements

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

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

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

Required Supplementary Information

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

**BALDWIN COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2019**

Financial Analysis of the Board as a Whole

As noted earlier, the Baldwin County Board of Education has no business-type activities. Consequently, the Board's net position is reported as Governmental Activities. The following table reflects a Summary of Net Position compared to the prior year. For more detailed information see the Statement of Net Position.

**Table 1
Summary of Net Position
As of September 30, 2019**

	<u>FY2019</u>	<u>FY2018</u>	<u>Variance</u>
Current and Other Assets	\$ 292,790,690	\$ 306,262,159	\$ (13,471,469)
Capital Assets, Net of			\$ -
Depreciation	\$ 463,470,164	\$ 417,503,678	\$ 45,966,486
Total Assets	\$ 756,260,854	\$ 723,765,837	\$ 32,495,017
Current and Other Liabilities	\$ 30,210,366	\$ 23,870,206	\$ 6,340,160
Long-term Liabilities	\$ 678,362,766	\$ 644,092,889	\$ 34,269,877
Total Liabilities	\$ 708,573,132	\$ 667,963,095	\$ 40,610,037
Net Investment			
in Capital Assets	\$ 275,364,610	\$ 226,168,861	\$ 49,195,749
Restricted for:			
Capital Projects			
Debt Service			
Other Purposes			
Unrestricted	\$ (249,337,042)	\$ (219,099,692)	\$ (30,237,350)
Total Net Position	\$ 26,027,567	\$ 7,069,169	\$ 18,958,399

The Board's total net position was \$26,027,567 at the close of the fiscal year 2019. The Board's total net position amount reflects adjustments related to pension liability and other postemployment benefits as required by GASB. The Board's total revenues and expenditures are reflected in Table 2 that depicts a comparison to fiscal year 2018.

**BALDWIN COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2019**

**Table 2
Baldwin County Board of Education
Changes in Net Position**

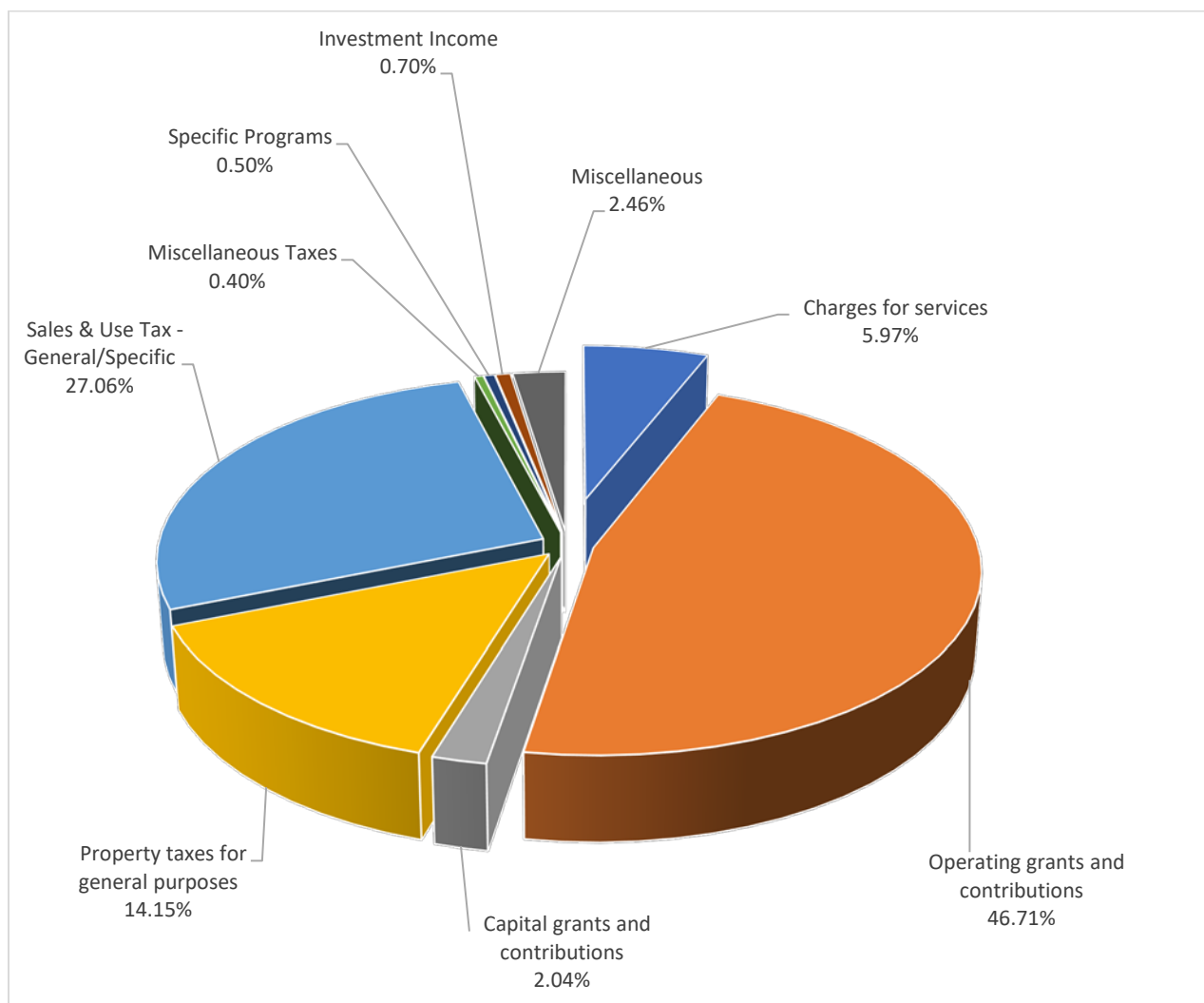
	<u>FY2019</u>	<u>FY2018</u>	<u>Variance</u>
<u>REVENUES</u>			
Program revenues:			
Charges for services	\$ 23,643,001	\$ 23,104,936	\$ 538,065
Operating grants and contributions	\$ 184,938,198	\$ 169,815,504	\$ 15,122,694
Capital grants and Contributions	\$ 8,080,993	\$ 7,738,647	\$ 342,346
General revenues:			
Property taxes for general purposes	\$ 56,013,928	\$ 52,367,668	\$ 3,646,260
Sales & Use Tax - General/Specific	\$ 107,121,317	\$ 106,368,163	\$ 753,154
Miscellaneous Taxes	\$ 1,594,220	\$ 1,569,073	\$ 25,147
Grants and Contributions not Restricted for Specific Programs	\$ 1,980,958	\$ 396,722	\$ 1,584,236
Investment Income	\$ 2,784,867	\$ 1,195,795	\$ 1,589,072
Net Inc.(Dec.) in Fair Value of Investment Miscellaneous	\$ 9,756,464	\$ 10,376,589	\$ (620,125)
Gain on Disposition of Capital Assets	\$ -	\$ -	\$ -
Gain on Extinguishment of Debt	\$ -	\$ -	\$ -
Total Revenues	<u>\$ 395,913,946</u>	<u>\$ 372,933,097</u>	<u>\$ 22,980,849</u>
<u>EXPENSES</u>			
Governmental Activities:			
Instruction	\$ 199,286,960	\$ 180,702,162	\$ 18,584,798
Instructional Support services	\$ 56,245,733	\$ 52,996,190	\$ 3,249,543
Operation and Maintenance	\$ 36,436,555	\$ 33,501,049	\$ 2,935,506
Auxiliary Services			
Student Transportation Services	\$ 18,546,189	\$ 17,202,559	\$ 1,343,631
Food Services	\$ 18,226,803	\$ 17,061,612	\$ 1,165,191
General Administration and Central Support	\$ 28,029,127	\$ 10,490,628	\$ 17,538,499
Other	\$ 13,187,195	\$ 10,972,747	\$ 2,214,448
Interest on Long-Term Debt	\$ 6,996,986	\$ 6,896,112	\$ 100,874
Total Expenses	<u>\$ 376,955,548</u>	<u>\$ 329,823,059</u>	<u>\$ 47,132,489</u>
Change in Net Position	\$ 18,958,399	\$ 43,110,038	\$ (24,151,639)
Net Position - Beginning of year	<u>\$ 7,069,169</u>	<u>\$ (36,040,869)</u>	<u>\$ 43,110,038</u>
Net Position - End of year	<u>\$ 26,027,567</u>	<u>\$ 7,069,169</u>	<u>\$ 18,958,398</u>

**BALDWIN COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2019**

Graph 1 reflected below depicts the percentage breakdown of revenues. Program revenues, specifically operating grants and contributions are the largest component of total revenues.

- Operating grants and contributions contribute 46.7% of total revenues. The major sources of revenues in this category are State foundation program funds, state transportation operating funds, and state and federal funds restricted for specific programs.
- Local tax revenues, primarily property taxes and sales taxes make up 41.21% of all revenues and are used to provide \$164,729,465 for expenses not covered by program revenues. (See Table 2)

Graph 1



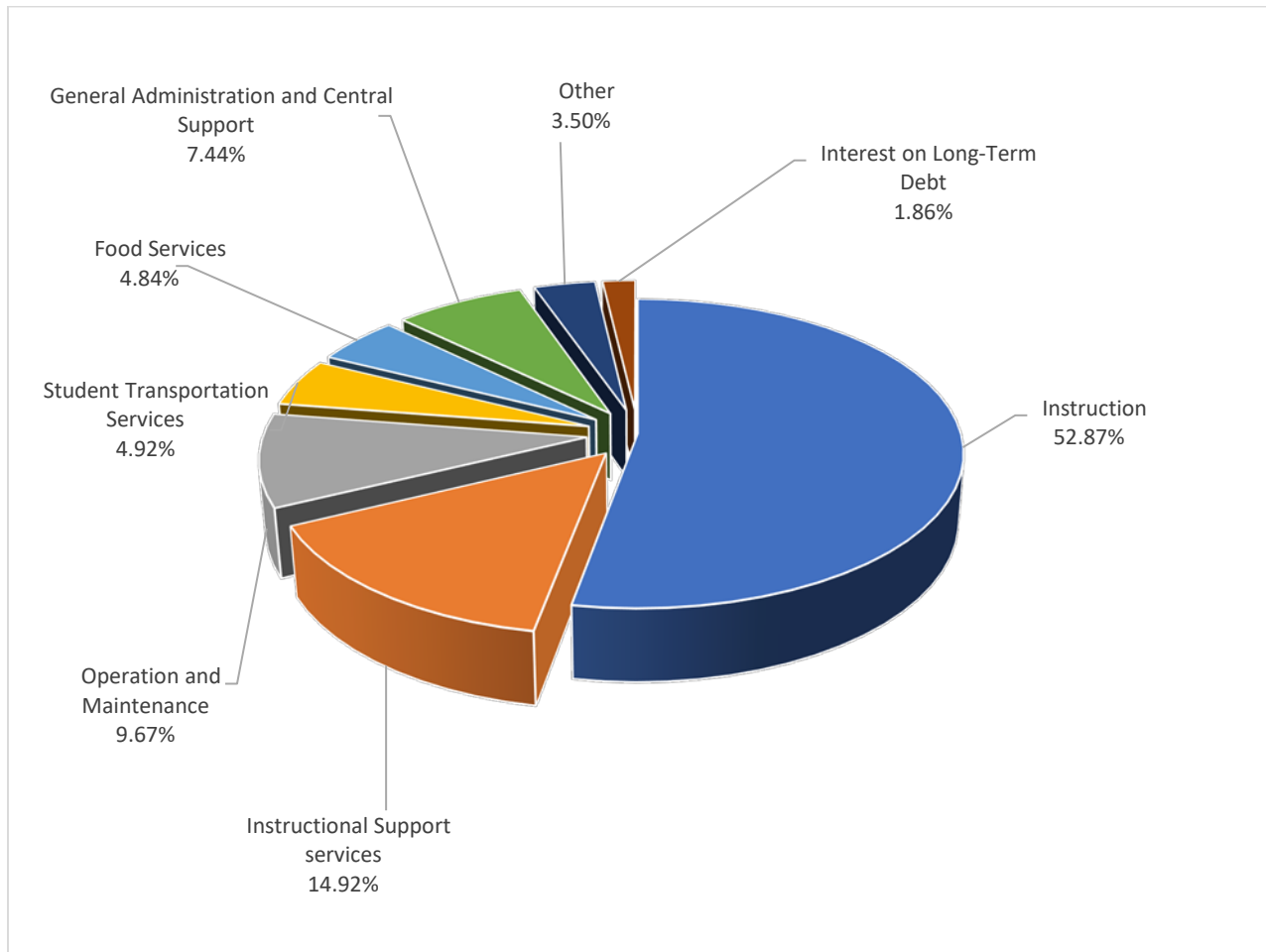
**BALDWIN COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2019**

Instructional services expenses, primarily salaries and benefits for classroom teachers, are the largest expense function of the Board (52.9%). The expenses are reflected in Table 2 as well as in Graph 2 below showing the percentage breakdown of expense categories.

