

Report on the

Escambia County Board of Education

Escambia County, Alabama

October 1, 2016 through September 30, 2017

Filed: June 1, 2018



Department of Examiners of Public Accounts

50 North Ripley Street, Room 3201

P.O. Box 302251

Montgomery, Alabama 36130-2251

Website: www.examiners.alabama.gov

Rachel Laurie Riddle, Chief Examiner



Rachel Laurie Riddle
Chief Examiner

State of Alabama
Department of
Examiners of Public Accounts

P.O. Box 302251, Montgomery, AL 36130-2251
50 North Ripley Street, Room 3201
Montgomery, Alabama 36104-3833
Telephone (334) 242-9200
FAX (334) 242-1775

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

Dear Madam:

Under the authority of the *Code of Alabama 1975*, Section 41-5A-19, as added by Act Number 2018-129, I submit this report on the results of the audit of the Escambia County Board of Education, Escambia County, Alabama, for the period October 1, 2016 through September 30, 2017.

Sworn to and subscribed before me this
the 16th day of may, 2018.

Christina Smith
Notary Public

Respectfully submitted,

Miranda L. Bonner

Miranda L. Bonner
Examiner of Public Accounts

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Department of
Examiners of Public Accounts

SUMMARY

**Escambia County Board of Education
October 1, 2016 through September 30, 2017**

The Escambia County Board of Education (the “Board”) is governed by a seven-member body elected by the citizens of Escambia County. The members and administrative personnel in charge of governance of the Board are listed on Exhibit 13. The Board is the governmental agency that provides general administration and supervision for Escambia County public schools, preschool through high school, with the exception of schools administered by the Brewton City Board of Education.

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

An unmodified opinion was issued on the financial statements, which means that the Board’s financial statements present fairly, in all material respects, its financial position and the results of its operations for the fiscal year ended September 30, 2017.

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

The following officials/administrative personnel were invited to an exit conference to discuss the report: Superintendent: John J. Knott; Chief School Financial Officer: Julie Madden; Board Members: Kevin Hoomes, Willie J. Grissett, Sherry Digmon, David Nolin, Cindy Jackson, Danny Benjamin, Mike Edwards, and Coleman Wallace.

The following individuals attended the exit conference, held at the Board’s office: Superintendent: John J. Knott; Chief School Financial Officer: Julie Madden; Board Members: Kevin Hoomes, Willie J. Grissett, David Nolin, and Cindy Jackson; and representatives from the Department of Examiners of Public Accounts: Christina Smith, Audit Manager and Miranda Bonner, Examiner.

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Independent Auditor's Report

Independent Auditor's Report

Members of the Escambia County Board of Education,
Superintendent and Chief School Financial Officer
Brewton, Alabama

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Escambia County Board of Education, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Escambia County Board of Education's basic financial statements as listed in the table of contents as Exhibits 1 through 7.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Escambia County Board of Education, as of September 30, 2017, 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 (MD&A), the Schedule of the Employer's Proportionate Share of the Net Pension Liability, the Schedule of the Employer's Contributions, and the Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual, (Exhibits 8 through 11), 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 principally of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

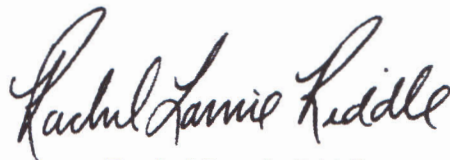
Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Escambia County Board of Education's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 12) as required by Title 2 U. S. ***Code of Federal Regulations*** Part 200, ***Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)***, is presented for the purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with ***Government Auditing Standards***, we have also issued our report dated April 24, 2018, on our consideration of the Escambia County Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Escambia County Board of Education's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with ***Government Auditing Standards*** in considering the Escambia County Board of Education's internal control over financial reporting and compliance.



Rachel Laurie Riddle
Chief Examiner

Department of Examiners of Public Accounts

Montgomery, Alabama

April 24, 2018

Management's Discussion and Analysis
(Required Supplementary Information)

**ESCAMBIA COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2017**

INTRODUCTION

The Management's Discussion and Analysis (MD&A) of the Escambia County Board of Education's financial performance provides an overall review of the Board's financial activities for the fiscal year ended September 30, 2017. The intent of this discussion and analysis is to look at the board's financial performance as a whole. Readers should also review the notes to the financial statements and the financial statements to enhance their understanding of the Escambia County Board of Education's financial performance.

The MD&A is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement Number 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999. Certain comparative information between the current year (2016-2017) and the prior year (2015-2016) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights of the 2016-2017 fiscal year include the following:

- The liabilities and deferred inflows of resources of the Board exceeded its assets and deferred outflows of resources at the close of the 2017 fiscal year by \$1.16 million (deficit net position). Of this amount, the unrestricted net position is a deficit \$25.7 million. The deficit is a result of the implementation of GASB Statement Number 68 which required the reporting of the Board's share of the Net Pension Liability and other pension amounts in the net amount of \$34.17 million.
- At the end of the fiscal year, the Board's governmental funds reported combined ending fund balances of \$14.6 million. Approximately \$7.2 million of this amount constitutes an unassigned fund balance of the General Fund, which is available as of the end of the fiscal year for spending on future operations.

OVERVIEW OF THE FINANCIAL STATEMENTS AND USE OF THIS REPORT

This discussion and analysis serves as an introduction to the Board's basic financial statements, which are the government-wide financial statements, fund financial statements, and the notes to the financial statements. This report also includes supplementary information in addition to the basic financial statements themselves.

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. Although other governments may report governmental activities and business-type activities, the Board has no business-type activities.

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

The *Statement of Activities* provides information which shows how the Board's net position changed as a result of the year's activities. The statement uses the accrual basis of accounting, which is similar to the accounting used by private-sector businesses. 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. Two kinds of funds – governmental funds and fiduciary funds – are presented in the fund financial statements.

Governmental funds – Most of the Board's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. The governmental funds statements – the *Balance Sheet* and the *Statement of Revenues, Expenditures and Changes in Fund Balances* – are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view that helps readers 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 – Fiduciary funds are used to account for assets held by the Board in a trustee capacity or as an agent for others. Activities from fiduciary funds are not included in the government-wide financial statements because the Board cannot use these assets for its operations. Fiduciary funds of the Board, consisting of agency funds, are reported in the *Statement of Fiduciary Net Position* using an accrual basis of accounting. Agency funds held by the Board involve only the receipt, temporary investment, and remittance of resources to individuals, private organizations, or other governments in a purely custodial capacity (assets equal liabilities). The agency funds reported by the Board include a payroll clearing account, an accounts payable clearing account, and student organization accounts such as clubs and classes.

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

Required Supplementary Information

In addition to the basic financial statements and the accompanying notes, this report also presents certain *Required Supplementary Information* (RSI) other than the MD&A consisting of a budgetary comparison schedule for the general fund and each major special revenue fund that has a legally adopted annual budget. The schedule includes an accompanying note explaining the differences between actual amounts as reported on the basis of budgeting and the GAAP basis of reporting. Also included as RSI are schedules relating to the pension activity of the Board, as required under GASB Statement Number 68, which include the Schedule of Proportionate Share of the Net Pension Liability and the Schedule of Contributions.

The Board approved the Fund Balance Policy in Accordance with GASB Statement Number 54 at its November 17, 2011, Board meeting in order to address the implications of this Statement. Statement Number 54 *Fund Balance Reporting and Governmental Fund Type Definitions* was issued by the Governmental Accounting Standards Board in February 2009.

The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in government funds.

Fund Balance Policy in Accordance with GASB Statement Number 54

Governmental Fund Definitions – The following definitions will be used in reporting activity in governmental funds. The Board may or may not report all fund types in any given reporting period, based on actual circumstances and activity.

The General Fund is used to account for and report all financial resources not accounted for and reported in another fund.

The Special Revenue Fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

The Debt Service Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest, even if it is being accumulated for future years' payments. The Debt Service Fund should be used to report resources if legally mandated.

The Capital Projects Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Fund balances will be reported in governmental funds under the following five categories using the definitions provided by GASB Statement Number 54:

- A. Nonspendable fund balances include amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Examples of nonspendable fund balance reserves for which fund balance shall not be available for financing general operating expenditures include: inventories, prepaid items, deferred expenditures, long-term receivables, and outstanding encumbrances.
- B. Restricted fund balances consist of amounts that are subject to externally enforceable legal restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation. Examples of restricted fund balances include: child nutrition programs, construction programs, and restricted grants.
- C. Committed fund balances consist of amounts that are subject to a purpose constraint imposed by formal action of the Board before the end of the fiscal year and that require the same level of formal action to remove the constraint.
- D. Assigned fund balances consist of amounts that are intended to be used by the school system for specific purposes. The Board authorizes the Superintendent or Chief School Finance Officer to make a determination of the assigned amounts of fund balance. Such assignments may not exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. Assigned fund balances require the same level of authority to remove the constraint.
- E. Unassigned fund balances include all spendable amounts not contained in the other classifications. This portion of the total fund balance in the general fund is available to finance operating expenditures.

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

The Board of Education along with the Superintendent and Chief School Finance Officer will periodically review all restricted, committed, and assigned fund balances. The Chief School Finance Officer will prepare and submit an annual report of all restricted, committed and assigned funds for the Board of Education.

FINANCIAL ANALYSIS OF THE BOARD AS A WHOLE

As noted earlier, the Escambia County Board of Education has no business-type activities. Consequently, all the Board's net position categories are reported as Governmental Activities.

The following table reflects a Summary of Net Position with a comparison of current year to prior year. For more detailed information, see the Statement of Net Position.

