

SARALAND BOARD OF EDUCATION

FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

**Saraland Board of Education
Financial Statements
September 30, 2018**

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FINANCIAL SECTION

SHAREHOLDERS

J. Earl Blackmon, Jr., CPA
B. Vance Kilgore, CPA
Dennis E. Sherrin, CPA
G. Allen Cave, Jr., CPA
Rachel M. Godwin, CPA

PRINCIPALS

LeeAnn M. May, CPA



Hartmann, Blackmon & Kilgore, P.C.
Certified Public Accountants & Consultants

OF COUNSEL

Xavier A. Hartmann, III, CPA
Rucker T. Taylor, III, CPA
Sally S. Wagner, CPA

INDEPENDENT AUDITORS' REPORT

Members of the Board
Saraland Board of Education
Saraland, Alabama

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

Management's Responsibility for the Financial Statements

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

Auditors' 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 Saraland Board of Education, as of September 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-13, budgetary comparison information on pages 50-51, schedule of proportionate share of the net pension liability and schedule of Board contributions on pages 53-54, schedule of proportionate share of net OPEB liability and schedule of contributions on pages 55-56, respectively, to 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Saraland Board of Education's basic financial statements. The Schedule of Expenditures of Federal Awards and Schedule of Findings and Questioned Costs, 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), are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2018, on our consideration of Saraland Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Saraland Board of Education's internal control over financial reporting and compliance.

Restatement of Prior Periods

The financial statement of the Board as of September 30, 2017, dated January 31, 2018, expressed an unmodified opinion on the financial statements. As discussed in Note 13 to the financial statements, the Board has adjusted its September 30, 2017, financial statements to retrospectively apply the implementation of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pension Plans*.

As part of our audit we also audited the adjustment to the September 30, 2017 financial statement to retroactively apply the changes in accounting principle as described in Note 13. In our opinion, such adjustments are appropriate and have been properly applied.

Certified Public Accountants

December 14, 2018
Brewton, Alabama

**Saraland Board of Education
Management Discussion and Analysis
For The Year Ended September 30, 2018**

The Saraland 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, 2018. Readers are encouraged to read it in conjunction with the transmittal letter at the front of this report and the Board's financial statements, which follow this analysis. The Management's Discussion and Analysis (MD&A) reflects an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

Financial Highlights

The Board's Net Position decreased by \$1,663,230 in FY 2018. The activities revenues overall were \$32,375,368 in FY 2018 and \$30,774,929 in FY 2017, resulting in an increase of \$1,600,439 or 5.20% over the prior year. The Board's continual rise of student enrollment has resulted in annual increases in state allocations for our system. Local ad valorem tax increased by 3.06%, and local sales tax increased by 3.52%. Also, Grants and Contributions Not Restricted for Specific Programs decreased by \$100,122 largely due to the receipt of a one-time contribution made by the Mobile County Commission. Refer to Table 2 for specific details of each category.

The General Fund revenues and other financing sources exceeded expenditures and other financing uses by \$835,283. Overall, the Board's revenues and other financing sources exceeded expenditures and other financing uses by \$4,984,348 largely due to the proceeds of the Series 2017 Public Educational Building Authority (PEBA) Revenue Bonds used for partial repayment of prior warrant issuances and for funding three new capital projects.

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 (RSI), including the MD&A
- Basic Financial Statements (Governmental-Wide and Fund Financial Statements)
- Supplemental Information

**Saraland Board of Education
Management Discussion and Analysis
For The Year Ended September 30, 2018**

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

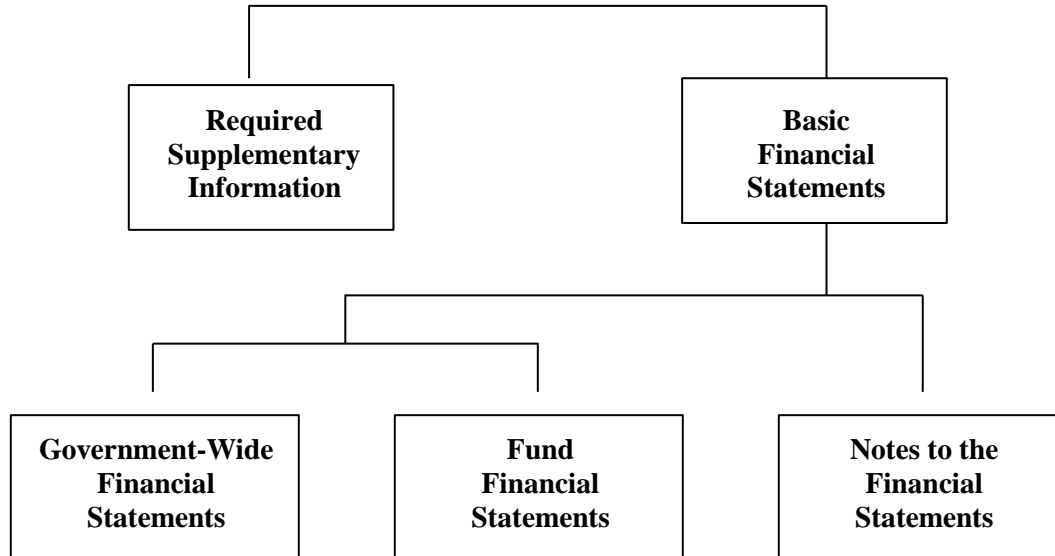


Figure 1 depicts the major features of the Board's financial statements. The focus of the financial statements is on the Board as a whole and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year 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* 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 full accrual basis of accounting. All of the revenues and expenses are reported regardless of the timing of when cash is received or paid. The statement identifies the extent to which each expenditure function draws from general revenues of the Board (primarily local taxes) or is financed through charges for services (such as lunchrooms) and intergovernmental aid (primarily federal programs and state appropriations).

Fund Financial Statements

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

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

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

Notes to the Financial Statements

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

Financial Analysis of the Board as a Whole

As indicated earlier, net position may serve over time as a useful indicator of a government's financial position. Refer to Table 1 when reading the following analysis of net position. The Board's total liabilities exceeded assets by \$20,741,516 at September 30, 2018.

- ◆ Of this figure, \$10,709,301 reflects the Board's Net Investment in Capital Assets. Since these capital assets represent investment in land, buildings, school buses, furniture and equipment, this portion of net position is not available for future spending or funding of operations.
- ◆ Restricted net position is reported separately to show the external legal constraints from debt covenants and enabling legislation that limit the Board's ability to use this net position for day-to-day operations. \$1,142,201 is restricted for education and \$4,525,444 is restricted for construction.
- ◆ The balance of unrestricted net position is \$(37,118,462).

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 September 30, 2018			
	FY 2018	FY 2017	Variance
<u>Assets</u>			
Current and Other Assets	\$ 12,713,396	\$ 7,639,531	66.42%
Capital Assets, Net of Depreciation	85,438,696	85,418,664	0.02%
Total Assets	98,152,092	93,058,195	5.47%
Deferred Outflows of Resources	6,571,622	6,525,227	0.71%
<u>Liabilities</u>			
Current and Other Liabilities	2,805,552	2,704,226	3.75%
Long-Term Liabilities	116,099,396	95,208,399	21.94%
Total Liabilities	118,904,948	97,912,625	21.44%
Deferred Inflows of Resources	6,560,282	524,000	1151.96%
<u>Net Position</u>			
Net Investment in Capital Assets	10,709,301	12,544,081	-14.63%
Restricted for:			
Education	1,142,201	1,278,640	-10.67%
Construction	4,525,444	327,416	1282.17%
Unrestricted	(37,118,462)	(13,003,340)	-185.45%
Total Net Position	\$(20,741,516)	\$ 1,146,797	-1908.65%

Factors attributing to the significant variances in Current and Other Assets and Net Position Restricted for Construction resulted from proceeds from the Series 2017 PEBA Revenue Bonds. The significant variances in Total Net Position, Unrestricted Net Position, Liabilities, and Deferred Inflows of Resources are due to the implementation of GASB Statements No. 68 and No. 75. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions.

The following table reflects the Changes in Net Position compared to the prior year. For more detailed information see the Statement of Activities.

Table 2 Changes in Net Position For the Year Ended September 30, 2018			
	FY 2018	FY 2017	Variance
<u>Revenues</u>			
Program Revenues:			
Charges for Services	\$ 2,919,540	\$ 2,924,651	-0.17%
Operating Grants and Contributions	18,626,402	17,511,984	6.36%
Capital Grants and Contributions	935,372	883,663	5.85%
General Revenues:			
Property Taxes for General Purposes	2,873,940	2,772,256	3.67%
Property Taxes for Specific Purposes	3,221,434	3,142,260	2.52%
Sales Tax	2,751,962	2,658,378	3.52%
Alcohol Beverage Tax	122,986	120,432	2.12%
Other Taxes	91,938	88,639	3.72%
Grants and Contributions Not Restricted for Specific Programs	678	100,800	-99.33%
Investment Earnings	111,154	89,449	24.27%
Miscellaneous	719,961	482,417	49.24%
Total Revenues	<u>32,375,367</u>	<u>30,774,929</u>	<u>5.20%</u>
<u>Expenditures</u>			
Governmental Activities:			
Instructional	\$16,088,872	\$15,164,199	6.10%
Instructional Support	4,973,624	4,798,621	3.65%
Operation and Maintenance	2,896,124	2,912,022	-0.55%
Student Transportation	1,764,770	1,643,624	7.37%
Food Service	1,777,803	1,729,474	2.79%
General Administrative	3,083,880	1,624,218	89.87%
Interest and Fiscal Charges	3,085,282	3,119,606	-1.10%
Other Expenses	368,242	301,568	22.11%
Total Expenditures	<u>34,038,597</u>	<u>31,293,332</u>	<u>8.77%</u>
Changes in Net Position	(1,663,230)	(518,403)	220.84%
Net Position - Beginning of Year, as Restated	(19,078,286)	1,665,200	
Net Position - End of Year	<u>\$(20,741,516)</u>	<u>\$ 1,146,797</u>	

The significant variances reflected on Table 2 are described below:

Revenues

- ◆ Grants and Contributions Not Restricted for Specific Programs – As mentioned in Financial Highlights, decrease due to a one-time contribution made by the Mobile County Commission.
- ◆ Investment Earnings – Increase due to the interest earned on the new Series 2017 PEBA Revenue Bonds.
- ◆ Miscellaneous – Increase due to additional E-Rate reimbursements, Medicaid Student Program reimbursements, and indirect costs received.