- In addition to teacher salaries and benefits, instructional services include teacher aides, substitute teachers, textbooks, depreciation of instructional buildings, professional development, and classroom instructional materials, supplies, and equipment.
- Instructional support services include salaries and benefits for school principals, assistant principals, librarians, counselors, school secretaries, school bookkeepers, speech therapists, and school nurses, and professional development expenses.
- Operation and maintenance services include utilities, security services, janitorial services, maintenance services, and depreciation of maintenance vehicles.
- Auxiliary Services includes transportation and food service expenses. In addition to bus driver salaries and benefits, student transportation services include mechanics, bus aides, vehicle maintenance and repair expenses, vehicle fuel, depreciation of buses and bus shops, and fleet insurance. Food services includes salaries and benefits for cooks, servers, lunchroom managers, and cashiers, as well as donated and purchased food, food preparation and service supplies, kitchen and lunchroom equipment, and depreciation of equipment and facilities.
- General administrative services include salaries and benefits for the superintendent, assistants, clerical and financial staff, and other personnel that provide system-wide support for the schools. Also included are legal expenses, liability insurance, training for board members and general administrative staff, printing costs, and depreciation of central office equipment and facilities.
- Debt service includes interest, but not principal payments, on long-term debt issues and other expenses related to the issuance and continuance of debt issues.
- Other expenses include the salaries and benefits for adult and continuing education teachers, preschool teachers and aides, extended day personnel, and community education instructors. Also included are the materials, supplies, equipment, related depreciation, and other expenses for operating programs outside of those for educating students in the K through 12 instructional programs.

**BALDWIN COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2019**

Graph 2



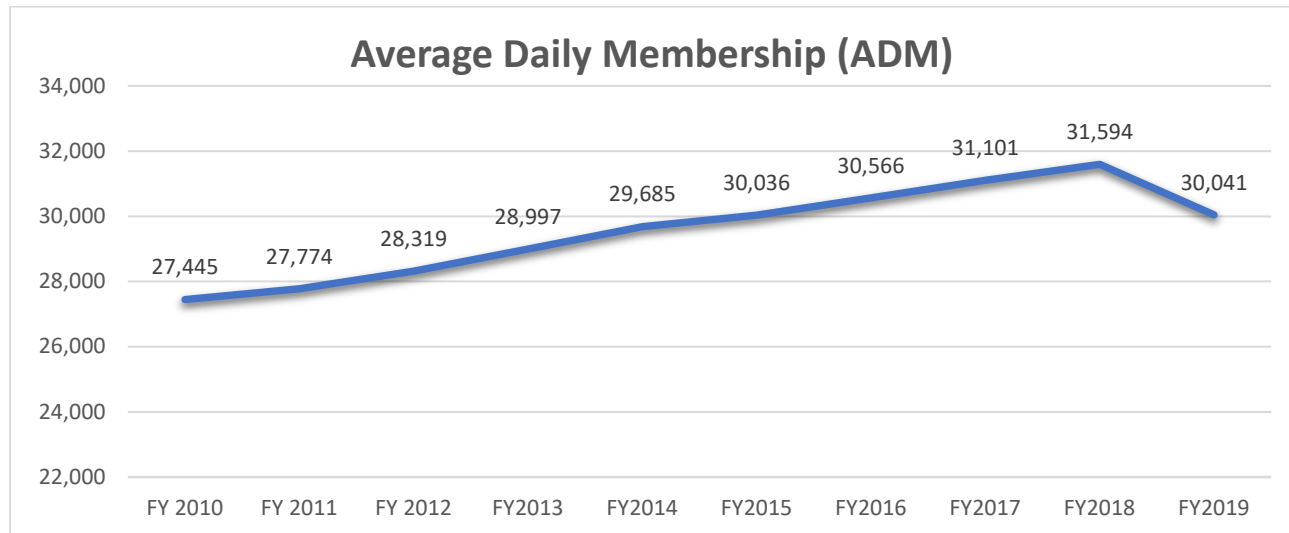
Despite additional growth in student population, total expenditures increased slightly for FY19. While increases in enrollment requires increased expenditures, the Board was able to keep it to a minimum by allowing only a 14% increase in total expenses for FY19 in comparison to FY18.

The Board experienced an increase in fund balance in FY19 as total Program revenues increased by almost 8%. The level of increase in revenues can be attributed to the following factors:

- Sales Tax revenue increased by .71% from the previous year
- Ad valorem revenue increased by 7% due to continued growth and increasing enrollment in student population. Graph 3 (shown below) depicts the steady increase in Average Daily Membership (ADM) in the last ten years despite a slight decline in enrollment for FY19 which is a direct result of City of Gulf Shores creating a separate school system.
- Operating Grants and Contributions increased by 9% for FY19.

**BALDWIN COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2019**

Graph 3



Net Cost of Services

Total cost of services was \$376,955,548. The net cost of governmental activities was a negative \$-160,293,355 as shown in Table 3. This means that the local funds portion of revenue was used to fund the amount not covered from various program revenues.

**Table 3
Net Cost of Services**

	<u>FY2019</u>		<u>FY2018</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction	\$199,286,960	\$ (60,517,443)	\$180,702,162	\$(55,795,947.19)
Instructional Support	56,245,733	(27,464,747)	52,996,190	(24,625,398.73)
Operation and Maintenance	36,436,555	(27,486,452)	33,501,049	(25,370,203.55)
Student Transportation	18,546,189	(4,389,371)	17,202,559	(3,676,162.47)
Food Service	18,226,803	(3,575,038)	17,061,612	(3,608,404.95)
General Admin & Central Supp.	28,029,127	(25,759,244)	10,490,628	(8,144,754.82)
Interest on Long-Term Debt	6,996,986	(6,996,986)	6,896,112	(6,896,112)
Other	13,187,195	(4,104,074)	10,972,747	(1,046,988)
	<u>\$376,955,548</u>	<u>\$(160,293,355)</u>	<u>\$329,823,059</u>	<u>\$ (129,163,971)</u>

**BALDWIN COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2019**

Financial Analysis of the Board's Funds

The analysis of governmental funds serves the purpose of looking at what resources came into the funds, how they were spent, and what is available for future expenditures. Did the Board generate enough revenue to pay for current obligations? What is available for spending at the end of the year? The financial performance of the Board as a whole is reflected in its governmental funds as well. At the end of the fiscal year, the Board's governmental funds reported combined ending fund balances of \$211,108,558. Approximately \$98,818,694 of this amount constitutes unassigned fund balance of the General Fund that is available as of the end of the fiscal year for spending on future operations. Again, this specific amount of fund balance is due to the full accrual of salaries required for financial statement presentation.

General Fund - The General Fund is the primary operating fund of the Board in providing educational services to students from kindergarten through 12th grade including pupil transportation. Table 4 reflects a summary of General Fund Revenues for the most recent two-year period.

**Table 4
General Fund Revenues**

	<u>FY 2019</u>	<u>FY 2018</u>	<u>Variance</u>	<u>Percentage</u>
State	\$164,972,081	\$151,361,669	13,610,412	8.99%
Federal	0	0		
Local	151,730,982	146,985,854	4,745,127	3.23%
Other	1,415,614	1,531,885	(116,271)	-7.59%
Total	\$318,118,676	\$299,879,408	\$18,239,268	6.08%

Total General Fund revenue increased by \$18,239,268 from the previous year due to a 3.23% increase in Local revenues as a result of an increase in ad valorem and sales tax. Additionally, State revenue increased by 9%. It should be noted that each school system is required to provide a minimum equivalent of ten mills of ad valorem tax to participate in the Foundation Program. The ten-mill equivalent match for Baldwin County was \$41,471,740 in Fiscal Year 2019, still representing one of the highest in the State. Table 5 reflects a comparison of General Fund expenditures for FY 2019 and FY 2018.

**Table 5
General Fund Expenditures**

	<u>FY 2019</u>	<u>FY 2018</u>	<u>Increase (Decrease)</u>	<u>Percentage</u>
Instruction	\$167,696,572	\$150,796,454	\$16,900,119	11.21%
Instructional Support	48,465,495	45,420,130	3,045,365	6.70%
Operation and Maintenance	16,933,652	13,867,911	3,065,741	22.11%
Auxiliary Services	15,348,264	14,126,809	1,221,455	8.65%
General Admin & Central Supp.	10,027,185	8,823,918	1,203,268	13.64%
Other	6,516,312	4,321,078	2,195,234	50.80%
Capital Outlay	35,114,566	16,167,854	18,946,712	117.19%
Debt Service				
Principal Retirement				
Interest and Fiscal Charges	3,560,199	3,477,697	82,502	2.37%
Debt Issuance Cost	-	-	0.00	0.00%
	\$303,662,247	\$257,001,851	\$46,660,395	18.16%

**BALDWIN COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2019**

General Fund expenditures increased by \$46,660,395 or 18% in total from the previous fiscal year. Capital Outlay expenditures increased significantly which is directly related to new construction and building additions/improvements throughout the county.

Special Revenue Fund - The Special Revenue Fund accounts for all of the federal funds that flow through the State Department of Education which includes the Child Nutrition Fund. In addition, this fund includes the restricted Sales Tax Fund, the e-Rate Fund and the Local School Public Funds. The beginning fund balance was \$60,749,051. Recognizing a decrease of \$3,642,153 for the fiscal year, the ending fund balance for FY 2019 reflected \$57,106,898.

General Fund Budgetary Highlights

The FY 2019 Budget, adopted on September 20, 2018, was based on known sources at the time of adoption. The budget reflected only guaranteed revenues and necessary expenditures as some of the state-funded programs had not been authorized at this point. The Board complied with State Department of Education requirements for budget amendments. The Board submitted Amendment #1 on January 15, 2019 to address changes in federal, state, and local funds and other revisions to the General Fund. Amendment #2 was submitted on June 15, 2019 to make final budgetary adjustments to all funds and programs.

The comparison of General Fund original budget to the final amended budget is reflected in the supplemental information in the report. The General Fund budget was amended to correct beginning fund balances and account for changes in state and local sources.

Capital Assets and Debt Administration

Capital Assets - At September 30, 2019, the Board had \$610,296,348 invested in capital assets including land, buildings, equipment costing \$5,000 or more, vehicles, buildings and equipment under capital lease, and construction in progress. These amounts are net of accumulated depreciation. Table 6 below reflects a summary comparison of Capital Assets for fiscal year 2019 to fiscal year 2018.

**Table 6
Capital Assets**

	<u>FY 2019</u>	<u>FY 2018</u>	<u>Variance</u>
Land and Inexhaustible Land Improvements	\$ 8,305,783	\$ 8,485,118	\$ (179,335)
Exhaustible Land Improvements	9,128,412	6,706,020	2,422,392
Buildings	398,393,403	407,200,698	(8,807,295)
Building Improvements	65,747,641	65,663,146	84,495
Equipment & Furniture	20,087,343	20,034,931	52,412
Vehicles	35,936,458	27,833,700	8,102,758
Assets Under Capital Lease	35,978	5,988,826	(5,952,848)
Construction in Progress	72,661,330	19,335,170	53,326,161
	<u>\$ 610,296,348</u>	<u>\$ 561,247,608</u>	<u>\$ 49,048,740</u>

**BALDWIN COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2019**

Long-Term Debt – At year-end the Board had \$678,362,765 in warrants payable, notes payable, and other long-term debt outstanding as of September 30, 2019. Majority of that liability related to the Board's share of Alabama's Net Pension Liability and Other Post-Employment Benefits (OPEB Liability). The Board made debt service payments as well as added net pension liability as reflected in Table 7. (Additional information on the Board's long-term debt is presented in the notes to the basic financial statements.)