Table 1
Summary of Net Position
As of September 30th

	FY 2016	FY 2017	Variance
Current Assets	\$ 23,625,432	\$ 22,312,078	\$ (1,313,354)
Capital Assets	40,823,849	43,542,110	2,718,261
Total Assets	64,449,281	65,854,188	1,404,907
Employer Pension Contribution	2,709,336	2,826,070	116,734
Proportionate Share of Collective Deferred Outflows Related to Net Pension Liability	2,482,000	3,319,000	837,000
Total Deferred Outflows of Resources	5,191,336	6,145,070	953,734
Current Liabilities	3,308,440	3,406,797	98,357
Noncurrent Liabilities	60,873,000	63,859,508	2,986,508
Total Liabilities	64,181,440	67,266,305	3,084,865
Unavailable Revenue – Property Taxes	4,600,000	4,600,000	-
Proportionate Share of Collective Deferred Inflows Related to Net Pension Liability	403,000	1,296,000	893,000
Total Deferred Inflows of Resources	5,003,000	5,896,000	893,000
Net Position:			
Net Investment in Capital Assets	19,897,533	20,579,816	682,283
Restricted	4,131,078	3,960,642	(170,436)
Unrestricted	(23,572,434)	(25,703,505)	(2,131,071)
Total Net Position	\$ 456,177	\$ (1,163,047)	\$ (1,619,224)

The Board's assets and deferred outflows of resources were less than liabilities and deferred inflows of resources by \$1,163,047 at the close of fiscal year 2017. The majority of the Board's net position are invested in capital assets (land, buildings, and equipment) owned by the Board. Since these capital assets are used in governmental activities, this portion of net position is not available for future spending or funding of operations.

Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by enabling legislation, debt covenants, or other legal requirements is a deficit \$25,703,505 at the end of fiscal year 2017. GASB Statement Number 68 requires the inclusion of the Net Pension Liability (included in noncurrent Liabilities), Employer Pension Contribution (reported as a deferred outflow of resources), and the Proportionate Share of Collective Deferred Inflows Related to Net Pension Liability (reported as a deferred inflow of resources), a net reduction to unrestricted net position of \$34,166,930 for fiscal year 2017. Other changes to net position were routine in nature.

The Board's total revenues and expenditures are reflected in the following Table 2 which depicts a comparison to fiscal year 2016 and condenses the results of operations for the fiscal year into a format where the reader can easily see total revenues of the Board. It also compares the impact operations had on changes in net position as of September 30, 2016, and September 30, 2017.

	<u>FY 2016</u>	<u>FY 2017</u>	<u>Variance</u>
<u>REVENUES:</u>			
Program Revenues:			
Charges for Services	\$ 4,086,378	\$ 4,067,279	\$ (19,099)
Operating Grants and Contributions	30,260,874	31,091,234	830,360
Capital Grants and Contributions	1,363,404	1,373,821	10,417
General Revenues:			
Property Taxes – General	5,510,080	6,212,586	702,506
Sales and Use Tax – General	2,935,862	2,816,775	(119,087)
Miscellaneous Taxes	695,227	702,446	7,219
Grants and Contributions – Non Restricted	90,831	45,207	(45,624)
Investment Earnings	52,191	84,308	32,117
Miscellaneous	1,147,542	1,394,814	247,272
Total Revenues	46,142,389	47,788,470	1,646,081
<u>EXPENSES:</u>			
Governmental Activities:			
Instruction	25,826,619	25,611,169	(215,450)
Instructional Support	7,283,401	7,584,077	300,676
Operation and Maintenance	4,292,593	4,890,514	597,921
Auxiliary Services:			
Food Service	3,300,864	3,286,201	(14,663)
Transportation	3,466,975	3,854,953	387,978
General Administration and Central Support	2,095,757	1,925,058	(170,699)
Other	957,049	1,352,183	395,134
Interest on Long-Term Debt	886,787	903,539	16,752
Total Expenses	48,110,045	49,407,694	1,297,649
Change in Net Position	(1,967,656)	(1,619,224)	348,432
Net Position – Beginning of Year	2,423,833	456,177	(1,967,656)
Net Position – End of Year	\$ 456,177	\$ (1,163,047)	\$ (1,619,224)

Revenue Analysis:

- Program revenues, specifically operating grants and contributions, are the largest component of total revenues (76%).
- Operating grants and contributions make up 85% of program revenues and 65% of total revenues. The major sources of revenues in this category are State Foundation Program funds, state transportation operating funds, and state and federal funds restricted for specific programs.
- Capital grants and contributions include state capital outlay funds and state funds to replace buses.
- Charges for services include federal reimbursement for meals, student meal purchases, and local school revenues.
- General revenues, primarily property taxes and sales taxes, make up 24% of all revenues and, in conjunction with Fund Balance, are used to provide \$12,875,360 for expenses not covered by program revenues.

Expense Analysis:

- Instructional services expenses, primarily salaries and benefits for classroom teachers, are the largest expense function of the Board (52%). In addition to teacher salaries and benefits, instructional services include teacher aides, substitute teachers, textbooks, depreciation of instructional buildings, professional development, and classroom instructional materials, supplies, and equipment.
- Instructional support services accounts for 15% of total expenses. It includes salaries and benefits for school principals, assistant principals, librarians, counselors, school secretaries, school bookkeepers, speech therapists, school nurses, and professional development expenses.
- Operation and maintenance services accounts for 10% of total expenses. It includes utilities, security services, janitorial services, maintenance services, and depreciation of maintenance-related assets.
- In addition to bus driver salaries and benefits, student transportation services include mechanics, bus aides, vehicle maintenance and repair expenses, vehicle fuel, depreciation of buses and the bus shop, and fleet insurance. Transportation expense accounts for 8% of the total expenses.
- Food services comprise 7% of total expenses. It includes salaries and benefits for cooks, servers, lunchroom managers, and cashiers, as well as donated and purchased food, food preparation and service supplies, kitchen and lunchroom equipment, and depreciation of equipment and facilities.
- General administrative services (4%) include salaries and benefits for the superintendent, assistants, clerical and financial staff, and other personnel that provide system-wide support for the schools. Also included are legal expenses, liability insurance, training for board members and general administrative staff, printing costs, and depreciation of central office equipment and facilities.
- Other expenses (2%) include the salaries and benefits for extended day personnel, and community education salaries, benefits and program expenses. Also included are the materials, supplies, equipment, related depreciation, and other expenses for operating programs outside of those for educating students in the K through 12 instructional programs.
- Debt service (2%) includes interest, but not principal payments, on long-term debt issues and other expenses related to the issuance and continuance of debt issues.

NET COST OF SERVICES

The following table (Table 3), extracted from the *Statement of Activities*, Exhibit #2, condenses the total cost of the Board’s activities. Total cost of services was \$49,407,694. The net cost of providing these services was offset by various program revenues to include charges for services, operating grants and capital grants (\$36,532,334). The net cost of governmental activities was a negative \$12,875,360. This means that the local funds portion of revenue was used to pay for the amount not covered from various program revenues.

Table 3
Escambia County Board of Education
Net Cost of Services

	FY 2016		FY 2017	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction	\$25,826,619	\$(5,700,003)	\$25,611,169	\$ (4,942,665)
Instructional Support	7,283,401	(2,127,368)	7,584,077	(2,267,337)
Operation and Maintenance	4,292,593	(2,329,993)	4,890,514	(2,876,426)
Auxiliary Services:				
Food Services	3,300,864	(415,651)	3,286,201	(405,402)
Transportation	3,466,975	64,222	3,854,953	(421,068)
General Administration and Central Support	2,095,757	(863,916)	1,925,058	(906,465)
Other	957,049	(139,893)	1,352,183	(152,458)
Interest on Long-Term Debt	886,787	(886,787)	903,539	(903,539)
Total	\$48,110,045	\$12,399,389	\$49,407,694	\$(12,875,360)

FINANCIAL ANALYSIS OF SCHOOL BOARD FUNDS

Governmental Funds – As noted earlier, the Board uses fund accounting to control and manage resources in order to ensure compliance with finance-related legal requirements. Using funds to account for resources for particular purposes helps the reader to determine whether the Board is being accountable for the resources provided by taxpayers and other entities, and it may also help to provide more insight into the Board’s overall financial health. The focus of the Board’s governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Board’s financial requirements. 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 \$14.6 million (as shown in Exhibit #3). Approximately \$7.2 million of this amount constitutes an unassigned fund balance of the General Fund, which is available as of the end of the fiscal year for spending on future operations.

General Fund – The General Fund is the chief operating fund of the Board in providing educational services to students from kindergarten through grade 12 including pupil transportation. The General Fund ended FY 2017 with a fund balance of \$7.7 million. The General Fund balance decreased by approximately \$1 million this year primarily due to the following reasons:

- Decrease in mandated Foundation Program transfer to Child Nutrition Program by approximately \$453 thousand from \$903,626 in FY 2016 as compared to \$450,000 in FY 2017.
- Increase in General Fund expenditures of \$421,868, which was offset by an increase in General Fund revenues of \$1,628,809. Local revenues accounted for approximately \$590,000 of this increase, mainly attributable to an increase in County-wide ad valorem tax collections during FY 2017. Pre-K OSR Grants awarded in FY 2017 account for approximately \$300,000 of the increase in General Fund Revenues.
- Increase in General Fund expenditures of \$1.3 million for FY 2017 mainly attributable to the renovation of the Escambia County High School Auditorium, a solely locally-funded capital project.

Table 4 reflects a summary of General Fund Revenues for the most recent two-year period.