Expenditures

- ◆ General Administrative – Increase is primarily due to costs and repayments associated with the Series 2017 PEBA Revenue Bonds.
- ◆ Other Expenses – Increase is primarily due to the costs associated with adding a second preschool class at Saraland Early Education Center.

The recording of our proportionate share of the state's retirement pension plan as prescribed by GASB Statement No. 68 and our proportionate share of the state's other post-employment benefits as prescribed by GASB Statement No. 75 are major contributors towards the decrease in Net Position.

Net Cost of Services

Total cost of services was \$34,038,597. As shown in Table 3, the net cost of governmental activities was a negative \$11,557,283. 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 For the Year Ended September 30, 2018				
	FY 2018		FY 2017	
	<u>Total Cost</u> <u>of Services</u>	<u>Net Cost</u> <u>of Services</u>	<u>Total Cost</u> <u>of Services</u>	<u>Net Cost</u> <u>of Services</u>
Governmental Activities:				
Instructional	\$16,088,872	\$ (2,819,530)	\$15,164,199	\$(2,671,991)
Instructional Support	4,973,624	(1,069,829)	4,798,621	(1,062,033)
Operation and Maintenance	2,896,124	(1,996,481)	2,912,022	(1,757,935)
Student Transportation	1,764,770	(180,325)	1,643,624	(436,620)
Food Service	1,777,803	(159,740)	1,729,474	(113,921)
General Administrative	3,083,880	(2,182,463)	1,624,218	(715,166)
Interest and Fiscal Charges	3,085,282	(3,085,282)	3,119,606	(3,119,606)
Other Expenses	368,242	(63,633)	301,568	(95,762)
	<u>\$34,038,597</u>	<u>\$(11,557,283)</u>	<u>\$31,293,332</u>	<u>\$(9,973,034)</u>

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 \$9,644,609. Of the combined ending fund balances, \$3,976,964 of this amount constitutes unassigned fund balance of the school system that is available as of the end of the fiscal year for spending on future operations. The remaining combined fund balances are classified as nonspendable, restricted, and assigned for various purposes as constituted by GASB No. 54.

- ◆ **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 For the Year Ended September 30, 2018			
	FY 2018	FY 2017	Variance
State	\$17,470,274	\$16,274,728	7.35%
Federal	61,313	87,318	-29.78%
Local	6,184,941	5,855,402	5.63%
Other	439,929	237,059	85.58%
Total Revenues	\$24,156,457	\$22,454,507	7.58%

The significant decrease in federal revenues was largely due to the reclassification of prior year salary accruals involving federal fund sources.

The significant increase in other revenues was due to additional E-Rate reimbursements, Medicaid Student Program reimbursements, and indirect costs received.

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 Saraland was \$1,427,240 in fiscal year 2018.

Table 5 reflects a summary of General Fund Expenditures for the most recent two-year period:

Table 5 General Fund Expenditures For the Year Ended September 30, 2018			
	FY 2018	FY 2017	Variance
Current:			
Instructional	\$13,075,504	\$11,926,070	9.64%
Instructional Support	3,988,674	3,783,463	5.42%
Operation and Maintenance	2,792,029	2,668,109	4.64%
Auxiliary Services:			
Student Transportation	1,440,029	1,337,723	7.65%
General Administrative	1,473,367	1,337,984	10.12%
Other	203,409	124,254	63.70%
Capital Outlay	333,145	189,414	75.88%
Total Expenditures	\$23,306,157	\$21,367,017	9.08%

The significant increase in Other Expenses is primarily due to the costs associated with adding a second preschool class at Saraland Early Education Center.

The significant increase in Capital Outlay was due to the school board's approval of purchasing two new vehicles in the current fiscal year.

- ◆ ***Special Revenue Fund*** – The Special Revenue Fund accounts for all of the federal programs that flow through the State Department of Education which includes the Child Nutrition Program. In addition, this fund includes Public Local School source of funds. The beginning fund balance was \$1,278,640. Recognizing a deficiency of \$136,439 for the fiscal year, the ending fund balance for FY 2018 was \$1,142,201.
- ◆ ***Capital Projects Fund*** – The Capital Projects Fund accounts for all financial resources to be used for the acquisition or construction of major capital facilities. The beginning fund balance was \$327,416. Recognizing an excess of \$4,198,028 for the fiscal year, the ending fund balance for FY 2018 was \$4,525,444.

Overall, the Board's governmental funds reflected an excess of Revenues/Other Financing Sources over Expenditures/Other Financing Uses.

Budgetary Highlights

The FY 2018 Budget, adopted on September 7, 2017, 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 June 7, 2018, to make final budgetary adjustments to all funds and programs.

The comparisons of the General Fund and Special Revenue Fund original budgets to the final amended budgets are reflected in the required supplemental information in the report. The two budgets were amended to correct beginning fund balances and account for changes in state, federal and local sources.

Capital Assets and Debt Administration

- ♦ **Capital Assets** – As of September 30, 2018, the Board had \$85,438,696 invested in capital assets including land and land improvements, construction in progress, buildings and building improvements, equipment and furniture and vehicles costing \$5,000 or more. This amount is net of accumulated depreciation, as of September 30, 2018. (Additional information on the Board's Capital Assets is presented in the notes to the financial statements.)

Table 6 below reflects a summary of Capital Assets, Net of Depreciation for the most recent two-year period:

Table 6 Capital Assets, Net of Depreciation September 30, 2018			
	FY 2018	FY 2017	Variance
Land and Land Improvements	\$ 3,877,090	\$ 3,877,090	0.00%
Construction in Progress	12,889,100	12,718,716	1.34%
Buildings	63,035,482	63,016,763	0.03%
Building Improvements	3,951,474	4,145,695	-4.68%
Equipment and Furniture	333,962	409,226	-18.39%
Vehicles	1,351,588	1,251,175	8.03%
Total Capital Assets, Net of Depreciation	\$85,438,696	\$85,418,665	0.02%

There were no significant variances noted in the current fiscal year when compared to the prior fiscal year.

- ♦ **Long-Term Debt** – As of September 30, 2018, the Board had \$116,099,396 in General Long-Term Debt outstanding. The Board made debt service payments as reflected on Table 7. (Additional information on the Board’s long-term debt is presented in the notes to the financial statements.)

Table 7
Summary of Long-Term Debt
September 30, 2018

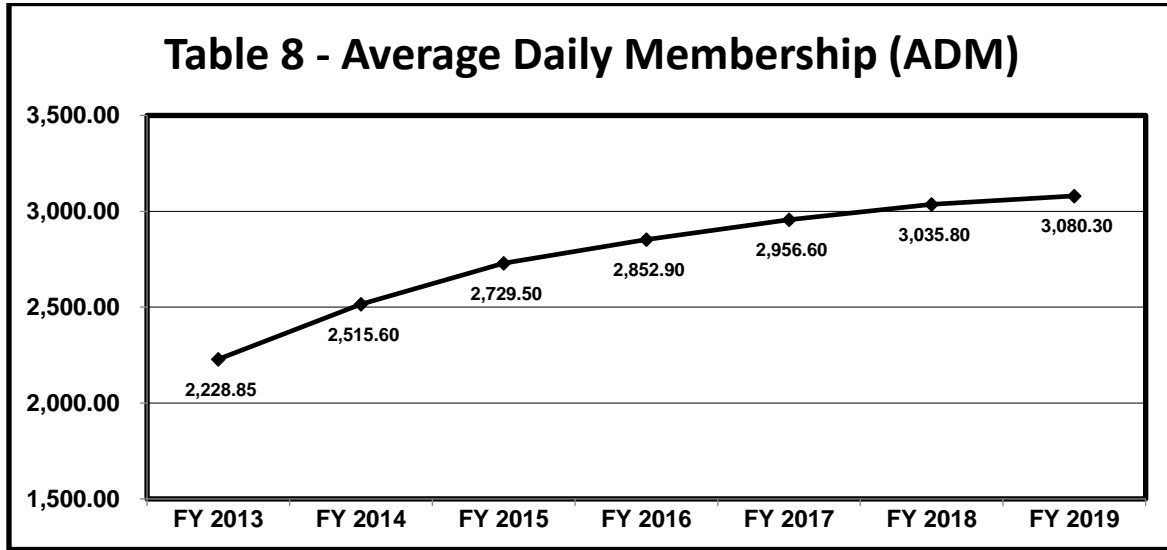
	Debt			Debt	Amounts Due within One Year
	Outstanding 10/1/2017	Issued/ Increased	Repaid/ Decreased	Outstanding 9/30/2018	
<u>Governmental Activities:</u>					
Capital Leases Payable	\$ 39,969,362	\$15,350,000	\$ (9,351,793)	\$ 45,967,569	\$ 885,919
Bonds and Warrants Payable	34,883,037		(46,041)	34,836,996	47,008
Net Pension Liability	20,356,000		(1,129,000)	19,227,000	
Net OPEB Liability	20,750,241		(4,682,410)	16,067,831	
Governmental Activities Long-Term Debt	\$115,958,640	\$15,350,000	\$(15,209,244)	\$116,099,396	\$ 932,927