**Table 7
Outstanding Long-Term Debt
For the Year Ended September 30, 2019**

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Bonds and Warrants Payable	182,745,414.93	20,000,000.00	22,548,158.64	180,197,256.29	22,936,295.31
Warrant Anticipation Notes	0.00	0.00	0.00	0.00	0.00
Unamortized Discount	0.00	0.00	0.00	0.00	0.00
Unamortized Premium	16,508,514.56	0.00	1,351,789.13	15,156,725.43	1,351,789.13
Total Bonds and Notes Payable	199,253,929.49	20,000,000.00	23,899,947.77	195,353,981.72	24,288,084.44
Other Liabilities:					
Capital Leases	0.00	35,977.93	8,064.81	27,913.12	6,375.92
Operating Leases	0.00	0.00	0.00	0.00	0.00
Compensated Absences	3,382,335.87	211,202.00	0.00	3,593,537.87	359,353.79
Net Pension Liability	234,375,000.00	7,051,000.00	0.00	241,426,000.00	0.00
Net OPEB Liability	206,067,624.00	30,887,709.00	0.00	236,955,333.00	0.00
Other Long-Term Liabilities	1,014,000.00	0.00	8,000.00	1,006,000.00	6,000.00
Total Other Liabilities	444,838,959.87	38,185,888.93	16,064.81	483,008,783.99	371,729.71
Governmental Activities Long-Term Liabilities	644,092,889.36	58,185,888.93	23,916,012.58	678,362,765.71	24,659,814.15

Economic Factors and Next Year's Budget

The following are currently known Baldwin County economic factors considered going into the 2019-2020 fiscal year:

- Baldwin County Board of Education receives local funding from sales taxes and ad valorem taxes. There are several economic factors contributing to these local taxes. Baldwin County continues to see strong development growth around the county. New U.S. Census Estimates show Baldwin County's population grew more than any other Alabama county last year with an increase of 5,119 residents. In 2017, Baldwin County had the 11th fastest growing MSA (metropolitan statistical area) in the U.S. This growth has resulted in increased stability and growth of 9.2% from local ad valorem and sale tax revenue recognized in FY 2019.
- Baldwin County continues to address growth throughout the county with the continuation of capital projects and improvements next year. Three new schools will open in Baldwin County during the 2020-2021 school year.

**BALDWIN COUNTY BOARD OF EDUCATION
MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2019**

Financial Contact

The Board's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Board's finances and to demonstrate the Board's accountability. If you have questions about the report or need additional financial information, contact the Division of Business and Finance, Baldwin County Board of Education, 2600 North Hand Avenue, Bay Minette, Alabama 36507, 251-937-0312.

Basic Financial Statements

Statement of Net Position

September 30, 2019

	Governmental Activities
<u>Assets</u>	
Cash and Cash Equivalents	\$ 219,512,660.62
Cash with Fiscal Agent	7,568,086.22
Investments	283,507.06
Ad Valorem Property Taxes Receivable	49,961,105.99
Receivables	14,439,880.04
Inventories	1,025,450.36
Capital Assets (Note 4):	
Nondepreciable	80,967,113.12
Depreciable, Net	382,503,051.41
Total Assets	<u>756,260,854.82</u>
<u>Deferred Outflows of Resources</u>	
Loss on Refunding of Debt	8,282,340.78
Employer Pension Contribution	21,336,524.25
Proportionate Share of Collective Deferred Outflows Related to Net Pension Liability	27,522,000.00
Employer Other Postemployment Benefits (OPEB) Contribution	8,638,902.00
Proportionate Share of Collective Deferred Outflows Related to Net OPEB Liability	11,975,466.00
Total Deferred Outflows of Resources	<u>77,755,233.03</u>
<u>Liabilities</u>	
Accounts Payable	9,314,395.32
Unearned Revenue	420,434.52
Salaries and Benefits Payable	20,475,536.57
Long-Term Liabilities:	
Portion Payable Within One Year:	
Warrants Payable	22,936,295.31
Add: Unamortized Premium	1,351,789.13
Notes Payable	6,000.00
Leases Payable	6,375.92
Compensated Absences	359,353.79
Portion Payable After One Year:	
Warrants Payable	157,260,960.98
Add: Unamortized Premium	13,804,936.30
Lease Payable	21,537.20
Qualified Zone Academy Bonds	1,000,000.00
Compensated Absences	3,234,184.08
Net Pension Liability	241,426,000.00
Net OPEB Liability	236,955,333.00
Total Liabilities	<u>\$ 708,573,132.12</u>

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

	Governmental Activities
<u>Deferred Inflows of Resources</u>	
Unavailable Revenue - Property Taxes	\$ 49,961,105.99
Revenue Received in Advance - Motor Vehicle Taxes	1,510,660.23
Proportionate Share of Collective Deferred Inflows Related to Net Pension Liability	25,577,000.00
Proportionate Share of Collective Deferred Inflows Related to Net Other Postemployment Benefits (OPEB) Liability	<u>22,366,622.00</u>
Total Deferred Inflows of Resources	<u>99,415,388.22</u>
<u>Net Position</u>	
Net Investment in Capital Assets	275,364,610.47
Restricted for:	
Debt Service	39,365,575.90
Capital Projects	55,518,680.47
Other Purposes	5,557,819.40
Unrestricted	<u>(349,779,118.73)</u>
Total Net Position	<u><u>\$ 26,027,567.51</u></u>

Statement of Activities
For the Year Ended September 30, 2019

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<u>Governmental Activities</u>			
Instruction	\$ 199,286,959.60	\$ 4,198,419.83	\$ 128,302,473.20
Instructional Support	56,245,732.99	2,064,946.83	26,716,039.60
Operation and Maintenance	36,436,555.34	997,359.53	7,747,007.66
Auxiliary Services:			
Student Transportation Services	18,546,189.37	690,493.12	11,859,690.89
Food Services	18,226,802.53	13,512,087.14	1,139,677.15
General Administration and Central Support	28,029,126.79	17,026.63	2,252,856.64
Interest and Fiscal Charges	6,996,985.79		
Other Expenses	13,187,195.46	2,162,667.97	6,920,453.27
Total Governmental Activities	\$ 376,955,547.87	\$ 23,643,001.05	\$ 184,938,198.41

General Revenues:

Taxes:

Property Taxes for General Purposes

Local Sales Tax

Alcohol Beverage Tax

Other Taxes

Grants and Contributions Not Restricted
for Specific Programs

Investment Earnings

Miscellaneous

Total General Revenues

Changes in Net Position

Net Position - Beginning of Year

Net Position - End of Year

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

Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position	
	Total Governmental Activities	
\$ 6,268,623.10	\$	(60,517,443.47)
		(27,464,746.56)
205,735.90		(27,486,452.25)
1,606,634.00		(4,389,371.36)
		(3,575,038.24)
		(25,759,243.52)
		(6,996,985.79)
		(4,104,074.22)
<u>\$ 8,080,993.00</u>		<u>(160,293,355.41)</u>

56,013,927.80
107,121,317.30
325,332.72
1,268,887.03
1,980,957.80
2,784,867.26
9,756,464.10
<u>179,251,754.01</u>
18,958,398.60
<u>7,069,168.91</u>
<u>\$ 26,027,567.51</u>

Balance Sheet
Governmental Funds
September 30, 2019

	General Fund	Special Revenue Fund
<u>Assets</u>		
Cash and Cash Equivalents	\$ 116,669,786.22	\$ 55,422,081.88
Cash with Fiscal Agent		
Investments		283,507.06
Ad Valorem Property Taxes Receivable	49,961,105.99	
Receivables	10,258,788.06	3,926,301.98
Interfund Receivables	132,694.07	707,098.12
Inventories	135,912.80	889,537.56
Total Assets	<u>177,158,287.14</u>	<u>61,228,526.60</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>		
<u>Liabilities</u>		
Accounts Payable	6,408,261.55	2,845,430.97
Interfund Payables	707,098.12	132,694.07
Unearned Revenues		420,434.52
Salaries and Benefits Payable	19,752,467.63	723,068.94
Total Liabilities	<u>26,867,827.30</u>	<u>4,121,628.50</u>
<u>Deferred Inflows of Resources</u>		
Unavailable Revenue - Property Taxes	49,961,105.99	
Revenue Received in Advance - Motor Vehicle Taxes	1,510,660.23	
Total Deferred Inflows of Resources	<u>51,471,766.22</u>	
<u>Fund Balances</u>		
Nonspendable:		
Inventories	135,912.80	889,537.56
Restricted for:		
Debt Service		
Child Nutrition Program		4,723,112.19
Capital Outlay and Maintenance		39,701,290.43
Other Purposes	3,105.30	831,601.91
Assigned to:		
Local Schools		10,947,696.83
Unassigned	98,679,675.52	13,659.18
Total Fund Balances	<u>98,818,693.62</u>	<u>57,106,898.10</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 177,158,287.14</u>	<u>\$ 61,228,526.60</u>

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

Debt Service Fund	Other Governmental Fund	Total Governmental Funds
\$ 31,797,489.68	\$ 15,623,302.84	\$ 219,512,660.62
7,568,086.22		7,568,086.22
		283,507.06
		49,961,105.99
	254,790.00	14,439,880.04
		839,792.19
		1,025,450.36
39,365,575.90	15,878,092.84	293,630,482.48
	60,702.80	9,314,395.32
		839,792.19
		420,434.52
		20,475,536.57
	60,702.80	31,050,158.60
		49,961,105.99
		1,510,660.23
		51,471,766.22
		1,025,450.36
39,365,575.90		39,365,575.90
		4,723,112.19
	15,817,390.04	55,518,680.47
		834,707.21
		10,947,696.83
		98,693,334.70
39,365,575.90	15,817,390.04	211,108,557.66
\$ 39,365,575.90	\$ 15,878,092.84	\$ 293,630,482.48

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***Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Position
September 30, 2019***

Total Fund Balances - Governmental Funds (Exhibit 3) \$ 211,108,557.66

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	\$ 610,296,347.68	
Accumulated Depreciation is	<u>(146,826,183.15)</u>	
		463,470,164.53

Losses on refunding of debt are reported as deferred outflows of resources and
are not available to pay for current-period expenditures and therefore, are
deferred on the Statement of Net Position. 8,282,340.78

Deferred outflows and inflows of resources related to pensions are applicable
to future periods and, therefore, are not reported in the governmental funds. 23,281,524.25

Deferred outflows and inflows of resources related to OPEB obligations are applicable
to future periods and, therefore, are not reported in the governmental funds. (1,752,254.00)

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

Current Portion of Long-Term Debt	\$ 24,659,814.15	
Noncurrent Portion of Long-Term Debt	<u>653,702,951.56</u>	
		(678,362,765.71)

Total Net Position - Governmental Activities (Exhibit 1) \$ 26,027,567.51

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, 2019

	General Fund	Special Revenue Fund
<u>Revenues</u>		
State	\$ 164,972,080.55	\$
Federal		28,590,581.56
Local	151,730,981.67	38,964,171.21
Other	1,415,613.86	207,392.15
Total Revenues	318,118,676.08	67,762,144.92
<u>Expenditures</u>		
Current:		
Instruction	167,696,572.32	18,658,640.57
Instructional Support	48,465,495.37	5,607,245.01
Operation and Maintenance	16,933,652.42	18,362,930.17
Auxiliary Services:		
Student Transportation Services	15,348,263.73	694,811.09
Food Services		17,769,543.37
General Administration and Central Support	10,027,185.21	756,588.23
Other	6,516,312.37	6,470,725.24
Capital Outlay	35,114,566.19	7,526,002.40
Debt Service:		
Principal Retirement		16,064.81
Interest and Fiscal Charges	3,560,199.00	476.89
Debt Issuance Costs		
Total Expenditures	303,662,246.61	75,863,027.78
Excess (Deficiency) of Revenues Over Expenditures	14,456,429.47	(8,100,882.86)
<u>Other Financing Sources (Uses)</u>		
Indirect Cost	1,525,329.99	
Long-Term Debt Issued		35,977.93
Transfers In	2,388,894.07	6,717,942.66
Other Financing Sources	93,317.18	78,532.45
Sale of Capital Assets	2,757,975.00	15,170.59
Transfers Out	(38,927,478.13)	(2,388,894.07)
Total Other Financing Sources (Uses)	(32,161,961.89)	4,458,729.56
Net Changes in Fund Balances	(17,705,532.42)	(3,642,153.30)
Fund Balances - Beginning of Year	116,524,226.04	60,749,051.40
Fund Balances - End of Year	\$ 98,818,693.62	\$ 57,106,898.10