General Fund Revenues
Table 4

	FY 2016	FY 2017	Variance
State	\$26,004,853	\$27,312,247	\$1,307,394
Federal	133,992	139,459	5,467
Local	10,317,968	10,634,332	316,364
Other	66,838	66,422	(416)
Total	\$36,523,651	\$38,152,460	\$1,628,809

Table 5 reflects a comparison of General Fund expenditures for the most recent two-year period.

General Fund Expenditures
Table 5

	FY 2016	FY 2017	Variance
Instruction	\$21,671,636	\$21,045,840	(\$625,796)
Instructional Support	5,987,737	6,159,911	172,174
Operation and Maintenance	3,951,776	4,388,492	436,716
Auxiliary Services:			
Transportation	3,108,425	3,227,613	119,188
General Administration and Central Support	1,659,599	1,436,072	(223,527)
Other	306,549	616,251	309,702
Capital Outlay	227,438	1,460,624	1,233,186
Debt Service: Retirement of Debt, Interest and Fiscal Charges	991,637	991,862	225
Total	\$37,904,797	\$39,326,665	\$1,421,868

Special Revenue Fund – The special revenue fund accounts for all of the federal funds that flow through the Alabama Department of Education, which includes the Child Nutrition Program, as well as the local schools’ accounts. There was an increase in this fund of approximately \$11 thousand for FY 2017. The revenues decreased by approximately \$169 thousand and expenditures decreased by approximately \$357 thousand, while net transfers into this fund decreased by approximately \$411 thousand. The mandated Foundation transfer to the Child Nutrition Program was decreased by approximately \$453 thousand as calculated and approved by the State Department of Education due to the 3.40 months’ operating balance of the CNP fund. Title I and Title II funds experienced slight decreases in revenues for FY 2017. The Special Revenue Fund ended the year with a healthy fund balance of \$2,268,691.

Capital Projects Fund – The capital projects fund accounts for public school fund and fleet renewal allocations. There was a decrease in fund balance of approximately \$423 thousand in FY 2017, mainly attributable to expenditures made from proceeds from the Series 2013 bond issue. The 2013 bond issue (Series 2013 Warrants) was issued for school improvement and construction costs and to refund and redeem the Series 2009 Warrants and payment of all issuance expenses on April 29, 2013. The major capital projects associated with this bond issue included the HVAC/Re-roofing project at Escambia County High School, HVAC/Re-roofing project at Rachel Patterson Elementary School, the Auditorium Renovation project at Flomaton High School, and the construction of the new W. S. Neal High School. In FY 2017, the Board entered into a 10-year lease-purchase agreement with United Bank in the amount of \$2,506,449 to purchase 33 new regular Class C school buses. The purpose of the bus lease-purchase was to revitalize the bus fleet and maximize fleet renewal funding for FY 2017 and future years. State Transportation Fleet Renewal funds will be utilized to satisfy this debt. The Capital Projects fund ended the fiscal year with a positive fund balance of \$3,875,452.

BUDGETARY HIGHLIGHTS OF THE GENERAL FUND

On or before October 1 of each year, the Board is mandated by state law to prepare and submit to the State Superintendent of Education the annual budget adopted by the Board. The State Department of Education required the FY 2017 budget to be submitted by September 15, 2016. The original 2017 fiscal year budget, adopted on September 15, 2016, was based on conservative revenue estimates. Locally funded teacher units decreased by 1.28 units in FY 2017; thereby, decreasing the approximately 15 units from FY 2016. However, 4 locally-funded teacher units remained in place with the continuation of the county-wide STAR Program (based at Escambia County High School). Locally funded teacher units help to facilitate increased course offerings and decreased class-sizes. Over the course of the year, the Board revised the annual operating budget one time on June 15, 2017 (Amendment #1). The primary reasons for Amendment #1 were to budget for Federal carryover funds, various grants (to include Pre-K Grants and a 21st Century Grant at Escambia County Middle School), and the expenditures for speech therapy contract services, CNP equipment, and various infra-structure needs. For purposes of this budgetary analysis, the General Fund of the Board is discussed in accordance with the GASB 34 reporting model.

General Fund – The comparison of the General Fund original budget to the final amended budget is on Exhibit #10. The differences between the original budget and the final amended budget of the Board were not significant (less than a 1% change in revenues and less than a 4% change in expenditures). Overall, the final budget is reflective of the actual operating activity for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – The Board’s investment in capital assets for its governmental activities for the year ended September 30, 2017, amounted to \$43,542,110, net of accumulated depreciation. The capital asset activity for the year is detailed in the *Notes to the Financial Statements, Note 5 – Capital Assets*. Increases during the year represent additions to those categories, while decreases represent retirements of assets during the year and depreciation of depreciable assets for the year.

Net capital assets increased by approximately \$4.7 million for the 2017 fiscal year. The non-depreciable assets of the Board increased by approximately \$221 thousand attributable to continued construction in progress. The Board expended available resources to acquire \$4.48 million in capital asset additions, mainly due to the lease purchase of \$2,506,449 in new school buses. These additions are reduced by the current year’s depreciation expense of \$1.9 million.

Capital Assets (Net of Depreciation)

	FY 2016	FY 2017	Variance
Land	\$ 923,039	\$923,039	\$
Land Improvements (Inexhaustible)	109,664	109,664	
Land Improvements (Exhaustible)	139,380	104,553	(34,827)
Buildings	16,130,001	15,644,830	(485,171)
Building Improvements	5,945,952	7,216,760	1,270,808
Equipment	3,460,847	2,951,785	(509,062)
Assets Under Capital Lease		2,255,805	2,255,805
Construction in Progress	14,114,966	14,335,674	220,708
Total	<u>\$40,823,849</u>	<u>\$43,542,110</u>	<u>\$2,718,261</u>

Long-Term Debt – At year-end, the Board had \$22,470,000 in warrants payable. This is a decrease of \$500 thousand from last year. On April 29, 2013, the Board issued \$24,160,000 in Tax Anticipation Warrants, Series 2013, to refund and redeem the existing Series 2009 Warrants of \$5.93 million and to finance school improvement and construction projects. The Board also entered into a lease purchase agreement to acquire 33 buses for \$2,506,449 during fiscal year 2017. \$132,941 was paid on this lease purchase agreement during fiscal year 2017. Due to the GASB Statement Number 68, Net Pension Liability is now included on the Board’s governmental activities long-term debt. At year-end, the Board’s Net Pension Liability was \$39,016,000. More information with regard to the Board’s long-term debt is presented in the *Notes to the Financial Statements, Note 10 – Long-Term Debt*.

Continuing Disclosure Requirements for Bond Issue – In accordance with the requirements of Rule 15c2-12 (the “Rule”) promulgated by the Securities and Exchange Commission, the Board will agree in the Authorizing Resolution to provide, cause to be provided, or use reasonable efforts to provide, to the Municipal Securities Rulemaking Board (“MSRB”) in an electronic format prescribed by the MSRB,

- (i) Audited financial information within 180 days of the end of the prior fiscal year, provided, however, that the Board has no authority to obtain an independent audit and must be audited by the Alabama Department of Examiners of Public Accounts, which historically completes audits in not less than 270 days and in some cases more than 360 days from the close of the prior fiscal year. In any event, the Board’s audited financial statements will be provided to MSRB within five business days after receipt by the Board.
- (ii) The Board’s budget for the next fiscal year, and unaudited financial statements for the fiscal year ending on the preceding September 30, will be made available to the MSRB on or before March 31 in each calendar year.

The Escambia County Board of Education met all MSRB reporting and disclosure requirements by submitting the following reports to the MSRB using the Electronic Municipal Market Access (EMMA) program: The FY 2016 Audit Report was posted on July 28, 2017. The FY 2017 Budget and the FY 2016 Audited Financial Statements were posted using the EMMA Dataport Submission Portal on July 28, 2017. The FY 2017 Budget Amendment #1 was posted to EMMA on September 20, 2017. The FY 2018 Budget was posted to EMMA on December 15, 2017. The FY 2017 Financial Statements will be posted to EMMA as soon as approved by the State Department of Education. The FY 2017 Audit Report will be posted as soon as released by the State of Alabama Department of Examiners of Public Accounts. All required reporting will continue to be kept current as required by the MSRB.

FACTORS BEARING ON THE BOARD’S FUTURE

Credit Rating – The Escambia County Board of Education earned an “A+/Stable” credit rating from Standard & Poor’s in February 2013. This was the first time that the Board sought or received a credit rating from a credit agency. The very strong, investment grade rating allowed the Board to access the bond and bank markets at lower rates. The Escambia County Board of Education is one of the smallest systems in the State of Alabama with an “A+/Stable” rating. Reasons specifically cited for the positive rating were that the Board maintains a “very strong financial position” and has numerous positive economic development activities, along with a diverse economic and employment base. Further, the S&P rating reflected their strong view of the Board’s leadership and willingness to build a healthy reserve of available cash and maintain that for many years to come. The “stable” outlook by Standard & Poor’s was earned by the fact that, “Escambia County Board of Education’s financial position has been very strong historically despite the national recession.”

10 Mill Required Local Effort – Act 95-314, Section 16-13-231 of the *Code of Alabama* requires that local support for schools must be funded at an amount equivalent to 10 mills of district ad valorem tax. The State Department of Education reduces the Board’s appropriation by this required local support. Since only 3 mills of district tax are collected for Escambia County Schools, the additional 7 mills must come from countywide ad valorem tax revenues. In an effort to maintain current programs, replenish instructional and elective programs for students, maintain small class sizes, and plan for the future, the Escambia County Board of Education, in conjunction with the Brewton City Board of Education, proposed and passed a 10-mill ad valorem tax referendum, increasing the total millage rate from 7 mills to 17 mills. All revenues collected from this educational property tax are earmarked for education. The 10 mill ad valorem tax generated approximately \$3 million in FY2017 for the Escambia County Schools. The Escambia County School System was in danger of experiencing a reduction in ad valorem tax revenues as a result of a failed tax referendum on September 12, 2006 for a renewal of the 3-mill district tax and a 1-mill countywide tax. However, the 4- mill tax referendum passed for all districts (1,2,3 and A) and on June 5, 2007. The Escambia County Board of Education will continue to receive these tax proceeds without a break in collection, as the tax was passed prior to expiration.