Economic Factors and Next Year’s Budget

The following are currently known Saraland economic factors considered going into the 2018-2019 fiscal year:

- ♦ A reduction of federal funds for the 2018-2019 fiscal year is foreseeable.
- ♦ The funding formula to appropriate state funds to each public school system requires the equivalent of ten mills of ad valorem tax to be provided locally to participate in the Foundation Program. The match will increase from \$1,427,240 in FY 2018 to \$1,537,500 for FY 2019. The match for FY 2019 is 8.70% of the total State Foundation Program funds earned by the system.
- ♦ Employee health insurance is provided through the Public Education Employees’ Health Insurance Program (PEEHIP). PEEHIP employer costs will remain at \$800 for FY 2019 per employee per month. In addition, the employer contribution to the Teachers’ Retirement System (TRS) for employees hired prior to January 1, 2013, will be 12.41% for FY 2019. Employer contribution for employees hired on or after January 1, 2013, will be 11.35% for FY 2019. The Board uses local funds to pay the salary-related benefits costs not paid by state and federal funds.
- ♦ State Funding for Alabama school systems is based on average daily membership (ADM) for the first 20 days after Labor Day of the preceding school year. For every year since inception, average daily membership for the school system has increased. This increase places an additional financial burden on the Board’s local funds. Funding for earned teacher units is based on prior year ADM, rather than current year ADM. In a growing system, funding for salaries and benefits will always be a year behind and will not catch up until enrollment levels off or starts to decline.

Table 8 summarizes ADM by year since FY 2013:



Financial Contact

The Board's financial statements are designed to present users (citizens, taxpayers, investors and creditors) with a general overview of the Board's finances and to demonstrate the Board's accountability for public funds received. If you have questions about the report or need additional financial information, contact Dr. Aaron Milner, Superintendent, 4010 Lil' Spartan Drive Saraland, Alabama 36571, or by calling (251) 375-5420.

14
Saraland Board of Education
Statement of Net Position
September 30, 2018

	Governmental Activities
Assets	
Cash and Cash Equivalents	\$ 10,391,174
Investments	1,444,871
Receivables, Net	545,678
Inventories	60,940
Unearned Charges	263,236
Other Assets	7,497
Capital Assets:	
Nondepreciable	16,766,191
Depreciable, Net	68,672,505
Total Assets	<u>98,152,092</u>
Deferred Outflows of Resources	
Loss on Refunding of Debt	1,356,822
Employer Pension Contribution	1,637,417
Employer OPEB Contribution	612,383
Proportionate Share of Collective Deferred Outflows	
Related to Net Pension Liability	2,965,000
Total Deferred Outflows of Resources	<u>6,571,622</u>
Liabilities	
Accounts Payable	430,882
Unearned Revenue	39,018
Salaries and Benefits Payable	2,086,556
Accrued Interest Payable	249,096
Long-Term Liabilities:	
Portion Due or Payable Within One Year	932,927
Portion Due or Payable After One Year	115,166,469
Total Liabilities	<u>118,904,948</u>
Deferred Inflows of Resources	
Proportionate Share of Collective Deferred Inflows	
Related to Net Pension Liability	1,974,000
Related to Net OPEB Liability	4,586,282
Total Deferred Inflows of Resources	<u>6,560,282</u>
Net Position	
Net Investment in Capital Assets	10,709,301
Restricted for:	
Education	1,142,201
Construction	4,525,444
Unrestricted	(37,118,462)
Total Net Position	<u>\$ (20,741,516)</u>

The accompanying notes are an integral part of these financial statements.

15
Saraland Board of Education
Statement of Activities
For the Year Ended September 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Instructional	\$ 16,088,872	\$ 461,890	\$ 11,992,400	\$ 815,052	\$ (2,819,530)
Instructional Support	4,973,624	522,116	3,381,679	-	(1,069,829)
Operation and Maintenance	2,896,124	152,327	734,836	12,480	(1,996,481)
Student Transportation	1,764,770	90,589	1,386,016	107,840	(180,325)
Food Service	1,777,803	1,523,322	94,741	-	(159,740)
General Administrative	3,083,880	52,681	848,736	-	(2,182,463)
Interest and Fiscal Charges	3,085,282	-	-	-	(3,085,282)
Other Expenses	368,242	116,615	187,994	-	(63,633)
Total Governmental Activities	<u>\$ 34,038,597</u>	<u>\$ 2,919,540</u>	<u>\$ 18,626,402</u>	<u>\$ 935,372</u>	<u>(11,557,283)</u>

General revenues:

Taxes:

Property Taxes for General Purposes	2,873,940
Property Taxes for Specific Purposes	3,221,434
Sales Tax	2,751,962
Alcohol Beverage Tax	122,986
Other Taxes	91,938

Grants and Contributions Not Restricted for Specific Programs 678

Investment Earnings 111,154

Miscellaneous 719,961

Total General Revenues 9,894,053

Changes in Net Position (1,663,230)

Net Position - Beginning of Year, as Previously Stated 1,146,797

Prior Period Adjustment - GASB 75 (20,225,083)

Restated Net Position - Beginning of Year (19,078,286)

Net Position - End of Year \$ (20,741,516)

The accompanying notes are an integral part of these financial statements.

16
Saraland Board of Education
Balance Sheet
Governmental Funds
September 30, 2018

	(11) - General Fund	(12) - Special Revenue Fund	(14) - Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and Cash Equivalents	\$ 4,437,468	\$ 1,127,753	\$ 4,738,346	\$ 87,607	\$ 10,391,174
Investments	1,444,871	-	-	-	1,444,871
Receivables, Net	406,969	102,515	36,194	-	545,678
Due from Other Funds	28,817	-	-	-	28,817
Inventories	-	60,940	-	-	60,940
Other Assets	7,497	-	-	-	7,497
Total Assets	<u>\$ 6,325,622</u>	<u>\$ 1,291,208</u>	<u>\$ 4,774,540</u>	<u>\$ 87,607</u>	<u>\$ 12,478,977</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts Payable	\$ 416,266	\$ 14,615	\$ 249,096	\$ -	\$ 679,977
Due to Other Funds	-	28,817	-	-	28,817
Unearned Revenues	-	39,018	-	-	39,018
Salaries and Benefits Payable	2,019,999	66,557	-	-	2,086,556
Total Liabilities	<u>2,436,265</u>	<u>149,007</u>	<u>249,096</u>	<u>-</u>	<u>2,834,368</u>
Fund Balances					
Nonspendable	-	60,940	-	-	60,940
Restricted for:					
Education	-	1,081,261	-	-	1,081,261
Construction	-	-	4,525,444	-	4,525,444
Unassigned	3,889,357	-	-	87,607	3,976,964
Total Fund Balances	<u>3,889,357</u>	<u>1,142,201</u>	<u>4,525,444</u>	<u>87,607</u>	<u>9,644,609</u>
Total Liabilities and Fund Balances	<u>\$ 6,325,622</u>	<u>\$ 1,291,208</u>	<u>\$ 4,774,540</u>	<u>\$ 87,607</u>	<u>\$ 12,478,977</u>

The accompanying notes are an integral part of these financial statements.

17
Saraland Board of Education
Reconciliation of Governmental Fund Balances to Net Position of Governmental Activities
September 30, 2018

Total Fund Balances - Governmental Funds		\$ 9,644,609
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
The Cost of Capital Assets is	\$ 97,402,771	
Accumulated Depreciation is	<u>(11,964,075)</u>	85,438,696
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred on the Statement of Net Position.		
		263,235
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.		
		1,356,822
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.		
		2,628,417
Deferred outflows and inflows of resources related to OPEB obligations are applicable to future periods and, therefore, are not reported in the governmental funds.		
		(3,973,899)
Current Portion of Long-Term Liabilities	(932,927)	
Noncurrent Portion of Long-Term Liabilities	<u>(115,166,469)</u>	<u>(116,099,396)</u>
Total Net Position - Governmental Activities		<u>\$ (20,741,516)</u>

The accompanying notes are an integral part of these financial statements.

18
Saraland Board of Education
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
September 30, 2018

	(11) - General Fund	(12) - Special Revenue Fund	(14) - Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
State	\$ 17,470,274	\$ -	\$ 933,127	\$ -	\$ 18,403,401
Federal	61,313	1,950,854	-	-	2,012,167
Local	6,184,941	2,022,757	3,275,088	1,342	11,484,128
Other	439,929	35,743	-	-	475,672
Total Revenues	24,156,457	4,009,354	4,208,215	1,342	32,375,368
Expenditures					
Current:					
Instructional	13,075,504	1,257,686	-	-	14,333,190
Instructional Support	3,988,674	773,830	-	-	4,762,504
Operation and Maintenance	2,792,029	48,006	10,235	-	2,850,270
Auxiliary Services:					
Student Transportation	1,440,029	86,132	-	-	1,526,161
Food Service	-	1,864,172	-	-	1,864,172
General Administrative	1,473,367	187,682	1,344,999	-	3,006,048
Other	203,409	166,198	-	-	369,607
Capital Outlay	333,145	-	1,497,254	-	1,830,399
Debt Service:					
Principal Retirement	-	-	9,253,556	174,198	9,427,754
Interest and Fiscal Charges	-	-	2,813,848	-	2,813,848
Debt Issuance Costs/Other Debt Service	-	-	179,963	-	179,963
Total Expenditures	23,306,157	4,383,706	15,099,855	174,198	42,963,916
Excess (Deficiency) of Revenues Over Expenditures	850,300	(374,352)	(10,891,640)	(172,856)	(10,588,548)
Other Financing Sources (Uses)					
Indirect Cost	222,896	-	-	-	222,896
Capital Lease Proceeds	-	-	15,350,000	-	15,350,000
Transfers In	-	237,913	-	260,332	498,245
Transfers Out	(237,913)	-	(260,332)	-	(498,245)
Total Other Financing Sources (Uses)	(15,017)	237,913	15,089,668	260,332	15,572,896
Net Changes in Fund Balances	835,283	(136,439)	4,198,028	87,476	4,984,348
Fund Balances - Beginning of Year	3,054,074	1,278,640	327,416	131	4,660,261
Fund Balances - End of Year	\$ 3,889,357	\$ 1,142,201	\$ 4,525,444	\$ 87,607	\$ 9,644,609

The accompanying notes are an integral part of these financial statements.