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

Debt Service Fund	Other Governmental Fund	Total Governmental Funds
\$ 323,708.46	\$ 7,734,114.54	\$ 173,029,903.55
		28,590,581.56
177,695.04	1,625,757.80	192,498,605.72
		1,623,006.01
501,403.50	9,359,872.34	395,742,096.84
		186,355,212.89
		54,072,740.38
	223,913.00	35,520,495.59
		16,043,074.82
		17,769,543.37
		10,783,773.44
		12,987,037.61
	35,376,894.84	78,017,463.43
20,825,000.00	1,723,158.64	22,564,223.45
3,766,488.10	365,679.24	7,692,843.23
5,160.00		5,160.00
24,596,648.10	37,689,645.72	441,811,568.21
(24,095,244.60)	(28,329,773.38)	(46,069,471.37)
		1,525,329.99
	20,000,000.00	20,035,977.93
32,209,535.47		41,316,372.20
		171,849.63
		2,773,145.59
		(41,316,372.20)
32,209,535.47	20,000,000.00	24,506,303.14
8,114,290.87	(8,329,773.38)	(21,563,168.23)
31,251,285.03	24,147,163.42	232,671,725.89
\$ 39,365,575.90	\$ 15,817,390.04	\$ 211,108,557.66

***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, 2019***

Net Changes in Fund Balances - Total Governmental Funds (Exhibit 5) \$ (21,563,168.23)

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 differs from capital outlays in the period.

Capital Outlays	\$ 78,017,463.43	
Depreciation Expense	<u>(12,455,334.53)</u>	65,562,128.90

Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the statement of activities, but rather constitute long-term liabilities in the statement of net position. (35,977.93)

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. 22,564,223.45

Proceeds from the issuance of debt are reported as financing sources in governmental funds and thus contribute to the change in fund balance. Issuing long-term debt increases liabilities in the Statement of Net Position but does not affect the Statement of Activities. (20,000,000.00)

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	\$ (2,773,145.59)	
Loss on Disposition of Capital Assets	<u>(16,822,496.82)</u>	(19,595,642.41)

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

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

Compensated Absences, Current Year Change in Noncurrent Portion	\$ (211,202.00)	
Amortization of Deferred Amounts	701,017.44	
Pension Expense	(2,980,900.84)	
OPEB Expense	<u>(5,482,079.78)</u>	
		<u>(7,973,165.18)</u>
Change in Net Position of Governmental Activities (Exhibit 2)		<u>\$ 18,958,398.60</u>

Notes to the Financial Statements

For the Year Ended September 30, 2019

Note 1 – Summary of Significant Accounting Policies

The financial statements of the Baldwin 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 seven 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.

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

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

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

Notes to the Financial Statements

For the Year Ended September 30, 2019

Fund Financial Statements

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

The Board reports the following major governmental funds:

- ◆ **General Fund** – The General Fund is the primary operating fund of the Board. It is used to account for all financial resources except those required to be accounted for in another fund. The Board primarily receives revenues from the Education Trust Fund (ETF) and local taxes. Amounts appropriated from the ETF were allocated to the school board on a formula basis.
- ◆ **Special Revenue Fund** – This fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Various federal and local funding sources are included in this fund. Some of the significant federal funding sources include the federal funds that are received for Special Education, Title I, and the Child Nutrition Program in addition to various smaller grants, which are required to be spent for the purposes of the applicable federal grants. Also included in this fund are the public and non-public funds received by the local schools which are generally not considered restricted or committed. The proceeds from the county sales tax that are to be used exclusively for capital improvement, capital construction and maintenance purposes are also accounted for and reported in this fund.
- ◆ **Debt Service Fund** – This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest and the accumulation of resources for principal and interest payments maturing in future years.

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

Governmental Fund Type

- ◆ **Capital Projects Fund** – This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlay, including the acquisition or construction of capital facilities and other capital assets. Also included in this fund are Alabama Department of Education appropriations which are restricted to their use.

Notes to the Financial Statements

For the Year Ended September 30, 2019

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

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

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

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

Notes to the Financial Statements

For the Year Ended September 30, 2019

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

2. Receivables

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

Millage rates for property taxes are levied at the first regular meeting of the County Commission in February of the initial year of the levy. 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, taxes from local governments, 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, as well as certain resources set aside for repayment of debt, included in cash and cash equivalents and in cash with fiscal agent on the financial statements, are considered restricted assets because they are maintained separately and their use is limited. The Public School Capital Projects, Fleet Renewal, Bond Issue Payments, Bonds and Warrants, and Qualified Zone Academy Bonds proceeds are restricted for use in various construction projects and the purchase of school buses. The Debt Service Fund is used to report resources set aside to pay the principal and interest on debt as it become due.

Notes to the Financial Statements

For the Year Ended September 30, 2019

5. Capital Assets

Capital assets, which include property, equipment, 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.

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	Salvage Value Percentage
Land	\$ 1	N/A	N/A
Land Improvements (Inexhaustible)	\$ 1	N/A	N/A
Land Improvements (Exhaustible)	\$50,000	20 years	0%
Buildings	\$50,000	25 – 50 years	20%
Building Improvements	\$50,000	5 – 30 years	20%
Equipment and Furniture	\$ 5,000	5 – 20 years	1%
Vehicles	\$ 5,000	8 – 15 years	5%
Equipment Under Capital Lease	\$ 5,000	5 – 20 years	1%

6. Deferred Outflows of Resources

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

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond/Warrant premiums and discounts are deferred and amortized over the life of the bonds. Bonds/Warrants payable are reported gross, with the applicable premium or discount reported on separate lines. Issuance costs are reported as an expense in the period incurred.

Notes to the Financial Statements

For the Year Ended September 30, 2019

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

8. Compensated Absences

The Board has a standard leave policy for its full-time employees as to sick leave and vacation (annual) leave.

Personnel who hold twelve-month appointments earn annual leave as follows:

Employees with less than 100 months of employment in the public schools of Alabama shall accrue annual leave at the rate of one day per month. Employees with more than 100 months of employment in the public schools of Alabama shall accrue annual leave at the rate of one and one-half days per month. Annual leave may be accumulated up to but not to exceed forty-five (45) days. Personnel who terminate their employment with the school system shall be paid at their regular rate for the unused portion of accumulated annual leave.

There are no provisions for payment of unused sick leave due to termination or retirement.

9. Deferred Inflows of Resources

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

10. Net Position/Fund Balances

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

- ◆ **Net Investment in Capital Assets** – Capital assets 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.

Notes to the Financial Statements

For the Year Ended September 30, 2019

- ◆ **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 authorized the Superintendent or Chief School Finance Officer to make a determination of the assigned amounts of fund balance. Such assignments may not exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. Assigned fund balances require the same level of authority to remove the constraint.
- e) Unassigned fund balances include all spendable amounts not contained in the other classifications. This portion of the total fund balance in the General Fund is available to finance operating expenditures.

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

Notes to the Financial Statements

For the Year Ended September 30, 2019

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 plan requirements. Benefits are recognized when due and payable in accordance with the terms of the plan. Subsequent events were evaluated by management through the date the financial statements were issued.

Note 2 – Stewardship, Compliance, and Accountability

Budgets

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

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

Notes to the Financial Statements

For the Year Ended September 30, 2019

Note 3 – Deposits and Investments

A. Deposits

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

All of the Board's investments were in certificates of deposit. These certificates of deposit are classified as "Deposits" in order to determine insurance and collateralization. However, they are classified as "Investments" on the financial statements.

B. Cash with Fiscal Agent

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

As of September 30, 2019, the Board had the following amounts invested in cash with fiscal agent:

Investment Type	Fair Value	Maturity	Rating
Federated U. S. Treasury Cash Reserves – Inst. Svc. Shares	\$6,827,436.31	90 days or less	AAAm
U. S. Treasury Bill	740,649.91	01/09/2020	NR
Total Cash with Fiscal Agent	<u>\$7,568,086.22</u>		
NR = Not Rated			

Notes to the Financial Statements

For the Year Ended September 30, 2019

Fair Value Measurement

The Board categorizes its fair value measurements within the fair value hierarchy established by the Governmental Accounting Standards Board 72 standard. The hierarchy is based on the valuation inputs used to measure fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Board has the following fair value measurements as of September 30, 2019.

U. S. Treasurer Securities investments of \$7,568,086.22 for Governmental Funds are valued based on an independent vendor service (Level 1 inputs).

Interest Rate Risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways the Board manages its exposure to interest rate risk is by investing in a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the investments is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for capital projects. The Board has a formal investment policy that requires diversity of its investment portfolio and maturities of 12 months or less as a means of managing its exposure to fair value losses arising from increasing rates.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Board has an investment policy that limits investments to obligations, Treasury bills or Notes of the United States or its agencies with maturities of 12 months or less; insured or collateralized certificates of deposit with maturities of twelve months or less; overnight repurchase agreements with approved master repurchase agreement if applicable; and fully collateralized interest-bearing sweep accounts if applicable. State law requires that pre-funded public obligations, such as any bonds or other obligations of any state of the United States of America or of any agency instrumentality or local governmental unity of any such state that the Board invests in be rated in the highest rating category of Standard & Poor's Corporation and Moody's Investor Services, Inc. As of September 30, 2019, the Board's investments in the treasury reserves were rated AAAm by Moody's Investor Services, Inc.

Custodial Credit Risk – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to cover the value of its investments or collateral securities that are in the possession of an outside party. The Board's investment policy does not specifically address securities held by a counterparty. However, the policy identifies the permissible investments/depository instruments, and requires diversification, prudence in investment decisions, and collateralization. These criteria are designed to limit all forms of credit risk.

Notes to the Financial Statements

For the Year Ended September 30, 2019

Concentrations of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Board has an investment policy that requires diversity of its investments with respect to maturity, security types, and/or financial institutions to avoid incurring unreasonable or unavoidable risk to principal or liquidity of the investments.

Note 4 – Capital Assets

Capital asset activity for the year ended September 30, 2019, was as follows:

	Balance 10/01/2018	Additions/ Reclassifications (*)	Retirements/ Reclassifications (*)	Balance 09/30/2019
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 8,485,118.21	\$	\$ (179,335.20)	\$ 8,305,783.01
Construction in Progress	19,335,169.57	61,558,477.24	(8,232,316.70)	72,661,330.11
Total Capital Assets, Not Being Depreciated	27,820,287.78	61,558,477.24	(8,411,651.90)	80,967,113.12
Capital Assets, Being Depreciated:				
Land Improvements, Exhaustible	6,706,019.59	2,422,392.34		9,128,411.93
Buildings	407,200,697.80	13,231,187.90	(22,038,482.86)	398,393,402.84
Buildings Improvements	65,663,146.45	4,374,300.97	(4,289,806.25)	65,747,641.17
Equipment and Furniture	26,023,756.80	1,437,552.80	(7,373,966.75)	20,087,342.85
Vehicles	27,833,699.60	3,189,890.95	4,912,867.29	35,936,457.84
Equipment Under Capital Leases		35,977.93		35,977.93
Total Capital Assets, Being Depreciated	533,427,320.24	24,691,302.89	(28,789,388.57)	529,329,234.56
Less Accumulated Depreciation for:				
Land Improvements, Exhaustible	(2,411,615.96)	(347,242.98)		(2,758,858.94)
Buildings	(85,968,066.65)	(6,360,942.24)	6,308,243.28	(86,020,765.61)
Buildings Improvements	(22,985,084.11)	(2,359,610.79)	1,189,497.56	(24,155,197.34)
Equipment and Furniture	(13,524,771.83)	(1,160,806.17)	1,041,420.25	(13,644,157.75)
Vehicles	(13,319,894.14)	(2,225,593.05)	(4,700,577.02)	(20,246,064.21)
Equipment Under Capital Lease	(5,534,497.29)	(1,139.30)	5,534,497.29	(1,139.30)
Total Accumulated Depreciation	(143,743,929.98)	(12,455,334.53)	9,373,081.36	(146,826,183.15)
Total Capital Assets, Being Depreciated, Net	389,683,390.26	12,235,968.36	(19,416,307.21)	382,503,051.41
Governmental Activities Capital Assets, Net	\$ 417,503,678.04	\$ 73,794,445.60	\$(27,827,959.11)	\$ 463,470,164.53
(*) Included in the "Additions" and "Retirements" columns are reclassifications totaling \$8,232,316.70 from Construction in Progress to Buildings.				