Student Enrollment – A comparison of the ADM (Average Daily Membership), the student enrollment figure derived from the ADM/ADA Report (recorded as of the first 20 days after Labor Day), for FY 2016 (4,485) and FY 2017 (4,498) shows an increase in enrollment of 14 students. The increase in enrollment resulted in a gain of 2.21 state-funded Foundation Program units for the 2017 fiscal year. Enrollment decreased from FY 2017 to FY 2018 (4,422) by 76 students. This decrease in enrollment resulted in a net loss of 4.62 state-funded Foundation Program units for the 2018 fiscal year.

Medical and Retirement Costs – Employee health insurance is provided through the Public Education Employees’ Health Insurance Program (PEEHIP). PEEHIP health insurance employer costs experienced an increase for fiscal year 2017. PEEHIP costs increased to \$800 per employee per month (\$9,600 per year) for FY 2017 over the FY 2016 level of \$780 per employee per month (\$9,360 per year). PEEHIP health insurance employer costs increased for fiscal year 2017 from \$9,360 per year to \$9,600 per year per employee. This increase will cost the employer an additional \$20 per employee per month (\$240 per employee per year) in FY 2017. The Board must use local funds to pay the salary-related benefit costs not paid by state and federal funds. PEEHIP costs for fiscal year 2018 did not experience a change from FY 2017.

Employer contributions to the Teachers Retirement System (TRS) experienced changes in both Tiers in FY 2017. Beginning January 1, 2013, TRS implemented tiered rates for employees: Tier I for existing employees and Tier II for employees hired on or after January 1, 2013. For FY 2017, Tier I increased to 12.01 percent from 11.94 percent in FY16 and Tier II decreased to 10.82 percent from 10.84 percent. In FY 2018, Tier I increased to 12.24 percent, and Tier II increased to 11.01 percent.

State-Mandated Raise – Governor Robert Bentley approved a pay raise for teachers and support staff for FY 2016-17 (Act 2016-198) effective October 1, 2016. The State-mandated raise was enacted at the following rates: 4 percent for employees with a base salary less than \$75,000; 4 percent for all principals and assistant principals with a salary of \$75,000 or more; and 2 percent for employees with a base salary equal to or greater than \$75,000. The Escambia County Board of Education approved at its regular meeting on June 23, 2016, to begin the 4 percent and 2 percent raises with the employee’s contract year (effective July 1, 2016 through September 30, 2016) at an approximate cost of \$123,500 (including applicable payroll benefits). The Board is responsible for funding raises and related increases in benefits not paid by state and federal funds upon approval of any and all raises by the State Legislature.

CONTACTING THE SCHOOL BOARD’S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Board’s finances and to show the Board’s accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Julie Madden, Chief School Finance Officer, P.O. Box 307, Brewton, AL 36427, or by calling (334) 867-6251, extension 1009.

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Basic Financial Statements

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Statement of Net Position
September 30, 2017

	Governmental Activities
<u>Assets</u>	
Cash and Cash Equivalents	\$ 9,074,793.15
Cash with Fiscal Agent	2,926,877.24
Investments	4,415,197.40
Ad Valorem Property Taxes Receivable	4,646,919.52
Receivables (Note 4)	1,128,672.62
Inventories	119,618.27
Capital Assets:	
Nondepreciable	15,368,376.94
Depreciable, Net	28,173,733.05
Total Assets	<u>65,854,188.19</u>
<u>Deferred Outflows of Resources</u>	
Employer Pension Contribution	2,826,069.90
Proportionate Share of Collective Deferred Outflows Related to Net Pension Liability	3,319,000.00
Total Deferred Outflows of Resources	<u>6,145,069.90</u>
<u>Liabilities</u>	
Accounts Payable	134,106.60
Unearned Revenue	23,762.19
Salaries and Benefits Payable	2,955,864.89
Accrued Interest Payable	293,063.52
Long-Term Liabilities:	
Portion Payable Within One Year	746,511.94
Portion Payable After One Year	63,112,996.42
Total Liabilities	<u>67,266,305.56</u>
<u>Deferred Inflows of Resources</u>	
Unavailable Revenue - Property Taxes	4,600,000.00
Proportionate Share of Collective Deferred Inflows Related to Net Pension Liability	1,296,000.00
Total Deferred Inflows of Resources	<u>5,896,000.00</u>
<u>Net Position</u>	
Net Investment in Capital Assets	20,579,815.96
Restricted for:	
Debt Service	427,851.27
Capital Projects	1,831,054.21
Fleet Renewal	203,403.12
Child Nutrition	986,088.32
Other Purposes	512,245.03
Unrestricted	<u>(25,703,505.38)</u>
Total Net Position	<u>\$ (1,163,047.47)</u>

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

Statement of Activities
For the Year Ended September 30, 2017

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Governmental Activities			
Instruction	\$ 25,611,168.79	\$ 535,613.00	\$ 19,399,195.26
Instructional Support	7,584,077.18	290,983.31	5,025,756.69
Operation and Maintenance	4,890,513.85	229,425.54	1,615,676.47
Auxiliary Services:			
Student Transportation	3,854,952.79	75,684.14	3,077,392.85
Food Service	3,286,201.48	2,668,241.42	212,557.83
General Administration and Central Support	1,925,058.13	18,399.33	809,862.53
Interest on Long-Term Debt	903,538.55		
Other	1,352,182.84	248,932.21	950,792.37
Total Governmental Activities	<u>\$ 49,407,693.61</u>	<u>\$ 4,067,278.95</u>	<u>\$ 31,091,234.00</u>

General Revenues:

Taxes:

- Property Taxes for General Purposes
- Sales and Use Taxes for General Purposes
- Alcohol Beverage Tax
- Miscellaneous Taxes
- Grants and Contributions Not Restricted for Specific Programs
- Investment Earnings
- Miscellaneous

Total General Revenues

Changes in Net Position

Net Position - Beginning of Year

Net Position - End of Year

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

		Net (Expenses) Revenues and Changes in Net Position	
Capital Grants and Contributions		Total Governmental Activities	
\$	733,696.11	\$	(4,942,664.42)
	168,985.78		(2,267,337.18)
	280,808.00		(2,876,426.06)
	190,331.11		(421,067.80)
			(405,402.23)
			(906,465.16)
			(903,538.55)
			(152,458.26)
<u>\$</u>	<u>1,373,821.00</u>		<u>(12,875,359.66)</u>

6,212,585.46
2,816,775.20
83,921.70
618,522.99
45,207.18
84,308.20
1,394,814.35
<u>11,256,135.08</u>
(1,619,224.58)
456,177.11
<u>\$ (1,163,047.47)</u>

Balance Sheet
Governmental Funds
September 30, 2017

	General Fund	Special Revenue Fund
<u>Assets</u>		
Cash and Cash Equivalents	\$ 6,302,686.14	\$ 1,102,617.80
Cash with Fiscal Agent		
Investments	4,317,824.50	97,372.90
Ad Valorem Property Taxes Receivable	4,646,919.52	
Receivables (Note 4)	49,064.84	1,079,607.78
Inventories		119,618.27
Total Assets	<u>15,316,495.00</u>	<u>2,399,216.75</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>		
<u>Liabilities</u>		
Accounts Payable	133,546.61	559.99
Unearned Revenues		23,762.19
Salaries and Benefits Payable	2,849,661.76	106,203.13
Total Liabilities	<u>2,983,208.37</u>	<u>130,525.31</u>
<u>Deferred Inflows of Resources</u>		
Unavailable Revenues - Property Taxes	4,600,000.00	
Total Deferred Inflows of Resources	<u>4,600,000.00</u>	
<u>Fund Balances</u>		
Nonspendable:		
Inventories		119,618.27
Restricted for:		
Debt Service		
Capital Projects	40,220.00	
Fleet Renewal		
Child Nutrition Program		866,470.05
Other Purposes	512,245.03	
Assigned to:		
Local Schools		1,282,603.12
Unassigned	7,180,821.60	
Total Fund Balances	<u>7,733,286.63</u>	<u>2,268,691.44</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 15,316,495.00</u>	<u>\$ 2,399,216.75</u>

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

Capital Projects Fund	Other Governmental Fund	Total Governmental Funds
\$ 1,669,231.28	\$ 257.93	\$ 9,074,793.15
2,206,220.38	720,656.86	2,926,877.24
		4,415,197.40
		4,646,919.52
		1,128,672.62
		119,618.27
<u>3,875,451.66</u>	<u>720,914.79</u>	<u>22,312,078.20</u>
		134,106.60
		23,762.19
		<u>2,955,864.89</u>
		<u>3,113,733.68</u>
		4,600,000.00
		<u>4,600,000.00</u>
		119,618.27
	720,914.79	720,914.79
3,672,048.54		3,712,268.54
203,403.12		203,403.12
		866,470.05
		512,245.03
		1,282,603.12
		7,180,821.60
<u>3,875,451.66</u>	<u>720,914.79</u>	<u>14,598,344.52</u>
<u>\$ 3,875,451.66</u>	<u>\$ 720,914.79</u>	<u>\$ 22,312,078.20</u>