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

Net Changes in Fund Balances - Total Governmental Funds \$ 4,984,348

Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the period.

Capital Outlays	\$ 1,830,399	
Depreciation Expense	<u>(1,784,439)</u>	45,960

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. (15,350,000)

Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities. 9,427,754

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 in fund balances this amount.

Loss on Disposition of Capital Assets		(25,932)
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Amortization of Bond Discounts, Loss on Refunding, and Issuance Costs (Prepaid Insurance)	103,279	
Pension Expense, Current Year Increase/(Decrease)	825,435	
OPEB Expense, Current Year Increase/(Decrease)	<u>(183,354)</u>	(745,360)

Change in Net Position of Governmental Activities		<u>\$ (1,663,230)</u>
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The accompanying notes are an integral part of these financial statements.

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Saraland Board of Education
Statement of Fiduciary Net Position
September 30, 2018

	<u>Agency Funds</u>
Assets	
Cash and Cash Equivalents	<u>\$ 222,169</u>
Total Assets	<u><u>\$ 222,169</u></u>
Liabilities	
Due to External Organizations	<u>\$ 222,169</u>
Total Liabilities	<u><u>\$ 222,169</u></u>

The accompanying notes are an integral part of these financial statements.

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Saraland Board of Education
Notes to the Financial Statements
September 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The financial statements of the Saraland Board of Education (the Board) have been prepared in conformity with the accounting principles generally accepted in the United States of America as specified by the Governmental Accounting Standards Board (GASB).

For financial reporting purposes and in conformance with the criteria set forth by GASB Statement No. 61, the Board includes those funds, account groups, agencies, boards, commissions and authorities for which the Board has the ability to exercise its oversight responsibility and provides financial and managerial assistance.

B. BASIS OF PRESENTATION—GOVERNMENT-WIDE AND FUND LEVEL

Government-wide

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the 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.

Fund Level

The government fund level financial statements are reported using the current financial resource measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within 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, 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. Since governmental fund level financial statements are presented on a different basis of accounting and measurement focus than governmental activities in the government-wide presentation, a summary is presented to explain adjustments necessary to reconcile fund level statements to the government-wide presentation.

(continued)

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Saraland Board of Education
Notes to the Financial Statements
September 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The accounts of the Board are organized on the basis of funds which are each considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped into broad fund categories as follows:

Governmental Funds:

General Fund—The General Fund is used to account for all revenues and expenditures applicable to the general operations of the Board which are not properly accounted for in another fund. All general operating revenues which are not restricted or designated as to use by outside sources are recorded in the General Fund.

Special Revenue Fund—Special revenue funds are operating funds for which the use of revenues is restricted or designated by outside sources.

Capital Project Fund—Capital project funds are used to account for the financial resources used to construct or acquire major capital items.

Debt Service Fund – Debt service funds are used to account for the payment of interest and principal on general long-term debt not accounted for in the proprietary funds. Debt service revenues are principally transfers from the General Fund.

Fiduciary Fund:

Agency Fund—This fund is used to report assets held by the Board in a purely custodial capacity. The Board collects these assets and transfers them to the proper individual, private organizations, or other governments.

C. CAPITAL ASSETS

The accounting treatment over capital assets depends on whether the assets are used by fund level or government-wide reporting.

In government-wide reporting, all capital assets are reported as capital assets for governmental-type activities. The Board has established a minimum capitalization threshold of \$5,000 for personal property and \$50,000 for real property. Depreciation is provided on all capital assets at the government-wide level.

In fund level reporting, capital assets are reported as expenditures by governmental funds. Depreciation is not provided at the fund level.

(continued)

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Saraland Board of Education
Notes to the Financial Statements
September 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at acquisition value on the date donated.

Depreciation is allocated as an expense in the Statement of Activities (government-wide level) and accumulated depreciation is reflected in the Statement of Net Position (government-wide level). Depreciation has been provided over the estimated useful lives using the straight-line rates as follows:

Buildings	25-50 years
Vehicles and equipment	5-20 years

D. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized when they become susceptible to accrual, that is when they become both “measurable” and “available” to finance expenditures of the current period. Ad valorem and other taxes collected by an intermediary are considered “measurable” when in the hand of the intermediary collecting governments and may be recognized as revenue at that time. Expenditures, generally, are recorded at the time liabilities are incurred. Revenues susceptible to accrual are: property taxes and federal financial assistance programs, which are measurable and available to finance expenditures of the current period.

E. IMPACT OF RECENTLY ISSUED ACCOUNTING PRINCIPLES

Recently Issued and Adopted Accounting Principles

During the year ended September 30, 2018, the Board implemented GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits other than Pension Plans*. The statement was issued to address new accounting and financial reporting for OPEB that is provided to the employees of the state and local government employers. Upon implementation, the Board recognized a Net OPEB liability in the amount of \$20,750,241 and a deferred outflow of \$525,158. The Net OPEB liability was recognized retrospectively as discussed in Note 13. Additional information regarding the OPEB liability and the Board’s OPEB Plan is discussed in Note 9.

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Saraland Board of Education
Notes to the Financial Statements
September 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

During the year ended September 30, 2018, the Board implemented GASB Statement No. 85, *Omnibus 2017*. The statement was issued to address a variety of issues including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits) identified during implementation and application of certain GASB Statements. The requirements of GASB Statement No. 85 are effective for fiscal year 2018. The adoption of GASB Statement No. 85 did not have any impact on the Board's financial statements.

During the year ended September 30, 2018, the Board implemented GASB Statement No. 86, *Certain Debt Extinguishment Issues*. The statement was issued to improve the consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves reporting for prepaid insurance on debt that is extinguished and notes to the consolidated financial statements for debt that is defeased in substance. The requirements of GASB Statement No. 86 are effective for fiscal year 2018 and its adoption had no impact on the Board's financial statements.

Recently Issued Accounting Principles

GASB Statement No. 84 *Fiduciary Activities* was issued to improve the guidance regarding the identification of fiduciary activities for accounting and financial reporting and how those activities would be reported. The requirements of GASB Statement No. 84 are effective for the fiscal year 2020. The Board is currently evaluating the impact that this statement may have on its financial statements.

GASB Statement No. 87 *Leases* was issued to improve the consistency of accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of GASB Statement No. 87 are effective for the fiscal year 2021. The Board is currently evaluating the impact that this statement may have on its financial statements.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, was issued to improve the disclosures in notes to government financial statements related to debt, including direct borrowings and direct placements. The statement also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of GASB Statement No. 88 are effective for the fiscal year 2019. The Board is currently evaluating the impact that this statement may have on its financial statements.

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Saraland Board of Education
Notes to the Financial Statements
September 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, was issued to (1) enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of GASB Statement No. 89 are effective for the fiscal year 2020. The Board is currently evaluating the impact that this statement may have on its financial statements.

F. CASH AND INVESTMENTS

Cash includes amounts in demand deposits as well as short-term investments. The State Attorney General has issued a legal opinion that boards of education may not put public funds at risk by investing in companies not insured by the federal government.

G. INVENTORIES

Inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. Inventories consist of food products purchased to be sold in the cafeteria facilities. The costs of governmental fund inventories are recorded as expenditures when purchased, except commodities donated by the federal government, which are expensed when consumed.

H. USE OF ESTIMATES

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

I. NET ASSET AND EQUITY CLASSIFICATIONS

Government-wide Financial Statements

The Board adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which superseded GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Government*. Equity is classified as net position and displayed in three components:

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Saraland Board of Education
Notes to the Financial Statements
September 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Net investment in capital assets—Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at year-end, the portion of the debt or deferred inflows of resources attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of the related debt. Rather, that portion of the debt or deferred inflows of resources is included in the same net position as the unspent proceeds.
- Restricted net position—Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.
- Unrestricted net position—The net amount of the 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 component of net position.

Fund Financial Statements

The fund equity of the governmental fund financial statements is classified as fund balance. In March 2009, GASB adopted a standard that establishes a hierarchy based on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds.

Fund balance is classified into one of the following five components:

- Nonspendable fund balance—Consists of amounts that are not in a spendable form or are required to be maintained intact.
- Restricted fund balance—Consists of fund balances with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) the Board's own laws through its enabling legislation and other provisions of its laws and regulations.
- Committed fund balance—Consists of fund balances 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.

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Saraland Board of Education
Notes to the Financial Statements
September 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Assigned fund balance—Consists of fund balances that are intended to be used by the school system 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.
- Unassigned fund balance—All other fund balances that do not meet the definition of “restricted, committed or assigned fund balances.” 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 classification 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.