Notes to the Financial Statements

For the Year Ended September 30, 2019

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

	Current Year Depreciation Expense
<u>Governmental Activities:</u>	
Instruction	\$ 7,636,064.41
Instructional Support	618,902.34
Operation and Maintenance	320,105.36
Auxiliary Services:	
Student Transportation	2,009,541
Food Service	1,372,195.84
General Administrative and Central Support	488,761.00
Other	9,764.40
Total Depreciation Expense - Governmental Activities	<u>\$12,455,334.53</u>

Note 5 – 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.

Notes to the Financial Statements

For the Year Ended September 30, 2019

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 are eligible for retirement after age 60 with 10 years or more of creditable service or with 25 years of service (regardless of age) 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, members of the TRS are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service.

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

C. Contributions

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

Notes to the Financial Statements

For the Year Ended September 30, 2019

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, 2019, was 12.41% of annual pay for Tier 1 members and 11.35% 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 \$21,336,524 for the year ended September 30, 2019.

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

At September 30, 2019, the Board reported a liability of \$241,426,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2018, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of September 30, 2017. 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, 2018, the Board's proportion was 2.428207%, which was an increase (decrease) of 0.043552% from its proportion measured as of September 30, 2017.

For the year ended September 30, 2019, the Board recognized pension expense of \$24,310,000. At September 30, 2019, 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	\$ 5,210,000	\$ 7,354,000
Changes of assumptions	13,420,000	
Net difference between projected and actual earnings on pension plan investments		18,223,000
Changes in proportion and differences between Employer contributions and proportionate share of contributions	8,892,000	
Employer contributions subsequent to the measurement date	21,336,524	
Total	<u>\$48,858,524</u>	<u>\$25,577,000</u>

Notes to the Financial Statements

For the Year Ended September 30, 2019

The \$21,336,524 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, 2020. 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, 2020	\$ 6,214,000
2021	\$(2,739,000)
2022	\$(3,005,000)
2023	\$ 885,000
2024	\$ 590,000
Thereafter	\$ 0

E. Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of September 30, 2017, and rolled forward in accordance with GASB Statement Number 67 to the measurement date of September 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Investment Rate of Return (*)	7.70%
Projected Salary Increases	3.25% - 5.00%
(*) Net of pension plan investment expense	

The actuarial assumptions used in the September 30, 2017 valuation were based on the results of an actuarial experience study for the period October 1, 2010 through September 30, 2015.

Mortality rates were based on the sex distinct RP-2000 White Collar Mortality Table Projected to 2020 using Scale BB and adjusted of 115% for males and 112% for females age 78 and older. The rates of disabled mortality were based on the RP-2000 Disabled Mortality Table Projected to 2020 using Scale BB and adjusted 105% for males and 120% for females.

Notes to the Financial Statements

For the Year Ended September 30, 2019

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

	Target Allocation	Long-Term Expected Rate of Return (*)
Fixed Income	17.00%	4.40%
U. S. Large Stocks	32.00%	8.00%
U. S. Mid Stocks	9.00%	10.00%
U. S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	12.00%	9.50%
International Emerging Market Stocks	3.00%	11.00%
Alternatives	10.00%	10.10%
Real Estate	10.00%	7.50%
Cash	3.00%	1.50%
Total	<u>100.00%</u>	
(*) Includes assumed rate of inflation of 2.50%		

F. Discount Rate

The discount rate used to measure the total pension liability was 7.70%. 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.

Notes to the Financial Statements

For the Year Ended September 30, 2019

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 7.70%, 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 (6.70%) or 1-percentage point higher (8.70%) than the current rate:

	1% Decrease (6.70%)	Current Rate (7.70%)	1% Increase (8.70%)
Board's proportionate share of collective net pension liability	\$336,068	\$241,426	\$161,374
(Dollar amounts in thousands)			

H. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2018. The supporting actuarial information is included in the GASB Statement Number 67 Report for the TRS prepared as of September 30, 2018. The auditor's report dated August 16, 2019, 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, 2018, along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

Note 6 – 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 PEEHIP. In accordance with GASB, the Trust is considered a component unit of the State of Alabama (the "State") and is included in the State's Comprehensive Annual Financial Report.

Notes to the Financial Statements

For the Year Ended September 30, 2019

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

B. Benefits Provided

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

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

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

Notes to the Financial Statements

For the Year Ended September 30, 2019

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

C. Contributions

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

For employees who retired after September 30, 2005, but before January 1, 2012, the employer contribution of the health insurance premium set forth by the 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.

Notes to the Financial Statements

For the Year Ended September 30, 2019

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

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

At September 30, 2019, the Board reported a liability of \$236,955,333 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2017. The Board's proportion of the collective net OPEB liability was based on a projection of the Board's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At September 30, 2018, the Board's proportion was 2.883115%, which was an increase/(decrease) of 0.108701% from its proportion measured as of September 30, 2017.

For the year ended September 30, 2019, the Board recognized OPEB expense of \$14,051,119, with no special funding situations. At September 30, 2019, 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
Differences between expected and actual experience	\$ 4,461,144	\$
Changes of assumptions		11,541,912
Net difference between projected and actual earnings on OPEB plan investments		1,269,605
Changes in proportion and differences between employer contributions and proportionate share of contributions	7,514,322	9,555,105
Employer contributions subsequent to the measurement date	8,638,902	
Total	<u>\$20,614,368</u>	<u>\$22,366,622</u>

Notes to the Financial Statements

For the Year Ended September 30, 2019

The \$8,638,902 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, 2020.

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

Year Ending:	
September 30, 2020	\$(3,350,378)
2021	\$(3,350,378)
2022	\$(3,350,378)
2023	\$(3,065,351)
2024	\$ 2,051,123
Thereafter	\$ 674,206

E. Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of September 30, 2017, 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	4.18%
Municipal Bond Index Rate at the Prior Measurement Date	3.57%
Projected Year for Fiduciary Net Position (FNP) to be Depleted	2029
Single Equivalent Interest Rate the Measurement Date	4.44%
Single Equivalent Interest Rate the Prior Measurement Date	4.63%
Healthcare Cost Trend Rate:	
Pre-Medicare Eligible	7.00%
Medicare Eligible	5.00% beginning in 2019
Ultimate Trend Rate:	
Pre-Medicare Eligible	4.75% in 2026
Medicare Eligible	4.75% in 2024
(1) Includes 3.00% wage inflation.	
(2) Compounded annually, net of investment expense, and includes inflation.	

Notes to the Financial Statements

For the Year Ended September 30, 2019

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.

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, 2017 valuation were based on a review of recent plan experience done concurrently with the September 30, 2017 valuation.

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

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

Notes to the Financial Statements

For the Year Ended September 30, 2019

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	<u>100.00%</u>	

(*) Geometric mean, includes 2.5% inflation

F. Discount Rate

The discount rate, also known as the Single Equivalent Interest Rate (SEIR), as described by GASB Statement Number 74, used to measure the total OPEB liability at September 30, 2018, was 4.44%. The discount rate used to measure the total OPEB liability at the prior measurement date was 4.63%. Premiums paid to the Public Education Employees' Health Insurance Board for active employees shall include an amount to partially fund the cost of coverage for retired employees. The projection of cash flows used to determine the discount rate assumed that plan contributions will be made at the current contribution rates. Each year, the State specifies the monthly employer rate that participating school systems must contribute for each active employee. Approximately, 20.307% of the employer contributions were used to assist in funding retiree benefit payments in 2018, and it is assumed that the amount will increase by 2.75% per year and continue into the future. The discount rate determination will use a municipal bond rate to the extent the trust is projected to run out of money before all benefits are paid. The rate used for this purpose is the monthly average of the Bond Buyers General Obligation 20-year Municipal Bond Index Rate. Therefore, the projected future benefit payments for all current plan members were projected through 2029. The long-term rate of return is used until the assets are expected to be depleted in 2029, after which the municipal bond rate is used.

Notes to the Financial Statements

For the Year Ended September 30, 2019

G. Sensitivity of the Board's Proportionate Share of the Collective Net OPEB Liability to Changes in the Healthcare Cost Trend Rates and in the Discount 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 (6.00% Decreasing to 3.75% for Pre-Medicare and 4.00% Decreasing to 3.75% for Medicare Eligible)	Current Healthcare Trend Rate (7.00% Decreasing to 4.75% for Pre-Medicare and 5.00% Decreasing to 4.75% for Medicare Eligible)	1% Increase (8.00% Decreasing to 5.75% for Pre-Medicare and 6% Decreasing to 5.75% for Medicare Eligible)
Board's proportionate share of the collective net OPEB liability	\$194,782,680	\$236,955,333	\$290,647,007
(Dollar amounts in thousands)			

The following table presents the Board's proportionate share of the collective net OPEB liability of the Trust calculated using the discount rate of 4.44%, 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 (3.44%)	Current Rate (4.44%)	1% Increase (5.44%)
Board's proportionate share of the collective net OPEB liability	\$283,061,067	\$236,955,333	\$199,764,432

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, 2018. The supporting actuarial information is included in the GASB Statement Number 74 Report for PEEHIP prepared as of September 30, 2018. Additional financial and actuarial information is available at www.rsa-al.gov.

Notes to the Financial Statements

For the Year Ended September 30, 2019

Note 7 – Lease Obligations

Operating Leases

The Board is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected as part of the Board's capital assets. During the fiscal year ended September 30, 2019, the Board paid a total of \$203,547 for operating leases.

The following is a schedule by fiscal years of future minimum rental payments required under operating leases for facilities and equipment that have initial or remaining noncancelable lease terms in excess of one year as of September 30, 2019:

	Equipment
2019-2020	\$227,487
2020-2021	162,529
2021-2022	108,812
Total Minimum Payments Required	<u>\$498,828</u>

Note 8 – Long-Term Debt

On July 1, 2005, the Board issued \$1,000,000 in certificates of participation in Qualified Zone Academy Bonds (QZAB) for the purposes of (i) financing certain school improvements and (ii) purchasing and installing equipment.

On March 15, 2009, the Board entered into a lease agreement in the amount of \$963,974.72 at an interest rate of 2.11% for network cabling including all infrastructure needed to completely rewire existing school buildings in order to facilitate network communications throughout the school buildings. There is also a note payable associated with this lease in the amount of \$312,190.85 for a service agreement.

Notes to the Financial Statements

For the Year Ended September 30, 2019

On October 21, 2009, the Alabama Public School and College Authority, on behalf of the various Boards of Education in the pool, issued \$174,960,000.00 in Capital Improvement Pool Refunding Bonds, Series 2009-B (“Series 2009-B”) with interest rates ranging from 3.00% to 5.00% to refund and retire on a current basis \$151,170,000.00 of outstanding Capital Improvement Pool Bond Series 1999-D (“Series 1999-D”) with interest rates ranging from 5.75% to 6.00% and to advance refund \$27,815,000.00 of outstanding Capital Improvement Pool Bonds, Series 2001-A (“Series 2001-A”) which were scheduled to mature in fiscal years 2014 through 2018 with interest rates ranging from 5.50% to 5.625%. The Board had a 2.651% participation in the Series 2001-A. This resulted in the Board being obligated for \$691,769.38 of the total principal of \$174,960,000.00.