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***Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
September 30, 2017***

Total Fund Balances - Governmental Funds (Exhibit 3) \$ 14,598,344.52

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

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

Cost of Assets	\$ 80,253,510.76	
Less: Accumulated Depreciation	<u>(36,711,400.77)</u>	43,542,109.99

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds. 4,849,069.90

Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. These liabilities at year-end consist of:

	Due Within One Year	Due After One Year	
Warrants Payable	\$ 515,000.00	\$ 21,955,000.00	
Capital Lease Contracts Payable	231,511.94	2,141,996.42	
Net Pension Liability		39,016,000.00	
Accrued Interest Payable	<u>293,063.52</u>		
	\$ 1,039,575.46	\$ 63,112,996.42	<u>(64,152,571.88)</u>

Total Net Position - Governmental Activities (Exhibit 1) \$ (1,163,047.47)

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

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2017

	General Fund	Special Revenue Fund
<u>Revenues</u>		
State	\$ 27,312,247.52	\$
Federal	139,458.72	5,928,844.20
Local	10,634,331.96	2,065,106.66
Other	66,421.80	55,714.73
Total Revenues	38,152,460.00	8,049,665.59
<u>Expenditures</u>		
Current:		
Instruction	21,045,839.85	2,649,365.68
Instructional Support	6,159,911.07	1,193,903.36
Operation and Maintenance	4,388,492.33	204,056.01
Auxiliary Services:		
Student Transportation	3,227,613.23	49,722.09
Food Service		3,359,695.61
General Administration and Central Support	1,436,071.54	195,806.47
Other	616,250.97	744,002.32
Capital Outlay	1,460,624.20	27,769.95
Debt Service:		
Principal Retirement	115,000.00	
Interest and Fiscal Charges	876,862.50	
Total Expenditures	39,326,665.69	8,424,321.49
Excess (Deficiency) of Revenues Over Expenditures	(1,174,205.69)	(374,655.90)
<u>Other Financing Sources (Uses)</u>		
Indirect Cost	280,251.49	
Inception of Capital Lease		
Transfers In	90,757.49	476,200.00
Other Sources	192,335.80	
Sale of Capital Assets	76,740.70	
Transfers Out	(476,200.00)	(90,757.49)
Total Other Financing Sources (Uses)	163,885.48	385,442.51
Net Changes in Fund Balances	(1,010,320.21)	10,786.61
Fund Balances - Beginning of Year	8,743,606.84	2,257,904.83
Fund Balances - End of Year	\$ 7,733,286.63	\$ 2,268,691.44

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

Capital Projects Fund	Other Governmental Fund	Total Governmental Funds
\$ 985,613.00	\$ 385,000.00	\$ 28,682,860.52
7,373.17	1,422.47	6,068,302.92
		12,708,234.26
		122,136.53
<u>992,986.17</u>	<u>386,422.47</u>	<u>47,581,534.23</u>
		23,695,205.53
262,246.00		7,353,814.43
		4,854,794.34
		3,277,335.32
		3,359,695.61
283,502.00		1,915,380.01
		1,360,253.29
3,212,501.11		4,700,895.26
132,940.64	385,000.00	632,940.64
28,400.05		905,262.55
<u>3,919,589.80</u>	<u>385,000.00</u>	<u>52,055,576.98</u>
<u>(2,926,603.63)</u>	<u>1,422.47</u>	<u>(4,474,042.75)</u>
		280,251.49
2,506,449.00		2,506,449.00
	7,500.00	574,457.49
4,830.20		197,166.00
		76,740.70
<u>(7,500.00)</u>		<u>(574,457.49)</u>
<u>2,503,779.20</u>	<u>7,500.00</u>	<u>3,060,607.19</u>
<u>(422,824.43)</u>	<u>8,922.47</u>	<u>(1,413,435.56)</u>
<u>4,298,276.09</u>	<u>711,992.32</u>	<u>16,011,780.08</u>
<u>\$ 3,875,451.66</u>	<u>\$ 720,914.79</u>	<u>\$ 14,598,344.52</u>

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended September 30, 2017

Net Changes in Fund Balances - Total Governmental Funds (Exhibit 5) \$ (1,413,435.56)

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

Governmental funds report capital outlays 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 capital outlays (\$4,700,895.26) differed from depreciation (\$1,915,662.16) in the current period. 2,785,233.10

Some of the capital assets acquired this year were financed with capital leases. The amount financed by the lease 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. (2,506,449.00)

Repayment of warrant principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 632,940.64

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

Proceeds from Sale of Capital Assets	\$ (76,740.70)	
Gain/(Loss) on Disposition of Capital Assets	<u>9,768.80</u>	(66,971.90)

Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. These items consist of:

Net Change in Accrued Interest Payable	\$ 1,724.00	
Net Change in Pension Expense	<u>(1,052,265.86)</u>	<u>(1,050,541.86)</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ (1,619,224.58)

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

Statement of Fiduciary Net Position
September 30, 2017

	Agency Funds
<u>Assets</u>	
Cash and Cash Equivalents	\$ 114,952.59
Total Assets	<u>114,952.59</u>
<u>Liabilities</u>	
Accounts Payable	67,267.49
Salaries and Benefits Payable	46,885.10
Other Liabilities	800.00
Total Liabilities	<u>\$ 114,952.59</u>

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

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Notes to the Financial Statements

For the Year Ended September 30, 2017

Note 1 – Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

Notes to the Financial Statements

For the Year Ended September 30, 2017

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

Fund Financial Statements

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

The Board reports the following major governmental funds:

- ◆ **General Fund** – The General Fund is the primary operating fund of the Board. It is used to account for all financial resources except those required to be accounted for in another fund. The Board primarily receives revenues from the Education Trust Fund (ETF) and local taxes. Amounts appropriated from the ETF were allocated to the school board on a formula basis.
- ◆ **Special Revenue Fund** – This fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Various federal and local funding sources are included in this fund. Some of the significant federal funding sources include the federal funds that are received for Special Education, Title I, and the Child Nutrition Program in addition to various smaller grants, which are required to be spent for the purposes of the applicable federal grants. Also included in this fund are the public and non-public funds received by the local schools which are generally not considered restricted or committed.
- ◆ **Capital Projects Fund** – This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlay, including the acquisition or construction of capital facilities and other capital assets. This includes allocations received from the Alabama Department of Education which are restricted as well as proceeds from the 2013 Tax Anticipation Refunding Warrants.

Notes to the Financial Statements

For the Year Ended September 30, 2017

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

Governmental Fund Type

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

The Board reports the following fiduciary fund type:

Fiduciary Fund Type

- ◆ **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 government.

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within sixty (60) days of the end of the current fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, 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.

Notes to the Financial Statements
For the Year Ended September 30, 2017

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

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balances

1. Deposits and Investments

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

Statutes authorize the Board to invest in obligations of the U. S. Treasury, obligations of any state of the United States, general obligations of any Alabama county or city board of education secured by the pledged of the three-mill school tax and certificates of deposit. Investments are reported at fair value, with the exception of certificates of deposit which are reported at cost.

2. Receivables

Sales tax receivables are based on the amounts collected within 60 days after year-end. Millage rates for property taxes are levied at the first regular meeting of the County Commission in February of each year. Property is assessed for taxation as of October 1 of the preceding year based on the millage rates established by the County Commission. Property taxes are due and payable the following October 1 and are delinquent after December 31. Amounts receivable, net of estimated refunds and estimated uncollectible amounts, are recorded for the property taxes levied in the current year. However, since the amounts are not available to fund current year operations, the revenue is deferred and recognized in the subsequent fiscal year when the taxes are both due and collectible and available to fund operations.

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

3. Inventories

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

Notes to the Financial Statements
For the Year Ended September 30, 2017

4. Restricted Assets

Included in cash and cash equivalents are assets which are restricted. Certain resources set aside for general obligation warrants repayment, as well as warrant proceeds, are considered restricted assets because they are maintained in separate bank accounts and their use is limited by applicable debt covenants.

5. Capital Assets

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

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

	Capitalization Threshold	Estimated Useful Life
Land	\$ 1	N/A
Land Improvements	\$50,000	10 years
Buildings	\$50,000	10 – 50 years
Building Improvements	\$50,000	7 – 30 years
Equipment and Furniture	\$ 5,000	5 – 20 years

6. Deferred Outflows of Resources

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

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities Statement of Net Position.

Notes to the Financial Statements

For the Year Ended September 30, 2017

8. Deferred Inflows of Resources

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

9. Pensions

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

10. Net Position/Fund Balances

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

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

Notes to the Financial Statements
For the Year Ended September 30, 2017

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

- A. Nonspendable fund balances include amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Examples of nonspendable fund balance reserves for which fund balance shall not be available for financing general operating expenditures include: inventories, prepaid items, and long-term receivables.
- B. Restricted fund balances consist of amounts that are subject to externally enforceable legal restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation.
- C. Committed fund balances consist of amounts that are subject to a purpose constraint imposed by formal action or resolution of the Board, which is the highest level of decision-making authority, before the end of the fiscal year and that require the same level of formal action to remove or modify the constraint.
- D. Assigned fund balances consist of amounts that are intended to be used by the Board for specific purposes. The Board authorized the Superintendent or Chief School Finance Officer to make a determination of the assigned amounts of fund balance. Such assignments may not exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. Assigned fund balances require the same level of authority to remove the constraint.
- E. Unassigned fund balances include all spendable amounts not contained in the other classifications. This portion of the total fund balance in the General Fund is available to finance operating expenditures.