J. ENCUMBRANCES

Encumbrances represent commitments related to underperformed contracts for goods or services. Encumbrances accounting—under which purchase orders, contracts and other commitments for the expenditure or resources are recorded to reserve that portion of the applicable appropriation—is utilized in the governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

K. DEFERRED OUTFLOWS OF RESOURCES

Represent deferred losses associated with the issuance of long-term debt and is amortized on the straight-line method over the term of the debt. It also represents the pension plan contributions and OPEB plan contributions made between the measurement date of the pension plan and the end of the Board’s fiscal year end and is amortized over twelve months.

L. DEFERRED INFLOWS OF RESOURCES

Represent deferred losses on the net difference between projected and actual earnings on the pension plan investments and net OPEB investments which is amortized on the straight-line method over a five year period, changes of assumptions on the net OPEB liability, and changes in proportion between Employer contributions and subsequent share of contributions for the net OPEB liability.

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Saraland Board of Education
Notes to the Financial Statements
September 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. PENSIONS

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

N. SUBSEQUENT EVENTS

The Board has evaluated subsequent events through December 14, 2018, the date which the financial statements were available to be issued. The line of credit with an available limit of \$1,000,000 was renewed in October 2018. There were no other material subsequent events which require disclosure at September 30, 2018.

NOTE 2 DEPOSITS AND INVESTMENTS

Interest Rate Risk

The Board does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

State statutes authorize the Board's investments. The Board is authorized to invest in U.S. Government obligations and its agencies or instrumentalities. The Board has no investment policy that further limits investment choices.

Custodial Credit Risk

The Board is a participant in the Security for Alabama Funds Enhancement (SAFE) Program, a multiple financial institution collateral pool, administered by the State of Alabama. The program, by law, provides administration of pledged collateral coverage for all governments and agencies in the state and requires qualified financial institutions to provide collateral to the administrator adequate to secure all deposits of public funds in that financial institution. The State guarantees deposits identified as "public funds" will be adequately secured by insurance or collateral. Any collateral shortages of one financial institution are assessed to other member financial institutions.

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Saraland Board of Education
Notes to the Financial Statements
September 30, 2018

NOTE 3 COMPENSATED ABSENCES

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

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

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

All personnel who are employed full-time on a 12-month basis are entitled to 15 days vacation leave per year. No more than 25 days can be carried over to the next year. Due to the intensity of summer work, the Superintendent may carry over days and must use all carry-over vacation according to the terms of his/her negotiated contract. Any vacation taken during the school year must be approved by the Superintendent.

Vacation days shall be earned by the month and accountable by the year, July 1 through June 30. One point two five (1.25) vacation days will be earned for each month employment up to 15 days, unless the employee is under a contract with specific terms for vacation.

All vacation days must be used prior to effective resignation date. The Board shall not make cash payments for unused vacation days, unless specified in a negotiated contract and approved by the Board. Because employees do not receive compensation for unused vacation leave at termination, no liability is recorded on the financial statements.

Professional and support employees earn non-vesting sick leave at the rate of one day per month worked. Employees may accumulate an unlimited number of sick leave days.

Employees may use their accrued sick leave as membership service in determining the total years of creditable service in the Teachers' Retirement System, with no additional cost to the Board. Because employees do not receive compensation for unused sick leave at termination, no liability is recorded on the financial statements.

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Saraland Board of Education
Notes to the Financial Statements
September 30, 2018

NOTE 4 RISK MANAGEMENT

Rather than finance various risks through self-insurance, the Board has elected to carry traditional insurance coverage.

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and natural disasters. The Board has insurance for its building and contents through an insurance company. The insurance company provides coverage up to \$106,718,916. Errors and omissions insurance is purchased from the premiums and purchases commercial insurance for the amount of coverage requested by pool participants. The Board purchases commercial insurance for fidelity bonds and vehicle fleet. Settled claims in the past three years have not exceeded the amounts of commercial insurance coverage.

Employee health insurance is provided through the Public Education Employees' Health Insurance Fund (PEEHIF), a public entity risk pool, administered by the Public Education Employees' Health Insurance Board. 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 set annually by the Alabama Legislature based on the amounts necessary to fund coverage. The Board contributes the specified monthly amount to the PEEHIF for each employee.

The State Board of Adjustments is a state agency with which people can file against the Board to collect reimbursement for damages when all other means have been exhausted. The Board does not have insurance coverage for job-related injuries. Employees may, however, file claims for job-related injuries with the State Board of Adjustments. The Board of Adjustments determines if a claim is valid and determines the proper amount of compensation. Payments are made from state appropriated funds at no cost to the Board.

NOTE 5 PAYMENTS OR SERVICES FURNISHED BY OTHER AGENCIES

Certain payments or services are furnished by the State of Alabama and the City of Saraland, Alabama, on behalf of the Board. Included in these items are payments from bond issue proceeds and payments on City bond issues for school purpose. These payments or services are reflected as revenues and expenditures on the Board's financial statements in the applicable funds for which they apply.

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Saraland Board of Education
Notes to the Financial Statements
September 30, 2018

NOTE 6 CONTINGENT LIABILITIES

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

NOTE 7 INTERFUND TRANSACTIONS

During the course of normal operations, the Board has numerous transactions between funds to provide services, construct assets, etc. These transactions are generally reflected as operating transfers or receivables and liabilities. Transactions reimbursing a fund for expenditures are recorded as expenditures in the disbursing fund and as revenues in the receiving fund. Remaining fund balances in discontinued funds and non-recurring, non-routine transfers are accounted for as residual equity transfers. The Board typically used transfers to fund ongoing operating subsidies and to recoup certain expenditures paid on-behalf of the local schools.

Interfund Receivables and Payables

	Interfund Receivables			
	General Fund			
<hr/>				
<u>Interfund Payables</u>				
Special Revenue Fund	\$ 28,817			
Totals	<u>\$ 28,817</u>			
Transfers Out				
	General Fund	Capital Projects Fund	Totals	
<hr/>				
<u>Transfers In</u>				
Special Revenue Fund	\$ 237,913	\$ -	\$ 237,913	
Debt Service Fund	-	260,332	260,332	
Totals	<u>\$ 237,913</u>	<u>\$ 260,332</u>	<u>\$ 498,245</u>	

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Saraland Board of Education
Notes to the Financial Statements
September 30, 2018

NOTE 8 DEFINED BENEFIT PENSION PLAN

Plan Description

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

Benefits Provided

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

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

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Saraland Board of Education
Notes to the Financial Statements
September 30, 2018

NOTE 8 DEFINED BENEFIT PENSION PLAN (continued)

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 are required by statute to contribute 8.50% of earnable compensation.

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

Participating employers' contractually required contribution rate for the year ended September 30, 2017 was 12.01% of annual pay for Tier 1 members and 10.82% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the Board were \$1,637,417 for the fiscal year ended September 30, 2018.

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

At September 30, 2018, the System reported a liability of \$19,227,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2016. The Board's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2017, the Board's proportion was 0.195621 percent, which was an increase of 0.007596 percent from its proportion measured as of September 30, 2016.

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Saraland Board of Education
Notes to the Financial Statements
September 30, 2018

NOTE 8 DEFINED BENEFIT PENSION PLAN (continued)

For the year ended September 30, 2018, the Board recognized pension expense of \$642,081. At September 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 824,000
Changes of assumptions	1,148,000	-
Net difference between projected and actual earnings on pension plan investments	-	1,150,000
Changes in proportion and differences between Employer contributions and proportionate share of contributions	1,817,000	-
Employer contributions subsequent to the measurement date	<u>1,637,417</u>	<u>-</u>
Total	<u>\$ 4,602,417</u>	<u>\$ 1,974,000</u>

Deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date was reported at \$1,637,417 and will be recognized as a reduction to the net pension liability in the year ended September 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	
2019	\$ 621,000
2020	684,000
2021	(125,000)
2022	(198,000)
2023	9,000

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Saraland Board of Education
Notes to the Financial Statements
September 30, 2018

NOTE 8 DEFINED BENEFIT PENSION PLAN (continued)

Actuarial Assumptions

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

Inflation	2.75%
Investment rate of return*	7.75%
Projected salary increases	3.25%-5.0%

*Net of pension plan investment expense

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

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

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

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Saraland Board of Education
Notes to the Financial Statements
September 30, 2018

NOTE 8 DEFINED BENEFIT PENSION PLAN (continued)

	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%

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

	1% Decrease (6.75%)	Current Rate (7.75%)	1% Increase (8.75%)
Board's proportionate share of collective net pension liability	\$ 26,520,000	\$ 19,227,000	\$ 13,057,000

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Saraland Board of Education
Notes to the Financial Statements
September 30, 2018

NOTE 8 DEFINED BENEFIT PENSION PLAN (continued)

Pension Plan Fiduciary Net Position

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

NOTE 9 OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The Board contributes to the Alabama Retired Education Employees' Health Care Trust (the "Trust"), 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 PEEHIP. Active and retiree health insurance benefits are paid through the Public Education Employees' Health Insurance Plan (PEEHIP). In accordance with GASB, the Trust is considered a component unit of the State of Alabama (State) and is included in the State's Comprehensive Annual Financial Report.

The PEEHIP was established in 1983 pursuant to the provisions of the *Code of Alabama 1975, Title 16, Chapter 25A* (Act 83-455) to provide a uniform plan of health insurance for active and retired employees of state and local educational institutions which provide instruction at any combination of grades K-14 (collectively, eligible employees), and to provide a method for funding the benefits related to the plan. Responsibility for the establishment of the health insurance plan and its general administration and operations is vested in the Board. The Board is a corporate body for purposes of management of the health insurance plan. The *Code of Alabama 1975, Section 16-25A-4* provides the Board with the authority to amend the benefit provisions in order to provide reasonable assurance of stability in future years for the plan. All assets of 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.