On December 16, 2009, the Alabama Public School and College Authority issued Capital Improvement Pool Qualified School Construction Bonds Series 2009-D (Tax Credit Bonds) with a tax credit rate of 5.76% and interest rate of 1.865% on behalf of various Boards of Education in the State. The Board had a 1.147% participation in the bonds resulting in the Board’s share of principal, issuance costs and net proceeds of \$1,673,000.00, \$14,726.73 and \$1,658,273.27, respectively. The Board is required to make sinking fund deposits of \$87,064.91 on December 15 in each year for fifteen years so that such deposits and any interest earned thereon shall be used to pay the principal of the bonds upon maturity and are pledged to pay the debt service requirements of the bonds. The sinking fund deposits and interest payments are payable from and secured by a pledge of the Board’s allocable share of Public School Capital Outlay Funds.

On May 2, 2011, the Alabama Public School and College Authority, on behalf of the various Boards of Education in the pool, issued \$26,900,000.00 in Capital Improvement Pool Refunding Bonds, Series 2011-B (Series 2011-B) with interest rates ranging from 2.00% to 5.00% to refund and retire on a current basis \$29,795,000.00 of outstanding Capital Improvement Pool Bonds, Series 2001-A (Series 2001-A) with interest rates of 5.00%. This was the remaining amount of the Series 2001-A not refunded by Series 2009-B discussed previously. The Board had a 2.65% participation in the Series 2001-A. This resulted in the Board being obligated for \$712,850.00 of the total principal of \$26,900,000.00.

On June 2, 2011, the Board entered into a special pool loan agreement for \$4,101,000.00 with the Alabama Public School and College Authority (the “PSCA”). The PSCA issued bonds known as “qualified zone academy bonds” under Section 54E of the Internal Revenue Code of 1986 in order to finance loans to various local Boards of Education throughout the State of Alabama. The proceeds of these bonds are limited to rehabilitating, repairing or equipping public school facilities. The interest rates on these bonds are 4.60%; however, the PSCA expects to receive subsidy payments from the United States Treasury in amounts equal to the interest due on the bonds making the effective interest payment due from the Board equal zero. Annual sinking fund deposits of \$205,442.11 are required beginning in fiscal year 2012, but there is only a single principal payment due at maturity on May 1, 2026.

Notes to the Financial Statements

For the Year Ended September 30, 2019

On March 14, 2012, the Alabama Public School and College Authority, on behalf of the various Boards of Education in the pool, issued \$79,340,000.00 in Pool Refunding Bonds, Series 2012-A (Series 2012-A) with interest rates ranging from 3.00% to 5.00% to refund and retire on a current basis \$57,497,698.00 of outstanding Capital Improvement Pool Bond, Series 2002-A (Series 2002-A) and \$21,842,302.00 of outstanding Capital Improvement and Economic Development and Training Bonds, Series 2003 (Series 2003) which were scheduled to mature in fiscal years 2013 through 2022 with interest rates ranging from 4.00% to 5.00%. The Board had a 27.80% participation in the Series 2002-A. This resulted in the Board being obligated for \$15,984,360.04 of the total principal of \$79,340,000.00.

On September 1, 2012, the Board issued \$39,860,000.00 in Refunding School Warrants; Series 2012 with interest rates of 2.00% to 5.00% for the advance refunding of \$40,850,000.00 of outstanding Capital Outlay School Warrants, Series 2005 with and interest rate of 3.00% to 5.00%.

On January 14, 2015, the Board issued \$83,500,000 in Refunding School Warrants, Series 2015 with a true interest cost rates of 2.90% for the advance refunding of \$98,648,847 of the outstanding Capital Outlay School Warrants, Series 2007, with a true interest cost of 4.82%. Capital Outlay School Warrants, Series 2007 has an outstanding balance of \$38,920,000 as of September 30, 2016.

On May 18, 2017, the Board issued \$34,730,000 in Refunding School Warrants, Series 2017 with a true interest cost rate of 3.67% for the current refunding \$36,028,963 of the outstanding Capital Outlay School Warrants, Series 2007 removing the outstanding balance as of September 30, 2017.

On July 17, 2017, the Board authorized the issuance of a \$60,000,000 Public School Warrant to fund Capital Improvement Plans with Regions Capital Advantage as the warrant holder. This Four-Year Advance Schedule termed “Pay-As-You-Go,” shall be in effect for October 1, 2017 to and including September 30, 2021. The agreement allows for drawdown loan(s) with a corresponding interest rate calculated using 3-year federal treasury rate (1.7% to 1.85%) plus 25 basis points for each drawdown. The first drawdown of \$25,000,000 was made on January 8, 2018 with a true interest cost of 2.16%.

On March 29, 2019, the second drawdown of the Four-Year Advance Schedule termed “Pay-As-You-Go” was in the amount of \$20,000,000 with a true interest cost of 2.67% as construction projects were entering Phase II of Capital Improvement Plans for new construction and building improvements.

On August 2, 2019, the Board entered into a lease agreement in the amount of \$35,977.93 for field equipment for Daphne High School.

Notes to the Financial Statements

For the Year Ended September 30, 2019

The following is a summary of long-term debt transactions for the Board for the year ended September 30, 2019:

	Debt Outstanding 10/01/2018	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 09/30/2019	Amounts Due Within One Year
Governmental Activities:					
Bonds/Warrants Payable	\$182,745,414.93	\$20,000,000.00	\$(22,548,158.64)	\$180,197,256.29	\$22,936,295.31
Unamortized Amounts:					
Add: Unamortized Premium	16,508,514.56		(1,351,789.13)	15,156,725.43	1,351,789.13
Total Bonds/Warrants Payable	199,253,929.49	20,000,000.00	(23,899,947.77)	195,353,981.72	24,288,084.44
Other Liabilities:					
Certificates of Participation (QZAB)	1,000,000.00			1,000,000.00	
Notes Payable	14,000.00		(8,000.00)	6,000.00	6,000.00
Capital Leases Payable		35,977.93	(8,064.81)	27,913.12	6,375.92
Net Pension Liability	234,375,000.00	7,051,000.00		241,426,000.00	
Net OPEB Liability	206,067,624.00	30,887,709.00		236,955,333.00	
Estimated Liabilities for Compensated Absences	3,382,335.87	211,202.00		3,593,537.87	359,353.79
Total Other Liabilities	444,838,959.87	38,185,888.93	(16,064.81)	483,008,783.99	371,729.71
Governmental Activities Long-Term Liabilities	\$644,092,889.36	\$58,185,888.93	\$(23,916,012.58)	\$678,362,765.71	\$24,659,814.15

Payments on the Series 2012, 2015, and 2017 warrants payable are made with property taxes and sales taxes. The Board is not subject to suit on the Series 2012, 2015, and 2017 warrants in the event that it defaults in payment of such principal and interest on the warrants. Payments on the Capital Improvement Pool Bonds Series 2009-D, 2011-B 2011-QZAB bonds, and 2012-A Pool Refunding Warrants are made with Public School Funds which are part of the Board's allocation from the Alabama Department of Education. In the event of default, whether due to failure to comply with terms and conditions of Bonds or in failure to pay amount due on the Bonds, the Alabama Public School and College Authority (the "Authority") may (1) withhold all leveraged funds due to the Board until full compliance with the terms and (2) file suit to compel performance of the obligations of the Board under the bond agreement. Payments on the capital leases and long term note payable are made from available local sources. The compensated absences liability will primarily be liquidated by the General Fund.

The Board's outstanding warrants from direct borrowings related to governmental activities in the maximum amount of \$60,000,000.00, are secured by a pledge of revenue from sales and use taxes.

Simultaneously, upon the issuance of the certificates of participation in the 2005 Qualified Zone Academy Bonds (QZAB), the Board set aside \$606,532.95 in an investment account to provide for the future debt service requirements of the QZAB. This investment account does not, however, guarantee the full payment of the debt service requirements for the QZAB; therefore, the QZAB is not considered to be defeased and the liability remains on the Board's books.

Notes to the Financial Statements

For the Year Ended September 30, 2019

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

Fiscal Year Ending	Bonds/Warrants Payable		Certificate of Participation	
	Principal	Interest	Principal	Interest
September 30, 2020	\$ 22,936,295.31	\$ 7,354,935.78	\$	\$
2021	23,283,516.59	6,628,380.53	1,000,000.00	
2022	8,465,434.06	5,910,638.41		
2023	7,410,424.37	5,521,741.86		
2024	7,792,585.96	5,155,592.38		
2025-2029	48,219,000.00	19,252,419.00		
2030-2034	35,550,000.00	9,459,537.50		
2035-2037	26,540,000.00	1,806,400.00		
Total	<u>\$180,197,256.29</u>	<u>\$61,089,645.46</u>	<u>\$1,000,000.00</u>	<u>\$</u>

Deferred Loss on Refunding and Premiums

The Board has deferred amounts associated with several of its debt issues. All are being amortized using the straight-line method.

- ◆ Capital Improvement Pool Refunding Bonds, Series 2009-B had a premium that was deferred and is now being amortized over 10 years. This debt also had a deferred loss on refunding being amortized over 9 years.
- ◆ The Capital Improvement Pool Refunding Bonds, Series 2012-A had a premium, and deferred loss on refunding and are now being amortized over 12 years.
- ◆ The School Refunding Warrants, Series 2012 had a premium, and deferred loss on refunding and are now being amortized over 17 years.

Notes to the Financial Statements

For the Year Ended September 30, 2019

Capital Lease Payable		Notes Payable		Total Principal and Interest Requirements to Maturity
Principal	Interest	Principal	Interest	
\$ 6,375.92	\$1,688.89	\$6,000.00	\$60.00	\$ 30,305,355.90
6,761.70	1,303.11			30,919,961.93
7,170.82	893.99			14,384,137.28
7,604.68	460.13			12,940,231.04
				12,948,178.34
				67,471,419.00
				45,009,537.50
				28,346,400.00
\$27,913.12	\$4,346.12	\$6,000.00	\$60.00	\$242,325,220.99

- ◆ The Refunding Warrants, Series 2015 has a premium, and deferred loss on refunding and are now being amortized over 18 years.

	Premium	Deferred Loss on Refunding
<u>Total Deferred Loss on Refunding, and Premium</u>		
Capital Improvement Pool Refunding, Series 2009-B	\$ 105,679.76	\$ 55,803.56
Pool Refunding Warrants, Series 2012A	2,890,675.38	
School Refunding Warrant, Series 2012	4,431,685.05	2,399,114.49
Refunding Warrants, Series 2015	15,587,222.85	9,343,533.95
Refunding Warrants, Series 2017	949,966.00	798,963.04
Total Deferred Amounts	23,965,229.04	12,597,415.04
<u>Amount Amortized Prior Years</u>		
Capital Improvement Pool Refunding, Series 2009-B	105,679.76	55,803.56
Pool Refunding Warrants, Series 2012A	1,545,708.39	
School Refunding Warrants, Series 2012	1,737,915.73	940,829.20
Refunding Warrant, Series 2015	3,117,444.60	1,868,706.77
Refunding Warrants, Series 2017	949,966.00	798,963.04
Total Amount Amortized Prior Years	7,456,714.48	3,664,302.57
<u>Balance Deferred Loss on Refunding, and Premium</u>		
Pool Refunding Warrants, Series 2012A	1,344,966.99	
School Refunding Warrants, Series 2012	2,693,769.32	1,458,285.29
Refunding Warrants, Series 2015	12,469,778.25	7,474,827.18
Total Balance Deferred Amounts	16,508,514.56	8,933,112.47
<u>Current Amount Amortized</u>		
Pool Refunding Warrants, Series 2012A	240,889.62	
School Refunding Warrants, Series 2012	260,687.36	141,124.38
Refunding Warrants, Series 2015	850,212.15	509,647.31
Total Current Amount Amortized	1,351,789.13	650,771.69
<u>Balance Deferred Loss on Refunding, and Premium</u>		
Pool Refunding Warrants, Series 2012A	1,104,077.37	
School Refunding Warrants, Series 2012	2,433,081.96	1,317,160.91
Refunding Warrants, Series 2015	11,619,566.10	6,965,179.87
Total Balance	\$15,156,725.43	\$ 8,282,340.78

Notes to the Financial Statements

For the Year Ended September 30, 2019

Pledged Revenues

The Board issued \$39,860,000.00 in Refunding School Warrants, Series 2012 for the advance refunding of outstanding Capital Outlay School Warrants, Series 2005. The Board pledged to repay the warrants from the proceeds of the sales and use tax collected pursuant to the ***Code of Alabama 1975***, Section 40-12-4, Act Number 83-832, Act of Alabama, as amended by Act Number 84-523, and five mill county-wide ad valorem tax pursuant to Amendment Number 162. Future revenues of \$33,702,531.34 are pledged to repay the principal and interest on the Series 2012 warrants at September 30, 2019. Pledged revenues in the amount of \$83,456,473.22 were received during the fiscal year ended September 30, 2019 which were used to pay \$3,370,468.76 in principal and interest payments on the warrants. The Series 2012 warrants will mature in fiscal year 2029.