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

Notes to the Financial Statements

For the Year Ended September 30, 2017

Note 2 – Stewardship, Compliance, and Accountability

Budgets

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

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

Note 3 – Deposits and Investments

A. Deposits

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

Notes to the Financial Statements
For the Year Ended September 30, 2017

B. Cash with Fiscal Agent

The Board reports cash with fiscal agent. As of September 30, 2017, the Board had the following cash with fiscal agent:

Investment	Maturity	Fair Value
Regions Trust Cash Sweep	N/A	\$2,926,877.24
Total		\$2,926,877.24
N/A = Not Available		

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

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Board does not have a formal investment policy that addresses its investment choices. Ratings from the Regions Trust Cash Sweep were not available.

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

Concentrations of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Board does not have a formal investment policy that places limits on the amount the Board may invest in any one issuer.

Notes to the Financial Statements
For the Year Ended September 30, 2017

Note 4 – Receivables

On September 30, 2017, receivables for the Board’s individual major funds are as follows:

	General Fund	Special Revenue Fund	Total
Receivables:			
Accounts	\$20,137.94	\$ 194.85	\$ 20,332.79
Intergovernmental	25,773.05	1,079,412.93	1,105,185.98
Other	3,153.85		3,153.85
Total Receivables	\$49,064.84	\$1,079,607.78	\$1,128,672.62

Note 5 – Capital Assets

Capital asset activity for the year ended September 30, 2017, was as follows:

	Balance 10/01/2016	Additions	Retirements	Balance 09/30/2017
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 923,038.51	\$	\$	\$ 923,038.51
Land Improvements (Inexhaustible)	109,664.10			109,664.10
Construction in Progress	14,114,966.16	220,708.17		14,335,674.33
Total Capital Assets, Not Being Depreciated	15,147,668.77	220,708.17		15,368,376.94
Capital Assets, Being Depreciated:				
Land Improvements (Exhaustible)	348,269.00			348,269.00
Buildings	31,574,580.49			31,574,580.49
Buildings Improvements	18,646,223.35	1,876,632.59		20,522,855.94
Equipment	11,549,896.09	97,105.50	(1,714,022.20)	9,932,979.39
Assets Under Capital Lease		2,506,449.00		2,506,449.00
Total Capital Assets, Being Depreciated	62,118,968.93	4,480,187.09	(1,714,022.20)	64,885,133.82
Less Accumulated Depreciation for:				
Land Improvements (Exhaustible)	(208,889.04)	(34,827.00)		(243,716.04)
Buildings	(15,444,579.50)	(485,170.56)		(15,929,750.06)
Buildings Improvements	(12,700,271.42)	(605,825.09)		(13,306,096.51)
Equipment	(8,089,048.95)	(539,195.27)	1,647,050.30	(6,981,193.92)
Assets Under Capital Lease		(250,644.24)		(250,644.24)
Total Accumulated Depreciation	(36,442,788.91)	(1,915,662.16)	1,647,050.30	(36,711,400.77)
Total Capital Assets, Being Depreciated, Net	25,676,180.02	2,564,524.93	(66,971.90)	28,173,733.05
Total Governmental Activities Capital Assets, Net	\$ 40,823,848.79	\$ 2,785,233.10	\$ (66,971.90)	\$ 43,542,109.99

Notes to the Financial Statements
For the Year Ended September 30, 2017

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

	Current Year Depreciation Expense
<u>Governmental Activities:</u>	
Instruction	\$1,214,916.77
Instructional Support	44,056.90
<u>Auxiliary Services:</u>	
Student Transportation	513,862.02
Food Service	142,826.47
Total Depreciation Expense – Governmental Activities	<u>\$1,915,662.16</u>

Note 6 – Defined Benefit Pension Plan

A. Plan Description

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

B. Benefits Provided

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

Notes to the Financial Statements

For the Year Ended September 30, 2017

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

C. Contributions

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

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

Participating employers' contractually required contribution rate for the year ended September 30, 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 \$2,826,069.90 for the year ended September 30, 2017.

Notes to the Financial Statements
For the Year Ended September 30, 2017

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

At September 30, 2017, the Board reported a liability of \$39,016,000.00 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015. 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, 2016, the Board's proportion was 0.360391%, which was a decrease of 0.001770% from its proportion measured as of September 30, 2015.

For the year ended September 30, 2017, the Board recognized pension expense of \$3,878,000.00. At September 30, 2017, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$	\$1,005,000.00
Changes of assumptions	2,755,000.00	
Net difference between projected and actual earnings on pension plan investments	564,000.00	
Changes in proportion and differences between employer contributions and proportionate share of contributions		291,000.00
Employer contributions subsequent to the measurement date	2,826,069.90	
Total	\$6,145,069.90	\$1,296,000.00

Notes to the Financial Statements
For the Year Ended September 30, 2017

The \$2,826,069.90 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending:	
September 30, 2018	\$ 416,000.00
2019	\$ 416,000.00
2020	\$1,035,000.00
2021	\$ 33,000.00
2022	\$ 123,000.00
Thereafter	\$

E. Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of September 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Investment Rate of Return (*)	7.75%
Projected Salary Increases	3.25%-5.00%
(*) Net of pension plan investment expense	

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

Mortality rates 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 rates of disabled mortality were based on the RP-2000 Disabled Mortality Table projected to 2020 using Scale BB and adjusted 105% for males and 120% for females.

Notes to the Financial Statements
For the Year Ended September 30, 2017

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

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

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

F. Discount Rate

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

Notes to the Financial Statements
For the Year Ended September 30, 2017

G. 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	\$51,978	\$39,016	\$28,042
(Dollar amounts in thousands)			

H. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2016. The supporting actuarial information is included in the GASB Statement Number 67 Report for the TRS prepared as of September 30, 2016. The auditor's report dated September 22, 2017, 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, 2016, along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

Notes to the Financial Statements

For the Year Ended September 30, 2017

Note 7 – Other Postemployment Benefits (OPEB)

A. 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. The Trust provides health care benefits to state and local school system retirees and was established in 2007 under the provisions of Act Number 2007-16, Acts of Alabama, as an irrevocable trust fund. Responsibility for general administration and operations of the Trust is vested with the Public Education Employees’ Health Insurance Board (PEEHIB) members. The *Code of Alabama 1975*, Section 16-25A-4, provides the PEEHIB with the authority to amend the benefit provisions in order to provide reasonable assurance of stability in future years. The Trust issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at the Public Education Employees’ Health Insurance Plan website, www.rsa-al.gov under the Employer’s Financials Report section.

B. Funding Policy

The Public Education Employees’ Health Insurance Fund (PEEHIF) was established in 1983 under the provisions of Act Number 83-455, Acts of Alabama, to provide a uniform plan of health insurance for current and retired employees of state educational institutions. The plan is administered by the PEEHIB. Any Trust assets used in paying administrative costs and retiree benefits are transferred to and paid from the PEEHIF. The PEEHIB periodically reviews the funds available in the PEEHIF and if excess funds are determined to be available, the PEEHIB authorizes a transfer of funds from the PEEHIF to the Trust. Retirees are required to contribute monthly as follows:

	Fiscal Year 2017
Individual Coverage – Non-Medicare Eligible	\$ 166.00
Individual Coverage – Medicare Eligible Retired Member	\$ 25.00
Family Coverage – Non-Medicare Eligible Retired Member and Non-Medicare Eligible Non-Spousal Dependent(s)	\$ 421.00
Family Coverage – Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) with Non-Medicare Eligible Spouse	\$ 521.00
Family Coverage – Non-Medicare Eligible Retired Member and Non-Spousal Dependent Medicare Eligible	\$ 280.00
Family Coverage – Non-Medicare Eligible Retired Member and Spouse Dependent Medicare Eligible	\$ 310.00
Family Coverage – Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) – No Spouse	\$ 280.00
Family Coverage – Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) with Non-Medicare Eligible Spouse	\$ 380.00
Family Coverage – Medicare Eligible Retired Member and Non-Spousal Dependent Medicare Eligible	\$ 139.00
Family Coverage – Medicare Eligible Retired Member and Spousal Dependent Medicare Eligible	\$ 169.00
Surviving Spouse – Non-Medicare Eligible	\$ 816.00
Surviving Spouse – Non-Medicare Eligible and Dependent Non-Medicare Eligible	\$1,028.00
Surviving Spouse – Non-Medicare Eligible and Dependent Medicare Eligible	\$1,067.00
Surviving Spouse – Medicare Eligible	\$ 430.00
Surviving Spouse – Medicare Eligible and Dependent Non-Medicare Eligible	\$ 720.00
Surviving Spouse – Medicare Eligible and Dependent Medicare Eligible	\$ 759.00

Notes to the Financial Statements
For the Year Ended September 30, 2017

For employees that retire other than for disability on or after October 1, 2005 and before January 1, 2012, for each year under 25 years of service, the retiree pays two percent of the employer premium and for each year over 25 years of service, the retiree premium is reduced by two percent of the employer premium. Employees who retire on or after January 1, 2012, with less than 25 years of service, are required to pay 4% for each year under 25 years of service. In addition, non-Medicare eligible employees who retire on or after January 1, 2012, are required to pay 1% more for each year less than 65 (age premium) and to pay the net difference between the active employee subsidy and the non-Medicare eligible retiree subsidy (subsidy premium). When the retiree becomes Medicare eligible, the age and subsidy premium no longer applies, but the years of service premium (if applicable to the retiree) will continue to be applied throughout retirement. These changes are being phased in over a 5 year period. The tobacco premium is \$50.00 per month for retired members that use tobacco.