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.

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Saraland Board of Education
Notes to the Financial Statements
September 30, 2018

NOTE 9 OTHER POST-EMPLOYMENT BENEFITS (continued)

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

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

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

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

Contributions

The *Code of Alabama 1975, Section 16-25A-8* and the *Code of Alabama 1975, Section, 16-25A-8.1* provide the Board with the authority to set the contribution requirements for plan members and the authority to set the employer contribution requirements for each required class, respectively. Additionally, the Board is required to certify to the Governor and the Legislature, the amount, as a monthly premium per active employee, necessary to fund the

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Saraland Board of Education
Notes to the Financial Statements
September 30, 2018

NOTE 9 OTHER POST-EMPLOYMENT BENEFITS (continued)

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 Board for each retiree class is reduced by 2% for each year of service less than 25 and increased by 2% percent for each year of service over 25 subject to adjustment by the Board for changes in Medicare premium costs required to be paid by a retiree. In no case does the employer contribution of the health insurance premium exceed 100% of the total health insurance premium cost for the retiree.

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

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

At September 30, 2018, the Saraland Board of Education reported a liability of \$16,067,831 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2016. The Saraland Board of Education's proportion of the net OPEB liability was based on a projection of the Saraland Board of Education's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At September 30, 2017, the Saraland Board of Education's proportion was .0216331 percent, which was an decrease of .042006 percent from its proportion measured as of September 30, 2016.

For the year ended September 30, 2018, the System recognized OPEB expense of \$612,383, with no special funding situations. At September 30, 2018, the System reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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Saraland Board of Education
Notes to the Financial Statements
September 30, 2018

NOTE 9 OTHER POST-EMPLOYMENT BENEFITS (continued)

	Deferred Outflows Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	1,668,321
Net difference between projected and actual earnings on pension plan investments	-	85,546
Changes in proportion and differences between Employer contributions and proportionate share of contributions	-	2,832,415
Employer contributions subsequent to the measurement date	612,383	-
Total	<u>\$ 612,383</u>	<u>\$ 4,586,282</u>

Deferred outflows of resources related to OPEB resulting from the Saraland Board of Education's contributions subsequent to measurement date was report as \$612,383 and will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2019.

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

Year ended September 30:		
2019	\$	(881,949)
2020		(881,949)
2021		(881,949)
2022		(881,949)
2023		(860,562)
Thereafter		(197,924)
	<u>\$</u>	<u>(4,586,282)</u>

Actuarial assumptions

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

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Saraland Board of Education
Notes to the Financial Statements
September 30, 2018

NOTE 9 OTHER POST-EMPLOYMENT BENEFITS (continued)

Inflation	2.75%
Projected salary increases ¹	3.25% -5.00%
Long-term investment rate of return ²	7.25%
Municipal bond index rate at the measurement date	3.57%
Municipal bond index rate at the prior measurement date	2.93%
Project year for fiduciary net position (FNP) to be depleted	2042
Single equivalent interest rate the measurement date	4.63%
Single equivalent interest rate the prior measurement date	4.01%
Healthcare cost trend rate	
Pre-medicare eligible	7.75%
Medicare eligible	5.00%
Ultimate trend rate	
Pre-medicare eligible	5.00%
Medicare eligible	5.00%
Year of ultimate trend rate	2022

¹ Includes 3% wage inflation.

² Compounded annually, net of investment expense and includes inflation

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

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

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

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

The long-term expected return on plan assets is to be reviewed as part of regular experience studies prepared every five years in conjunction with similar analysis for the Teachers' Retirement System of Alabama. Several factors should be considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent

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Saraland Board of Education
Notes to the Financial Statements
September 30, 2018

NOTE 9 OTHER POST-EMPLOYMENT BENEFITS (continued)

in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation), as developed for each major asset class. These ranges should be combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

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

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

*Geometric mean, includes 2.5% inflation

Discount Rate

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

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Saraland Board of Education
Notes to the Financial Statements
September 30, 2018

NOTE 9 OTHER POST-EMPLOYMENT BENEFITS (continued)

2115. The long term rate of return is used until the assets are expected to be depleted in 2042, after which the municipal bond rate is used.

Sensitivity of the Saraland Board of Education's proportionate share of the net OPEB liability to changes in the healthcare cost trends rate.

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

	1% Decrease (6.75% decreasing to 4% for pre-Medicare 4% for Medicare Eligible, and 1% for Optional Plans)	Current Healthcare Trend Rate (7.75% decreasing to 5% for pre-Medicare 5% for Medicare Eligible, and 2% for Optional Plans)	1% Increase (8.75% decreasing to 6% for pre-Medicare 6% for Medicare Eligible, and 3% for Optional Plans)
Board's proportionate share of collective net OPEB liability	\$ 12,972,867	\$ 16,067,831	\$ 20,061,182

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

	1% Decrease 3.63%	Current Rate 4.63%	1% Increase 5.63
Board's proportionate share of collective net OPEB liability	\$ 19,422,665	\$ 16,067,831	\$ 13,393,609

OPEB plan fiduciary net position

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

Saraland Board of Education
Notes to the Financial Statements
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NOTE 10 CAPITAL ASSETS

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

	Beginning Balance	Additions	Retirements/ reclassifications	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land and Land Improvements	\$ 3,877,090	\$ -	\$ -	\$ 3,877,090
Construction in Progress	12,718,716	1,478,932	1,308,547	12,889,101
Total Capital Assets, Not Being Depreciated	16,595,806	1,478,932	1,308,547	16,766,191
Capital Assets Being Depreciated:				
Buildings	71,002,850	1,308,548	-	72,311,398
Building Improvements	4,999,969	-	-	4,999,969
Equipment and Furniture	947,536	-	-	947,536
Vehicles	2,078,820	351,467	52,610	2,377,677
Total Capital Assets Being Depreciated	79,029,175	1,660,015	52,610	80,636,580
Less Accumulated Depreciation for:				
Buildings	7,986,088	1,289,828	-	9,275,916
Building Improvements	854,274	194,221	-	1,048,495
Equipment and Furniture	538,310	75,264	-	613,574
Vehicles	827,645	225,126	26,681	1,026,090
Total Accumulated Depreciation	10,206,317	1,784,439	26,681	11,964,075
Total Capital Assets Being Depreciated, Net	68,822,858	(124,424)	25,929	68,672,505
Total Governmental Activities Capital Assets, Net	\$ 85,418,664	\$ 1,354,508	\$ 1,334,476	\$ 85,438,696

(continued)

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Saraland Board of Education
Notes to the Financial Statements
September 30, 2018

NOTE 10 CAPITAL ASSETS (continued)

Depreciation expense was charged to governmental functions/programs as follows:

Instructional	\$ 1,320,697
Instructional Support	81,912
Operation and Maintenance	42,815
Student Transportation	214,134
Food Service	88,928
General Administrative	35,953
Total Depreciation Expense - Governmental Activities	<u>\$ 1,784,439</u>

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Saraland Board of Education
Notes to the Financial Statements
September 30, 2018

NOTE 11 LONG TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended September 30, 2018:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Bonds and Warrants Payable	\$ 35,694,086	\$ -	\$ 75,961	\$ 35,618,125	\$ 76,928
Warrant Anticipation Notes					
Unamortized Discount	(811,049)	-	(29,920)	(781,129)	(29,920)
Total Bonds and Notes Payable	<u>34,883,037</u>	<u>-</u>	<u>46,041</u>	<u>34,836,996</u>	<u>47,008</u>
Other Liabilities:					
Capital Leases	39,969,362	15,350,000	9,351,793	45,967,569	885,919
Net Pension Liability	20,356,000	-	1,129,000	19,227,000	-
Net OPEB Liability	20,750,241	-	4,682,410	16,067,831	-
Total Other Liabilities	<u>81,075,603</u>	<u>15,350,000</u>	<u>15,163,203</u>	<u>81,262,400</u>	<u>885,919</u>
Governmental Activities Long-Term Liabilities	<u>\$ 115,958,640</u>	<u>\$ 15,350,000</u>	<u>\$15,209,244</u>	<u>\$116,099,396</u>	<u>\$ 932,927</u>

(continued)

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Saraland Board of Education
Notes to the Financial Statements
September 30, 2018

NOTE 11 LONG TERM LIABILITIES (CONTINUED)

Bonds and Warrants Payable at September 30, 2018, were comprised of the following:

Note payable for capital outlay purposes dated September 6, 2013, due in 120 monthly installments of \$2,647 maturing September 1, 2023, including interest at 2.98% .	\$ 147,216
Line of credit drawn, due in 348 monthly installments of \$910 maturing September 1, 2046, including interest at 3.40% .	195,909
Series 2015-A Warrants payable in annual installments of \$325,000 to \$3,365,000 maturing August 1, 2045, with interest at 2.50 to 4.00% payable on February 1 and August 1.	27,420,000
Series 2016-A Warrants payable in annual installments of \$65,000 to \$560,000 maturing June 1, 2038, with interest at 1.75% to 3.25% payable on June 1 and December 1.	<u>7,855,000</u>
Total Bonds and Warrants Payable	<u><u>\$ 35,618,125</u></u>

Annual debt service requirements to maturity for general obligation bonds and warrants are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 76,928	\$ 1,289,400
2020	82,924	1,287,453
2021	83,952	1,285,425
2022	405,012	1,278,315
2023	416,105	1,265,972
2024-2028	3,761,970	6,109,108
2029-2033	4,312,036	5,551,689
2034-2038	6,708,226	4,781,883
2039-2043	13,140,370	2,996,632
2044-2046	<u>6,630,602</u>	<u>400,204</u>
	<u><u>\$ 35,618,125</u></u>	<u><u>\$ 26,246,081</u></u>

(continued)

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Saraland Board of Education
Notes to the Financial Statements
September 30, 2018

NOTE 11 LONG TERM LIABILITIES (CONTINUED)

Capital Leases

The Board has entered into several lease agreements as lessee for financing the construction and renovation of school facilities and to purchase equipment. The leases qualify as capital leases for accounting purposes since there are bargain purchase elements at the end of the initial lease terms and the present value of the minimum lease payments are greater than 90 percent of asset purchase prices. Each asset has, therefore, been recorded at the present value of the future minimum lease payments as of the inception date in the capital assets.