The Board issued \$83,500,000 in Refunding School Warrants, Series 2015 for the advance partial refunding of the outstanding balance of \$135,235,000.00 of the Capital Outlay School Warrants, Series 2007. The Board pledged to the repay the refunded warrants from the proceeds of the sales and use tax collected pursuant to the ***Code of Alabama 1975***, Section 40-12-4, Act Number 83-832, Act of Alabama, as amended by Act Number 84-523, and the five mill county-wide ad valorem tax pursuant to Amendment Number 162. Future revenues of \$105,814,875 are pledged to repay the principal and interest on the Series 2015 warrants at September 30, 2018. Pledged revenue in the amount of \$83,456,473.22 were received during the fiscal year ended September 30, 2019 which were used to pay \$7,602,062.50 in principal and interest payments on the warrants. The Series 2015 warrants will mature in fiscal year 2033.

The Board issued \$34,730,000 in Refunding School Warrants, Series 2017 for the current refunding of the outstanding balance of \$36,028,963 of the Capital Outlay School Warrants, Series 2007. The Board pledged to the repay of the refunded warrants from the proceeds of the sales and use tax collected pursuant to the ***Code of Alabama 1975***, Section 40-12-4, Act Number 83-832, Act of Alabama, as amended by Act Number 84-523, and the five mill county-wide ad valorem tax pursuant to Amendment Number 162. Future revenues of \$56,319,937.50 are pledged to repay the principal and interest on the Series 2017 warrants at September 30, 2019 which were used to pay \$1,327,775 in interest payments on the warrants. Pledge revenue in the amount of \$83,456,473.22 were received during the fiscal year ended September 30, 2019. The Series 2017 warrants will mature in fiscal year 2037.

Notes to the Financial Statements

For the Year Ended September 30, 2019

The Board issued Series 2009-B Capital Improvement Pool Refunding Bonds, Series 2009-D Capital Improvement Pool Qualified School Construction Bonds, Series 2011-B Capital Improvement Pool Refunding Bonds, 2011-QZAB warrants and 2012-A Pooled Refunding Bonds which are pledged to be repaid from their allocation of public school funds received from the State of Alabama. Future revenues in the amount of \$1,868,009.16 are pledged to repay the principal and interest on the Series 2009-D bonds at September 30, 2019. Future revenues in the amount of \$375,253.24 are pledged to repay the principal and interest on the Series 2011-B bonds at September 30, 2019. Future revenues in the amount of \$5,421,522 are pledged to repay the principal and interest on the Series 2011 QZAB warrant at September 30, 2019. Future revenues in the amount of \$6,787,273.51 are pledged to repay the principal and interest on the Series 2012-A bonds at September 30, 2019. Pledged funds in the amount of \$2,308,685.32 were used to pay principal and interest on the bonds during the fiscal year ended September 30, 2019. This amount represents 36 percent of the pledged funds received by or allocated to the Board. The Series 2009-D, 2011-B, 2011-QZAB and 2012-A debt will mature in fiscal years 2018, 2026, 2021, 2026, and 2024 respectively.

The Board issued Public School Warrant, Four-Year Advance Schedule, for the purpose of financing the cost of constructing capital improvements to the Board's educational system. The Board pledged to repay the warrants from the proceeds of the sales and use tax collected pursuant to Section 40-12-4 of the *Code of Alabama 1975* and Resolution Number 2017-046 adopted by the Baldwin County Commission on January 3, 2017. Future revenues of \$25,864,000 are pledged to repay the principal and interest on the Series 2018 warrant as of September 30, 2019. Pledged revenue in the amount of \$42,571,211.39 were received during the fiscal year ended September 30, 2019. The Series 2018 warrants will mature in fiscal year 2021.

The Board initiated the second drawdown related to Public School Warrant, Four-Year Advance Schedule, for the purpose of financing the cost of constructing capital improvements to the Board's educational system. The Board pledged to repay the warrants from the proceeds of the sales and use tax collected pursuant to Section 40-12-4 of the *Code of Alabama 1975* and Resolution Number 2017-046 adopted by the Baldwin County Commission on January 3, 2017. Future revenues of \$20,401,983 are pledged to repay the principal and interest on the Series 2018 warrant second drawdown as of September 30, 2019. Pledged revenue in the amount of \$42,571,211.39 were received during the fiscal year ended September 30, 2019. The Series 2018 warrants consisting of two drawdowns in total will mature in fiscal year 2021.

Notes to the Financial Statements

For the Year Ended September 30, 2019

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 and fleet liability insurance is purchased from State Farm Insurance Company. 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, 2019

Note 10 – Interfund Transfers

The amounts of interfund transfers during the fiscal year ended September 30, 2019, were as follows:

	<u>Transfers Out</u>		Total
	General Fund	Special Revenue Fund	
Transfers In:			
General Fund	\$	\$2,388,894.07	\$ 2,388,894.07
Special Revenue Fund	6,717,942.66		6,717,942.66
Debt Service Fund	32,209,535.47		32,209,535.47
Total	<u>\$38,927,478.13</u>	<u>\$2,388,894.07</u>	<u>\$41,316,372.20</u>

The Board typically used transfers to fund ongoing operating subsidies, to recoup certain expenditures paid on-behalf of the local schools, and to transfer the portion from the General Fund to the Debt Service Funds to service current-year debt requirements.

Note 11 – Subsequent Events

On February 20, 2020, the Board approved the issuance of Series 2020-RCA1 Public School Warrants in the amount of \$50,000,000.00 to be used for capital improvements to schools within the county.

On March 17, 2020, the Board authorized preliminary action for the refunding of the Series 2012 and Series 2015 Refunding School Warrants in order to take advantage of interest rate savings without extending the original maturity date of the warrants.

Recently, the United States has encountered a COVID-19 pandemic which is adversely affecting the nation. On March 13, 2020, the President of the United States declared a state of emergency in response to the COVID-19 pandemic. Subsequently, on the same day, the Governor of Alabama declared a state of emergency. As a result, the operations of federal, state, and local governments including educational institutions have been modified to ensure the safety of its citizenry as well as its employees. It is highly anticipated that revenues from all sources, including taxes and federal grants that are received by the Board will be severely impacted by this pandemic. Additionally, it is anticipated that there will be a significant increase in costs associated with the aftermath of COVID-19. Because so much is unknown at this time, it will be extremely difficult for the Board to prepare budgets for the upcoming fiscal year to anticipate the impact of the pandemic. The Board anticipates that its financial operations will be adversely impacted by this pandemic; however, the duration and severity of its effects is indeterminable at this time.

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Required Supplementary Information

***Schedule of the Employer's Proportionate Share of the
Collective Net Pension Liability
For the Year Ended September 30, 2019
(Dollar amounts in thousands)***

	2019	2018
Employer's proportion of the net pension liability	2.428207%	2.384655%
Employer's proportionate share of the net pension liability	\$ 241,426	\$ 234,375
Employer's covered-employee payroll during the measurement period (*)	\$ 168,102	\$ 163,594
Employer's proportionate share of the collective net pension liability as a percentage of its covered-employee payroll	143.62%	143.27%
Plan fiduciary net position as a percentage of the total collective pension liability	72.29%	71.50%

(*) Employer's covered payroll during the measurement period is the total covered payroll (see GASB 82).
For fiscal year 2019, the measurement period is October 1, 2017 - September 30, 2018.

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



2017		2016		2015	
2.359421%		2.335313%		2.240591%	
\$	255,431	\$	244,407	\$	203,548
\$	155,706	\$	153,010	\$	147,181
164.05%		159.73%		138.30%	
67.93%		67.51%		71.01%	

Schedule of the Employer's Contributions - Pension
For the Year Ended September 30, 2019
(Dollar amounts in thousands)

	2019	2018
Contractually required contribution	\$ 21,337	\$ 19,499
Contributions in relation to the contractually required contribution	<u>\$ 21,337</u>	<u>\$ 19,499</u>
Contribution deficiency (excess)	\$	\$
Employer's covered payroll	\$ 171,642	\$ 168,102
Contributions as a percentage of covered payroll	12.43%	11.60%

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

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***Schedule of the Employer's Proportionate Share of the
Collective Net Other Postemployment Benefits (OPEB) Liability
Alabama Retired Education Employees' Health Care Trust
For the Year Ended September 30, 2019
(Dollar amounts in thousands)***

	2019	2018
Employer's proportion of the net OPEB liability	2.883115%	2.774414%
Employer's proportionate share of the net OPEB liability (asset)	\$ 236,955	\$ 206,068
Employer's covered-employee payroll during the measurement period (*)	\$ 168,102	\$ 163,594
Employer's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	140.96%	125.96%
Plan fiduciary net position as a percentage of the total collective OPEB liability	14.81%	15.37%

(*) Employer's covered payroll during the measurement period is the total covered payroll.
For fiscal year 2019, the measurement period is October 1, 2017 - September 30, 2018.

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
Other Postemployment Benefits (OPEB)
Alabama Retired Education Employees' Health Care Trust
For the Year Ended September 30, 2019
(Dollar amounts in thousands)***

	2019	2018
Contractually required contribution	\$ 8,638	\$ 7,149
Contributions in relation to the contractually required contribution	\$ 8,638	\$ 7,149
Contribution deficiency (excess)	\$	\$
Employer's covered-employee payroll	\$ 171,642	\$ 168,102
Contributions as a percentage of covered-employee payroll	5.03%	4.25%

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

Notes to Required Supplementary Information for Other Postemployment Benefits (OPEB) For the Year Ended September 30, 2019

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 United Healthcare Medicare Advantage Plan with Prescription Drug Coverage (MAPD).