The Board is required to contribute at a rate specified by the State for each active employee. The Board's share of premiums for retired Board employees health insurance is included as part of the premium for active employees. The following shows the required contributions in dollars and the percentage of that amount contributed for Board retirees:

Fiscal Year Ended September 30,	Active Health Insurance Premiums Paid By Board	Amount of Premium Attributable to Retirees	Percentage of Active Employee Premiums Attributable to Retirees	Total Amount Paid Attributable to Retirees	Percentage of Required Amount Contributed
2017	\$800.00	\$152.57	19.07%	\$1,167,366.87	100%
2016	\$780.00	\$221.21	27.08%	\$1,619,551.63	100%
2015	\$780.00	\$180.76	23.17%	\$1,368,215.19	100%

Each year the PEEHIB certifies to the Governor and to the Legislature the contribution rates based on the amount needed to fund coverage for benefits for the following fiscal year and the Legislature sets the premium rate in the annual appropriation bill. This results in a pay-as-you-go funding method.

Note 8 – Construction and Other Significant Commitments

As of September 30, 2017, the Board was obligated for the remaining amount unpaid under the following construction contract:

W. S. Neal High School – New Construction	\$1,868,089.84
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Notes to the Financial Statements
For the Year Ended September 30, 2017

Note 9 – Lease Obligations

Capital Leases

The Board is obligated under certain leases accounted for as a capital leases. Equipment under capital lease totaled \$2,506,449.00 at September 30, 2017. If the Board completes the lease payments according to the schedules below, which is the stated intent of the Board, ownership of the leased equipment will pass to the Board. Until that time, the leased equipment will be identified separately on the balance sheet. The following are schedules of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of September 30, 2017:

Fiscal Year Ending	Governmental Activities
September 30, 2018	\$ 276,584.04
2019	276,584.04
2020	276,584.04
2021	276,584.04
2022	276,584.04
2023-2027	1,221,580.04
Total Minimum Lease Payments	2,604,500.24
Less: Amount Representing Interest	230,991.88
Present Value of Net Minimum Lease Payments	<u>\$2,373,508.36</u>

Note 10 – Long-Term Debt

On April 1, 2013, the Board issued \$24,160,000 in Tax Anticipation Refunding Warrants, Series 2013 with interest rates from 2.00% to 5.00%, to refund/redeem the Series 2009 Warrants and provide funds for acquiring and constructing certain capital improvements.

The following is a summary of long-term debt transactions for the Board for the year ended September 30, 2017:

	Debt Outstanding 10/01/2016	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 09/30/2017	Amounts Due Within One Year
Governmental Activities:					
Warrants Payable:					
Series 2013 Warrants	\$22,970,000.00	\$	\$(500,000.00)	\$22,470,000.00	\$515,000.00
Capital Lease Contracts Payable		2,506,449.00	(132,940.64)	2,373,508.36	231,511.94
Net Pension Liability	37,903,000.00	1,113,000.00		39,016,000.00	
Total Governmental Activities Long-Term Liabilities	<u>\$60,873,000.00</u>	<u>\$3,619,449.00</u>	<u>\$(632,940.64)</u>	<u>\$63,859,508.36</u>	<u>\$746,511.94</u>

Notes to the Financial Statements
For the Year Ended September 30, 2017

Payments on the Series 2013 Warrants are made by the General Fund and the Debt Service Fund with local funds and Public School Funds. Payments on the capital lease are made from Fleet Renewal Fund allocation received from the Alabama Department of Education.

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

Fiscal Year Ending	Tax Anticipation Warrants, Series 2013		Capital Lease Contracts Payable		Total Principal and Interest Requirements to Maturity
	Principal	Interest	Principal	Interest	
September 30, 2018	\$ 515,000.00	\$ 861,637.50	\$ 231,511.94	\$ 45,072.10	\$ 1,653,221.54
2019	530,000.00	843,312.50	236,155.37	40,428.67	1,649,896.54
2020	555,000.00	821,612.50	240,891.95	35,692.09	1,653,196.54
2021	575,000.00	799,012.50	245,723.55	30,860.49	1,650,596.54
2022	600,000.00	775,512.50	250,652.03	25,932.01	1,652,096.54
2023-2027	3,405,000.00	3,466,475.00	1,168,573.52	53,006.52	8,093,055.04
2028-2032	4,045,000.00	2,831,543.75			6,876,543.75
2033-2037	4,905,000.00	1,974,100.00			6,879,100.00
2038-2042	5,990,000.00	888,000.00			6,878,000.00
2043	1,350,000.00	27,000.00			1,377,000.00
Totals	\$22,470,000.00	\$13,288,206.25	\$2,373,508.36	\$230,991.88	\$38,362,706.49

Pledged Revenues

The Board issued Tax Anticipation Warrants, Series 2013 which are pledged to be repaid from its 1) sales tax revenues, 2) 1 mill county-wide ad valorem taxes and 3) 3 mill district ad valorem taxes. Future revenues in the amount of \$35,758,206.25 are pledged to repay the principal and interest on the warrants at September 30, 2017. Pledged funds in the amount of \$1,376,862.50 were used to pay principal and interest on the warrants during the fiscal year ended September 30, 2017. This amount represents 32% of the pledged funds received by the Board during this fiscal year. The Series 2013 warrants will mature in fiscal year 2043.

Notes to the Financial Statements
For the Year Ended September 30, 2017

Note 11 – Risk Management

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

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

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

Notes to the Financial Statements
For the Year Ended September 30, 2017

Note 12 – Interfund Transfers

The amounts of interfund transfers during the fiscal year ending September 30, 2017, were as follows:

	Transfers Out			Totals
	General Fund	Special Revenue Fund	Capital Projects Fund	
Transfers In:				
General Fund	\$	\$90,757.49	\$	\$ 90,757.49
Special Revenue Fund	476,200.00			476,200.00
Other Governmental Funds			7,500.00	7,500.00
Totals	\$476,200.00	\$90,757.49	\$7,500.00	\$574,457.49

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

Note 13 – Subsequent Event

On February 12, 2018, the Board entered into a contract with Triptek Construction for building new concessions/toilets at Flomaton High School for a cost of \$725,800.00.

Required Supplementary Information

***Schedule of the Employer's Proportionate Share of the
Net Pension Liability
For the Year Ended September 30, 2017
(Dollar amounts in thousands)***

	2017	2016	2015
Employer's proportion of the net pension liability	0.360391%	0.362161%	0.364403%
Employer's proportionate share of the net pension liability	\$ 39,016	\$ 37,903	\$ 33,104
Employer's covered-employee payroll during the measurement period (*)	\$ 22,987	\$ 22,944	\$ 23,140
Employer's proportionate share of the collective net pension liability as a percentage of its covered-employee payroll	169.73%	165.20%	143.06%
Plan fiduciary net position as a percentage of the total collective pension liability	67.93%	67.51%	71.01%

(*) Employer's covered-employee payroll during the measurement period is the total covered payroll. (See GASB Statement Number 82.) For fiscal year 2017, the measurement period is October 1, 2015 through September 30, 2016.

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

Schedule of the Employer's Contributions
For the Year Ended September 30, 2017
(Dollar amounts in thousands)

	2017	2016	2015
Contractually required contribution	\$ 2,826	\$ 2,709	\$ 2,673
Contributions in relation to the contractually required contribution	<u>\$ 2,826</u>	<u>\$ 2,709</u>	<u>\$ 2,673</u>
Contribution deficiency (excess)	\$	\$	\$
Employer's covered-employee payroll	\$ 23,977	\$ 22,987	\$ 22,944
Contributions as a percentage of covered-employee payroll	11.79%	11.78%	11.65%

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

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended September 30, 2017***

	Budgeted Amounts		Actual Amounts
	Original	Final	Budgetary Basis
Revenues			
State	\$ 27,112,584.00	\$ 27,025,948.00	\$ 27,312,247.52
Federal			139,458.72
Local	9,312,209.00	9,319,759.00	10,634,331.96
Other	7,126.00	7,126.00	66,421.80
Total Revenues	<u>36,431,919.00</u>	<u>36,352,833.00</u>	<u>38,152,460.00</u>
Expenditures			
Current:			
Instruction	21,618,055.00	21,742,184.00	21,058,140.47
Instructional Support	6,241,897.00	6,390,492.00	6,184,015.75
Operation and Maintenance	4,279,296.00	4,564,988.00	4,393,412.51
Auxiliary Services:			
Student Transportation	3,977,796.00	4,009,469.00	3,215,323.41
Food Service			
General Administrative and Central Support	1,583,888.00	1,662,765.00	1,440,046.90
Other	444,549.00	375,869.00	595,162.38
Capital Outlay	1,856,464.00	2,634,854.00	1,460,624.20
Debt Service:			
Principal Retirement	115,000.00	115,000.00	115,000.00
Interest and Fiscal Charges	876,863.00	876,863.00	876,862.50
Total Expenditures	<u>40,993,808.00</u>	<u>42,372,484.00</u>	<u>39,338,588.12</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(4,561,889.00)</u>	<u>(6,019,651.00)</u>	<u>(1,186,128.12)</u>
Other Financing Sources (Uses)			
Indirect Cost	271,867.00	273,739.00	280,251.49
Transfers In	97,200.00	96,240.00	90,757.49
Other Financing Sources		98,583.00	192,335.80
Sale of Capital Assets			76,740.70
Transfers Out	(484,800.00)	(486,000.00)	(476,200.00)
Other Financing Uses		(98,583.00)	
Total Other Financing Sources (Uses)	<u>(115,733.00)</u>	<u>(116,021.00)</u>	<u>163,885.48</u>
Net Changes in Fund Balances	<u>(4,677,622.00)</u>	<u>(6,135,672.00)</u>	<u>(1,022,242.64)</u>
Fund Balances - Beginning of Year	<u>11,660,401.00</u>	<u>11,603,206.00</u>	<u>11,603,206.84</u>
Fund Balances - End of Year	<u>\$ 6,982,779.00</u>	<u>\$ 5,467,534.00</u>	<u>\$ 10,580,964.20</u>