The capital assets acquired through capital lease obligations are as follows:

	Governmental Activities
Land	\$ 874,147
Construction in Progress	1,173,985
Buildings & building improvements, net of \$5,852,293 accumulated depreciation	45,421,374
Vehicles, net of \$427,566 accumulated depreciation	522,582
Total	<u>\$ 47,992,088</u>

The future minimum lease obligation and the net present value of the minimum lease payments as of September 30, 2018, were as follows:

Year ending September 30,	Governmental Activities
2019	\$ 2,515,518
2020	2,516,480
2021	2,522,687
2022	2,862,311
2023	3,878,626
2024-2028	17,609,362
2029-2033	17,563,524
2034-2038	15,999,798
2039-2041	130,837
Total minimum lease payments	<u>65,599,143</u>
Less amount representing interest	<u>(19,631,574)</u>
Present value of minimum lease payments	<u>\$ 45,967,569</u>

**Saraland Board of Education
Notes to the Financial Statements
September 30, 2018**

NOTE 12 LINE OF CREDIT

The Board has two open lines of credits with \$3,000,000 and \$1,000,000 in available credit, respectively, at an interest rate of 3.40% and 3.25%, respectively, and maturing on October 1, 2035 and September 30, 2018. There were no draws on the \$1,000,000 line and a \$195,909 balance on the \$3,000,000 line as of September 30, 2018. The \$1,000,000 line was renewed on October 1, 2018.

NOTE 13 PRIOR PERIOD ADJUSTMENT

Effective October 1, 2017, the Board implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pension Plans*, by recording a prior period adjustment in the amount of \$20,225,083 to establish the OPEB liability in the amount of \$20,750,241 and deferred outflow in the amount of \$525,158.

REQUIRED SUPPLEMENTARY INFORMATION

Saraland Board of Education
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual
(11) – General Fund
For the Year Ended September 30, 2018

	Budgeted Amounts		Actual	Variance with	Budget to GAAP	Actual Amounts
	Original	Final	(Budgetary Basis)	Final Budget	Differences Over (Under)	GAAP Basis
Revenues						
State	\$ 16,875,484	\$ 17,319,138	\$ 17,470,274	\$ 151,136	\$ -	\$ 17,470,274
Federal	-	-	61,313	61,313	-	61,313
Local	5,580,681	5,580,681	6,184,941	604,260	-	6,184,941
Other	95,661	95,661	439,929	344,268	-	439,929
Total Revenues	22,551,826	22,995,480	24,156,457	1,160,977	-	24,156,457
Expenditures						
Current:						
Instructional	12,677,630	12,692,630	12,839,898	(147,268)	235,606	13,075,504
Instructional Support	3,929,506	4,085,699	4,051,361	34,338	(62,687)	3,988,674
Operation and Maintenance	2,724,636	2,858,099	2,794,132	63,967	(2,103)	2,792,029
Auxiliary Services:						
Student Transportation	1,416,384	1,416,384	1,427,557	(11,173)	12,472	1,440,029
General Administrative	1,448,113	1,452,235	1,473,508	(21,273)	(141)	1,473,367
Other	199,696	199,696	203,099	(3,403)	310	203,409
Capital Outlay						
Personal Property	189,049	353,925	333,145	20,780	-	333,145
Total Expenditures	22,585,014	23,058,668	23,122,700	(64,032)	183,457	23,306,157
Excess (Deficiency) of Revenues Over Expenditures	(33,188)	(63,188)	1,033,757	1,096,945	(183,457)	850,300
Other Financing Sources (Uses):						
Indirect Cost	224,039	228,401	222,896	(5,505)	-	222,896
Transfers Out	(148,840)	(148,840)	(237,913)	(89,073)	-	(237,913)
Total Other Financing Sources (Uses)	75,199	79,561	(15,017)	(94,578)	-	(15,017)
Net Change in Fund Balances	42,011	16,373	1,018,740	1,002,367	(183,457)	835,283
Fund Balances - Beginning of Year	3,400,000	4,890,615	4,890,615	-	(1,836,541)	3,054,074
Fund Balances - End of Year	\$ 3,442,011	\$ 4,906,988	\$ 5,909,355	\$ 1,002,367	\$ (2,019,998)	\$ 3,889,357

See notes to required supplementary information

Saraland Board of Education
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual
(12) – Special Revenue Fund
For the Year Ended September 30, 2018

	Budgeted Amounts		Actual	Variance with	Budget to GAAP	Actual Amounts
	Original	Final	(Budgetary Basis)	Final Budget--	Differences Over (Under)	GAAP Basis
Revenues						
State	\$ 1,988	\$ 1,988	\$ -	\$ (1,988)	\$ -	\$ -
Federal	1,952,975	1,990,764	1,950,854	(39,910)	-	1,950,854
Local	1,391,532	1,391,532	2,022,757	631,225	-	2,022,757
Other	36,000	36,000	35,743	(257)	-	35,743
Total Revenues	3,382,495	3,420,284	4,009,354	589,070	-	4,009,354
Expenditures						
Current:						
Instructional	942,482	945,975	1,257,686	(311,711)	-	1,257,686
Instructional Support	548,334	568,140	773,830	(205,690)	-	773,830
Operation and Maintenance	8,425	21,700	48,006	(26,306)	-	48,006
Auxiliary Services:						
Student Transportation	39,915	39,915	86,132	(46,217)	-	86,132
Food service	1,896,303	1,896,303	1,868,465	27,838	(4,293)	1,864,172
General Administrative	187,941	188,180	187,682	498	-	187,682
Other	145,923	146,899	166,198	(19,299)	-	166,198
Capital Outlay						
Personal Property	5,254	5,254	-	5,254	-	-
Total Expenditures	3,774,577	3,812,366	4,387,999	(575,633)	(4,293)	4,383,706
Excess (Deficiency) of Revenues Over Expenditures	(392,082)	(392,082)	(378,645)	13,437	4,293	(374,352)
Other Financing Sources (Uses):						
Transfers In	248,994	248,994	237,913	(11,081)	-	237,913
Transfers Out	(83,976)	(83,976)	-	83,976	-	-
Total Other Financing Sources (Uses)	165,018	165,018	237,913	72,895	-	237,913
Net Change in Fund Balances	(227,064)	(227,064)	(140,732)	86,332	4,293	(136,439)
Fund Balances - Beginning of Year	1,331,175	1,349,941	1,349,491	(450)	(70,851)	1,278,640
Fund Balances - End of Year	\$ 1,104,111	\$ 1,122,877	\$ 1,208,759	\$ 85,882	\$ (66,558)	\$ 1,142,201

See notes to required supplementary information

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Saraland Board of Education
Notes to Required Supplementary Information
For the Year Ended September 30, 2018

NOTE 1 BUDGETS AND BUDGETARY ACCOUNTING

On or before October 1 of each year, the Board is required to prepare and submit to the state superintendent of education the annual budget to be adopted by the Board. Neither the superintendent of education nor the Board can approve any budget for operations of the school system for a fiscal year which shows expenditures in excess of income estimated to be available plus any balances on hand. The superintendent, with the approval of the Board, has the authority to make changes within the approved budget provided that a deficit is not incurred by such changes.

Budgeted amounts are as originally adopted by the Board on September 7, 2017. Final budgeted amounts were adopted by the Board on June 7, 2018.

Except for the following items in Note 2, the Board budgets on the modified accrual basis of accounting. Annual appropriated budgets are adopted for the general and special revenue funds. All annual appropriations lapse at fiscal year-end. Project-length financial plans are adopted for all capital project funds.

**NOTE 2 EXPLANATION OF DIFFERENCE BETWEEN ACTUAL AMOUNTS ON
BUDGETARY BASIS AND ACTUAL AMOUNTS GAAP BASIS:**

	<u>(11) - General Fund</u>	<u>(12) - Special Revenue Fund</u>
Uses/outflows of resources		
Actual amounts (budgetary basis) available for expenditures shown as		
Total Expenditures on the budgetary comparison schedule	\$ 23,122,700	\$ 4,387,999
 Difference--budget to GAAP		
Salaries of teachers and other personnel with contracts of less than 12 months are paid over a 12 month period. Expenditures for salaries (and related fringe benefits) are budgeted based on the amount that will be paid from budgeted revenues. However, salaries (and related benefits) earned but not paid are recorded as expenditures on the financial statements	 <u>183,457</u>	 <u>(4,293)</u>
 Total expenditures are reported on the statement of revenues, expenditures and changes in fund balances--governmental funds	 <u><u>\$ 23,306,157</u></u>	 <u><u>\$ 4,383,706</u></u>

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Saraland Board of Education
Schedule of the Proportionate Share of the Net Pension Liability
Teacher's Retirement Plan of Alabama
September 30, 2018

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Board's proportion of the net pension liability	0.174104%	0.182506%	0.188025%	0.195621%
Board's proportionate share of the net pension liability	\$ 15,817,000	\$ 19,101,000	\$ 20,356,000	\$ 19,227,000
Board's covered-employee payroll*	\$ 11,061,610	\$ 12,021,600	\$ 13,045,986	\$ 13,710,843
Board's proportionate share of the net pension liability as a percentage of its covered-employee payroll	142.99%	158.89%	156.03%	140.23%
Plan fiduciary net position as a percentage of the total pension liability	71.01%	67.51%	67.93%	71.50%

<p>This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, governments should present information for those years for which information is available.</p>

*Employer's covered-employee payroll during the measurement period is the total payroll paid to covered employees (not just pensionable payroll). For FY 2018, the measurement period is October 1, 2016-September 30, 2017.