The Plan is changed periodically 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, 2016, 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	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	25 years, closed
Asset Valuation Method	Market Value of Assets
Inflation	2.875%
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 for Pre-Medicare Eligible 2018 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, 2019

	Budgeted Amounts		Actual Amounts
	Original	Final	Budgetary Basis
<u>Revenues</u>			
State	\$ 154,906,296.00	\$ 164,566,563.00	\$ 164,972,080.55
Local	138,992,163.52	143,592,163.52	151,730,981.67
Other	400,000.00	947,685.67	1,415,613.86
Total Revenues	294,298,459.52	309,106,412.19	318,118,676.08
<u>Expenditures</u>			
Current:			
Instruction	171,949,796.00	176,979,243.35	166,911,153.51
Instructional Support	48,368,783.97	48,414,225.85	48,231,535.11
Operation and Maintenance	23,764,798.00	18,879,737.93	16,886,527.73
Auxiliary Services:			
Student Transportation	13,873,566.00	14,487,870.61	15,239,072.58
General Administration and Central Support	9,174,976.97	9,260,918.06	9,990,514.28
Other	4,625,643.03	5,104,828.28	6,458,237.99
Capital Outlay	23,893,103.00	91,155,796.23	35,114,566.19
Debt Service:			
Interest and Fiscal Charges			3,560,199.00
Total Expenditures	295,650,666.97	364,282,620.31	302,391,806.39
Excess (Deficiency) of Revenues Over Expenditures	(1,352,207.45)	(55,176,208.12)	15,726,869.69
<u>Other Financing Sources (Uses)</u>			
Indirect Cost	1,735,481.58	1,732,851.63	1,525,329.99
Transfers In		29,000,000.00	2,388,894.07
Other Financing Sources			93,317.18
Sale of Capital Assets			2,757,975.00
Transfers Out	(26,150,520.26)	(51,323,520.26)	(38,927,478.13)
Total Other Financing Sources (Uses)	(24,415,038.68)	(20,590,668.63)	(32,161,961.89)
Net Change in Fund Balances	(25,767,246.13)	(75,766,876.75)	(16,435,092.20)
Fund Balances - Beginning of Year	88,295,916.13	135,006,253.45	135,006,253.45
Fund Balances - End of Year	\$ 62,528,670.00	\$ 59,239,376.70	\$ 118,571,161.25

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	\$	\$ 164,972,080.55
		151,730,981.67
		1,415,613.86
		<u>318,118,676.08</u>
(1)	(785,418.81)	167,696,572.32
(1)	(233,960.26)	48,465,495.37
(1)	(47,124.69)	16,933,652.42
(1)	(109,191.15)	15,348,263.73
(1)	(36,670.93)	10,027,185.21
(1)	(58,074.38)	6,516,312.37
		35,114,566.19
		3,560,199.00
	(1,270,440.22)	<u>303,662,246.61</u>
	(1,270,440.22)	<u>14,456,429.47</u>
		1,525,329.99
		2,388,894.07
		93,317.18
		2,757,975.00
		(38,927,478.13)
		<u>(32,161,961.89)</u>
	(1,270,440.22)	(17,705,532.42)
(2)	(18,482,027.41)	<u>116,524,226.04</u>
	\$ (19,752,467.63)	<u>\$ 98,818,693.62</u>

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended September 30, 2019

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

- (1) The Board budgets for salaries and benefits only to the extent expected to be paid, rather than on the modified accrual basis.

Net Decrease 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 because of the cumulative effect of transactions such as those described above.

\$ (1,270,440.22)

\$ (1,270,440.22)

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Special Revenue Fund
For the Year Ended September 30, 2019

	Budgeted Amounts		Actual Amounts
	Original	Final	Budgetary Basis
<u>Revenues</u>			
Federal	\$ 28,104,325.00	\$ 29,442,890.97	\$ 28,590,581.56
Local	29,472,411.00	30,585,889.85	38,964,171.21
Other	509,905.00	509,905.00	207,392.15
Total Revenues	58,086,641.00	60,538,685.82	67,762,144.92
<u>Expenditures</u>			
Current:			
Instruction	14,361,363.12	15,262,058.75	18,658,640.57
Instructional Support	3,516,847.92	3,998,102.02	5,607,245.01
Operation and Maintenance	14,845,070.00	16,784,830.00	18,363,984.03
Auxiliary Services:			
Student Transportation	277,925.10	288,909.81	694,811.09
Food Service	19,441,649.00	19,250,555.51	17,720,134.29
General Administration and Central Support	775,861.10	761,621.82	756,588.23
Other	5,857,849.76	5,869,499.75	6,470,725.24
Capital Outlay	566,844.00	7,681,363.34	7,526,002.40
Debt Service:			
Principal Retirement	27,043.00	27,043.00	16,064.81
Interest and Fiscal Charges	7,400.00	7,400.00	476.89
Total Expenditures	59,677,853.00	69,931,384.00	75,814,672.56
Excess (Deficiency) of Revenues Over Expenditures	(1,591,212.00)	(9,392,698.18)	(8,052,527.64)
<u>Other Financing Sources (Uses)</u>			
Long-Term Debt Issued			35,977.93
Transfers In	5,155,413.00	5,293,163.00	6,717,942.66
Other Financing Sources			78,532.45
Sale of Capital Assets			15,170.59
Transfers Out		(8,000,000.00)	(2,388,894.07)
Total Other Financing Sources (Uses)	5,155,413.00	(2,706,837.00)	4,458,729.56
Net Change in Fund Balances	3,564,201.00	(12,099,535.18)	(3,593,798.08)
Fund Balances - Beginning of Year	43,906,025.84	61,224,682.51	61,423,765.12
Fund Balances - End of Year	\$ 47,470,226.84	\$ 49,125,147.33	\$ 57,829,967.04

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	\$	\$ 28,590,581.56
		38,964,171.21
		207,392.15
		<u>67,762,144.92</u>
		18,658,640.57
		5,607,245.01
(1)	1,053.86	18,362,930.17
		694,811.09
(1)	(49,409.08)	17,769,543.37
		756,588.23
		6,470,725.24
		7,526,002.40
		16,064.81
		476.89
	(48,355.22)	<u>75,863,027.78</u>
	(48,355.22)	<u>(8,100,882.86)</u>
		35,977.93
		6,717,942.66
		78,532.45
		15,170.59
		<u>(2,388,894.07)</u>
		<u>4,458,729.56</u>
	(48,355.22)	(3,642,153.30)
(2)	(674,713.72)	<u>60,749,051.40</u>
	\$ (723,068.94)	<u>\$ 57,106,898.10</u>

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Special Revenue Fund
For the Year Ended September 30, 2019***

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

- (1) The Board budgets for salaries and benefits only to the extent expected to be paid, rather than on the modified accrual basis.

Net Decrease 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 because of the cumulative effect of transactions such as those described above.

\$ (48,355.22)

\$ (48,355.22)

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Supplementary Information

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2019

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number
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U. S. Department of Education

Passed Through Alabama Department of Education

Title I Grants to Local Educational Agencies	84.010
Career and Technical Education - Basic Grants to States	84.048
Twenty-First Community Learning Centers	84.287
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126
Education for Homeless Children and Youth	84.196
Supporting Effective Instruction State Grants	84.367
English Language Acquisition State Grants	84.365
Student Support and Academic Enrichment Program	84.424
Disaster Recovery Assistance for Education	84.938
Special Education Cluster:	
Special Education - Grants to States	84.027
Special Education - Preschool Grants	84.173
Sub-Total Special Education Cluster	

Passed Through Alabama Department of Early Childhood Education

Preschool Development Grants	84.419
Total U. S. Department of Education	

U. S. Department of Agriculture

Passed Through Alabama Department of Education

Child Nutrition Cluster:	
National School Lunch Program:	
Cash Assistance	10.555
Non-Cash Assistance (Commodities)	10.555
National School Lunch Program Sub-Total	
School Breakfast Program - Cash Assistance	10.553
Total Child Nutrition Cluster (M)	
State Administrative Expenses for Child Nutrition	10.560
Total U. S. Department of Agriculture	
Sub-Total Forward	

Pass-Through Grantor's Number	Total Federal Expenditures
N.A.	\$ 7,240,163.89
N.A.	448,601.82
N.A.	1,844,144.81
N.A.	104,029.44
N.A.	30,000.00
N.A.	778,784.22
N.A.	161,988.07
N.A.	466,470.89
N.A.	32,875.00
N.A.	6,740,326.00
N.A.	164,843.00
	<u>6,905,169.00</u>
N.A.	45,430.86
	<u>18,057,658.00</u>
N.A.	7,196,621.75
N.A.	1,155,390.46
	<u>8,352,012.21</u>
N.A.	1,834,373.76
	<u>10,186,385.97</u>
N.A.	400.00
	<u>10,186,785.97</u>
	\$ 28,244,443.97

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2019

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number
Sub-Total Brought Forward	
<u>U. S. Department of Health and Human Services</u>	
<u>Direct Program</u>	
Child Care and Development Block Grant	93.575
<u>WIOA Cluster</u>	
<u>U. S. Department of Labor</u>	
<u>Passed Through Southwest Alabama Partnership for Training and Employment, Inc. (SWAPTE)</u>	
WIOA Youth Activities	17.259
<u>Social Security Administration</u>	
<u>Passed Through Alabama Department of Education</u>	
Social Security - Disability Insurance	96.001
<u>Other Federal Assistance</u>	
<u>U. S. Department of Defense</u>	
<u>Direct Program</u>	
Air Force ROTC	N.A
Navy ROTC	N.A
Total U. S. Department of Defense	
Total Expenditures of Federal Awards	

(M) = Major Program

N.A. = Not Available or Not Applicable

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

Pass-Through Grantor's Number	Total Federal Expenditures
	\$ 28,244,443.97
N.A.	21,811.83
N.A.	22,065.71
N.A.	8,838.00
AFJROTC	227,468.58
JROTC174S	120,622.33
	<u>348,090.91</u>
	<u>\$ 28,645,250.42</u>

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended September 30, 2019

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal grant activity of the Baldwin County Board of Education under programs of the federal government for the year ended September 30, 2019. 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 Baldwin County Board of Education, it is not intended to and does not present the financial position or changes in net position of the Baldwin 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 Baldwin County Board of Education has elected not to use the 10-percent de minimis indirect cost rate as allowed in the *Uniform Guidance*; instead, the Baldwin County Board of Education is using an indirect cost rate approved by the State of Alabama Department of Education.

Additional Information

Board Members and Administrative Personnel
October 1, 2018 through September 30, 2019

Board Members		Term Expires
Hon. Cecil Christenberry	President	2020
Hon. JaNay Dawson	Vice-President	2022
Hon. David B. Cox	Member	2018
Hon. David Tarwater	Member	2018
Hon. Andrea Lindsey	Member	2024
Hon. Tony Myrick	Member	2020
Hon. Michael Johnson	Member	2024
Hon. Shannon Cauley	Member	2022
Hon. Norma Lynch	Member	2020
<u>Administrative Personnel</u>		
Eddie Tyler, M.Ed.	Superintendent	2021
John C. Wilson	Chief School Financial Officer	Indefinite

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

Independent Auditor's Report

Members of the Baldwin County Board of Education,
Superintendent and Chief School Financial Officer
Bay Minette, Alabama

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards*** issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Baldwin County Board of Education as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Baldwin County Board of Education's basic financial statements and have issued our report thereon dated May 5, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Baldwin 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 Baldwin County Board of Education's internal control. Accordingly, we do not express an opinion on the effectiveness of the Baldwin County Board of Education's internal control.

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

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

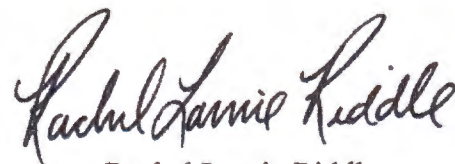
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Compliance and Other Matters

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

Purpose of this Report

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



Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

May 5, 2020

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 Baldwin County Board of Education
Superintendent and Chief School Financial Officer
Bay Minette, Alabama

Report on Compliance for the Major Federal Program

We have audited the Baldwin 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 Baldwin County Board of Education's major federal program for the year ended September 30, 2019. The Baldwin 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 Baldwin County Board of Education's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U. S. ***Code of Federal Regulations*** Part 200, ***Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*** (*Uniform Guidance*). Those standards and the *Uniform Guidance* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Baldwin County Board of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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 the Baldwin County Board of Education's compliance.

Opinion on Each Major Federal Program

In our opinion, the Baldwin County Board of Education complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended September 30, 2019.

Report on Internal Control Over Compliance

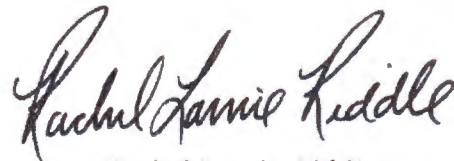
Management of the Baldwin County Board of Education is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Baldwin County Board of Education's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

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

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

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.

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

May 5, 2020

Schedule of Findings and Questioned Costs

For the Year Ended September 30, 2019

Section I – Summary of Examiner's Results

Financial Statements

Type of opinion issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? Yes X No

Significant deficiency(ies) identified? Yes X None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major federal 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 federal 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 federal programs:

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

Dollar threshold used to distinguish between Type A and Type B programs: \$859,357.51

Auditee qualified as low-risk auditee? X Yes No

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2019

Section II – Financial Statement Findings (GAGAS)

No matters were reportable.

Section III – Federal Awards Findings and Questioned Costs

No matters were reportable.