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Saraland Board of Education
Schedule of Board Contributions
Teacher's Retirement Plan of Alabama
September 30, 2018

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Contractually Required Contribution*	\$ 1,347,808	\$ 1,413,528	\$ 1,532,853	\$ 1,637,417
Contributions in relation to the contractually required contribution*	<u>1,347,808</u>	<u>1,413,528</u>	<u>1,532,853</u>	<u>1,637,417</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Board's covered employee-payroll**	\$ 11,061,610	\$ 12,021,600	\$ 13,045,986	\$ 13,710,843
Contributions as a percentage of covered- employee payroll	12.18%	11.76%	11.75%	11.94%

<p>This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.</p>

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

**Employer's covered-employee payroll during the measurement period is the total payroll paid to covered employees (not just pensionable payroll). For FY 2018, the measurement period is October 1, 2016-September 30, 2017.

Saraland Board of Education
Schedule of Proportionate Share of Net OPEB Liability
Alabama Retired Education Employees' Health Care Trust
For the Fiscal Year Ended September 30

	<u>2018</u>
Board's proportion of the net OPEB liability	0.216331%
Board's proportionate share of the net OPEB liability	\$ 16,067,831
Board's covered-employee payroll	\$ 13,710,843
Board's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	117.19%
Plan fiduciary net position as a percentage of the total OPEB liability	15.37%

<p>This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.</p>
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Saraland Board of Education
Schedule of Contributions
Alabama Retired Education Employees' Health Care Trust
For the Fiscal Year Ended September 30

	<u>2018</u>
Contractually Required Contribution	\$ 612,383
Contributions in relation to the contractually required contribution	<u>612,383</u>
Contribution deficiency (excess)	<u>\$ -</u>
Board's covered employee-payroll	\$ 13,710,843
Contributions as a percentage of covered- employee payroll	4.47%

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

**Saraland Board of Education
Note to Required Supplementary Information
Alabama Retired Education Employees' Health Care Trust
For the Fiscal Year Ended September 30**

NOTE 1***Changes in actuarial assumptions***

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

Recent Plan Changes

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

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

Methods and assumptions used in calculations of actuarially determined contributions

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

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

COMPLIANCE SECTION

SHAREHOLDERS

J. Earl Blackmon, Jr., CPA
B. Vance Kilgore, CPA
Dennis E. Sherrin, CPA
G. Allen Cave, Jr., CPA
Rachel M. Godwin, CPA

PRINCIPALS

LeeAnn M. May, CPA



Hartmann, Blackmon & Kilgore, P.C.
Certified Public Accountants & Consultants

OF COUNSEL

Xavier A. Hartmann, III, CPA
Rucker T. Taylor, III, CPA
Sally S. Wagner, CPA

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Board
Saraland Board of Education
Saraland, Alabama

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Saraland Board of Education as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise Saraland Board of Education's basic financial statements, and have issued our report thereon dated December 14, 2018.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control that we consider to be a significant deficiency and communicated it in writing to management and those charged with governance on December 14, 2018.

Segregation of Duties

Our study and evaluation disclosed that because of the limited size of your accounting staff, your organization has limited segregation of duties. A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a transaction from inception to completion. While we recognize that your organization is not large enough to permit an adequate segregation of duties in all respects, it is important that you be aware of this condition.

Compliance and Other Matters

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

Purpose of this Report

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

Certified Public Accountants

December 14, 2018
Brewton, Alabama

SHAREHOLDERS

J. Earl Blackmon, Jr., CPA
B. Vance Kilgore, CPA
Dennis E. Sherrin, CPA
G. Allen Cave, Jr., CPA
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LeeAnn M. May, CPA



Hartmann, Blackmon & Kilgore, P.C.
Certified Public Accountants & Consultants

OF COUNSEL

Xavier A. Hartmann, III, CPA
Rucker T. Taylor, III, CPA
Sally S. Wagner, CPA

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Members of the Board
Saraland Board of Education
Saraland, Alabama

Report on Compliance for Each Major Federal Program

We have audited Saraland 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 each of Saraland Board of Education's major federal programs for the year ended September 30, 2018. Saraland Board of Education's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Saraland 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 each of its major federal programs for the year ended September 30, 2018.

Report on Internal Control over Compliance

Management of Saraland 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 Saraland Board of Education's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Saraland 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 a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Certified Public Accountants

December 14, 2018
Brewton, Alabama

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

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Expenditures
<u>U.S. Department of Agriculture</u>		
Passed Through Alabama Department of Education:		
Child Nutrition Cluster:		
National School Breakfast Program--Cash Assistance (M)	10.553	\$ 191,682
National School Lunch Program:		
Cash Assistance (M)	10.555	665,592
Non-Cash Assistance (N) (M)	10.555	94,741
National School Lunch Program Sub-Total		<u>760,333</u>
Total U.S. Department of Agriculture		<u><u>952,015</u></u>
<u>U.S. Department of Education</u>		
Passed Through State Department of Education:		
Special Education Cluster:		
Special Education-Grants to States	84.027	459,167
Special Education-Preschool Grants	84.173	4,925
Title I Grants to Local Education Agencies	84.010	446,000
Career and Technical Education Basic Grants to States	84.048A	23,662
Improving Teacher Quality State Grants	84.367	72,952
Student Support and Academic Enrichment Program	84.424	13,275
Special Education Personal Development	84.325	3,493
Total U.S. Department of Education		<u><u>1,023,474</u></u>
Total Expenditures of Federal Awards		<u><u>\$ 1,975,489</u></u>

(M) = Major Program

(N) = Non-Cash Assistance

Saraland Board of Education
Note to the Schedule of Expenditures of Federal Awards
September 30, 2018

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Schedule of Expenditures of Federal Awards is presented based on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A one-year availability period is used for revenue recognition for all governmental fund revenues. Expenditures are recorded when the related liability is incurred.

**Saraland Board of Education
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2018**

SECTION 1-SUMMARY OF AUDITORS' RESULTS:

Financial Statements

Type of opinion issued:	<u>Unmodified</u>			
Internal control over financial reporting:				
Material weakness(es) identified?	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 33%; text-align: center;"><u> </u></td> <td style="width: 33%; text-align: center;">Yes <u> X </u></td> <td style="width: 33%; text-align: center;">No</td> </tr> </table>	<u> </u>	Yes <u> X </u>	No
<u> </u>	Yes <u> X </u>	No		
Significant deficiency(ies) identified?	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 33%; text-align: center;"><u> X </u></td> <td style="width: 33%; text-align: center;">Yes <u> </u></td> <td style="width: 33%; text-align: center;">None reported</td> </tr> </table>	<u> X </u>	Yes <u> </u>	None reported
<u> X </u>	Yes <u> </u>	None reported		
Noncompliance material to financial statements noted?	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 33%; text-align: center;"><u> </u></td> <td style="width: 33%; text-align: center;">Yes <u> X </u></td> <td style="width: 33%; text-align: center;">No</td> </tr> </table>	<u> </u>	Yes <u> X </u>	No
<u> </u>	Yes <u> X </u>	No		

Federal Awards

Type of auditors' report issued on compliance of major programs:	<u>Unmodified</u>			
Internal control over major programs:				
Material weakness(es) identified?	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 33%; text-align: center;"><u> </u></td> <td style="width: 33%; text-align: center;">Yes <u> X </u></td> <td style="width: 33%; text-align: center;">No</td> </tr> </table>	<u> </u>	Yes <u> X </u>	No
<u> </u>	Yes <u> X </u>	No		
Significant deficiency(ies) identified?	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 33%; text-align: center;"><u> </u></td> <td style="width: 33%; text-align: center;">Yes <u> X </u></td> <td style="width: 33%; text-align: center;">None reported</td> </tr> </table>	<u> </u>	Yes <u> X </u>	None reported
<u> </u>	Yes <u> X </u>	None reported		
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 33%; text-align: center;"><u> </u></td> <td style="width: 33%; text-align: center;">Yes <u> X </u></td> <td style="width: 33%; text-align: center;">No</td> </tr> </table>	<u> </u>	Yes <u> X </u>	No
<u> </u>	Yes <u> X </u>	No		
Identification of major programs:				

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.553	School Breakfast Program
10.555	School Lunch Program

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000			
Auditee qualified as low-risk auditee?	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 33%; text-align: center;"><u> X </u></td> <td style="width: 33%; text-align: center;">Yes <u> </u></td> <td style="width: 33%; text-align: center;">No</td> </tr> </table>	<u> X </u>	Yes <u> </u>	No
<u> X </u>	Yes <u> </u>	No		

SECTION 2-FINANCIAL STATEMENT FINDINGS (GAGAS)

No matters were reportable

SECTION 3-FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

No matters were reportable.

See independent auditors' report.