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	\$	\$ 27,312,247.52
		139,458.72
		10,634,331.96
		66,421.80
		<u>38,152,460.00</u>
(1)	12,300.62	21,045,839.85
(1)	24,104.68	6,159,911.07
(1)	4,920.18	4,388,492.33
(1)	(12,289.82)	3,227,613.23
(1)	3,975.36	1,436,071.54
(1)	(21,088.59)	616,250.97
		1,460,624.20
		115,000.00
		876,862.50
	<u>11,922.43</u>	<u>39,326,665.69</u>
	<u>11,922.43</u>	<u>(1,174,205.69)</u>
		280,251.49
		90,757.49
		192,335.80
		76,740.70
		(476,200.00)
		<u>163,885.48</u>
	11,922.43	(1,010,320.21)
(2)	<u>(2,859,600.00)</u>	<u>8,743,606.84</u>
	<u>\$ (2,847,677.57)</u>	<u>\$ 7,733,286.63</u>

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended September 30, 2017***

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

Except for the following, the Board budgets on the modified accrual basis of accounting:

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

Net Change in Fund Balance - Budget to GAAP

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

\$ 11,922.43

\$ 11,922.43

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Special Revenue Fund
For the Year Ended September 30, 2017***

	Budgeted Amounts		Actual Amounts Budgetary Basis
	Original	Final	
Revenues			
Federal	\$ 5,993,181.00	\$ 6,473,796.06	\$ 5,928,844.20
Local	2,491,307.00	2,517,095.00	2,065,106.66
Other	90,322.00	90,322.00	55,714.73
Total Revenues	<u>8,574,810.00</u>	<u>9,081,213.06</u>	<u>8,049,665.59</u>
Expenditures			
Current:			
Instruction	2,781,363.00	2,972,533.18	2,649,365.68
Instructional Support	1,335,340.00	1,442,530.94	1,193,903.36
Operation and Maintenance	249,655.00	296,864.00	204,056.01
Auxiliary Services:			
Student Transportation	81,841.00	101,373.00	49,722.09
Food Service	3,455,653.00	3,457,653.00	3,361,579.89
General Administrative and Central Support	207,084.00	230,331.00	195,806.47
Other	619,163.00	920,718.94	744,002.32
Capital Outlay	19,250.00	68,556.00	27,769.95
Total Expenditures	<u>8,749,349.00</u>	<u>9,490,560.06</u>	<u>8,426,205.77</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(174,539.00)</u>	<u>(409,347.00)</u>	<u>(376,540.18)</u>
Other Financing Sources (Uses)			
Transfers In	686,061.00	693,141.00	476,200.00
Transfers Out	(294,361.00)	(303,381.00)	(90,757.49)
Other Fund Uses	(11,849.00)	(12,949.00)	
Total Other Financing Sources (Uses)	<u>379,851.00</u>	<u>376,811.00</u>	<u>385,442.51</u>
Net Changes in Fund Balances	205,312.00	(32,536.00)	8,902.33
Fund Balances - Beginning of Year	<u>2,081,262.00</u>	<u>2,365,202.00</u>	<u>2,365,202.24</u>
Fund Balances - End of Year	<u>\$ 2,286,574.00</u>	<u>\$ 2,332,666.00</u>	<u>\$ 2,374,104.57</u>

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	\$	\$ 5,928,844.20
		2,065,106.66
		55,714.73
		<u>8,049,665.59</u>
		2,649,365.68
		1,193,903.36
		204,056.01
		49,722.09
(1)	1,884.28	3,359,695.61
		195,806.47
		744,002.32
		27,769.95
	<u>1,884.28</u>	<u>8,424,321.49</u>
	<u>1,884.28</u>	<u>(374,655.90)</u>
		476,200.00
		(90,757.49)
		<u>385,442.51</u>
	1,884.28	10,786.61
(2)	<u>(107,297.41)</u>	<u>2,257,904.83</u>
	<u>\$ (105,413.13)</u>	<u>\$ 2,268,691.44</u>

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Special Revenue Fund
For the Year Ended September 30, 2017***

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

Except for the following, the Board budgets on the modified accrual basis of accounting:

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

Net Change in Fund Balance - Budget to GAAP

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

\$ 1,884.28

\$ 1,884.28

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Supplementary Information

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2017***

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
<u>U. S. Department of Education</u>		
<u>Passed Through Alabama Department of Education</u>		
Special Education Cluster:		
Special Education - Grants to States	84.027	N.A.
Special Education - Preschool Grants	84.173	N.A.
Sub-Total Special Education Cluster		
Title I Grants to Local Educational Agencies	84.010	N.A.
Career and Technical Education - Basic Grants to States	84.048	N.A.
Twenty-First Century Community Learning Centers	84.287	N.A.
Rural Education	84.358	N.A.
Supporting Effective Instruction - State Grants	84.367	N.A.
<u>Passed Through Alabama Department of Early Childhood Education</u>		
Preschool Development Grants	84.419	N.A.
Total U. S. Department of Education		
<u>U. S. Department of Agriculture</u>		
<u>Passed Through Alabama Department of Education</u>		
Child Nutrition Cluster:		
National School Lunch Program:		
Cash Assistance	10.555	N.A.
Non-Cash Assistance (Commodities)	10.555	N.A.
Sub-Total National School Lunch Program		
School Breakfast Program - Cash Assistance	10.553	N.A.
Sub-Total Child Nutrition Cluster (M)		
State Administrative Expenses for Child Nutrition	10.560	N.A.
<u>Passed Through Escambia County Commission</u>		
Schools and Roads - Grants to States	10.665	N.A.
Total U. S. Department of Agriculture		
Sub-Total Forward		

<u>Pass-Through to Subrecipient</u>	<u>Total Federal Expenditures</u>
N.A.	\$ 1,025,421.65
N.A.	26,564.00
	<u>1,051,985.65</u>
N.A.	1,712,642.90
N.A.	88,456.00
N.A.	251,070.15
N.A.	98,805.00
N.A.	303,889.13
N.A.	258,003.64
	<u>3,764,852.47</u>
N.A.	1,670,242.65
N.A.	204,358.06
	<u>1,874,600.71</u>
N.A.	594,159.57
	<u>2,468,760.28</u>
N.A.	17,796.86
N.A.	40,784.33
	<u>2,527,341.47</u>
	\$ 6,292,193.94

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2017***

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
Sub-Total Brought Forward		
<u>Social Security Administration</u> <u>Passed Through Alabama Department of Education</u>		
Social Security - Disability Insurance	96.001	N.A.
<u>General Services Administration</u> <u>Passed Through Alabama Department of Economic and Community Affairs</u>		
Donation of Federal Surplus Personal Property (N)	39.003	N.A.
Total Expenditures of Federal Awards		

(M) = Major Program

(N) = Non-Cash Assistance

N.A. = Not Available or Not Applicable

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



<u>Pass-Through to Subrecipient</u>	<u>Total Federal Expenditures</u>
	\$ 6,292,193.94
N.A.	1,538.00
N.A.	<u>2,446.84</u>
	<u>\$ 6,296,178.78</u>

***Notes to the Schedule of Expenditures
of Federal Awards
For the Year Ended September 30, 2017***

Note 1 – Basis of Presentation

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

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the *Uniform Guidance* wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Escambia County Board of Education has not elected to use the 10-percent de minimis indirect cost rate as allowed in the *Uniform Guidance*; instead the Escambia County Board of Education is using an indirect cost rate approved by the Alabama Department of Education.

Additional Information

Board Members and Administrative Personnel
October 1, 2016 through September 30, 2017

Board Members **Term Expires**

Hon. Willie J. Grissett	Chairman	2020
Hon. Kevin Hoomes	Member	2020
Hon. Sherry Digmon	Member	2016
Hon. David Nolin	Member	2022
Hon. Danny Benjamin	Member	2018
Hon. Cindy Jackson	Member	2022
Hon. Mike Edwards	Member	2018
Hon. Coleman Wallace	Member	2018

Administrative Personnel

John J. Knott	Superintendent	2020
Julie Madden	Chief School Finance Officer	Indefinite

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

Independent Auditor's Report

Members of the Escambia County Board of Education,
Superintendent and Chief School Financial Officer
Brewton, 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 the Escambia County Board of Education, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Escambia County Board of Education's basic financial statements, and have issued our report thereon dated April 24, 2018.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

April 24, 2018

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

Independent Auditor's Report

Members of the Escambia County Board of Education,
Superintendent and Chief School Financial Officer
Brewton, Alabama

Report on Compliance for Each Major Federal Program

We have audited the Escambia County Board of Education's compliance with the types of compliance requirements described in the ***OMB Compliance Supplement*** that could have a direct and material effect on the Escambia County Board of Education's major federal program for the year ended September 30, 2017. The Escambia County Board of Education's major federal program is identified in the Summary of Examiner's Results Section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

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

Opinion on the Major Federal Program

In our opinion, the Escambia County Board of Education complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2017.

Report on Internal Control Over Compliance

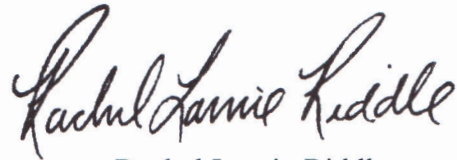
Management of the Escambia County Board of Education is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Escambia County Board of Education's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for 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 Escambia County Board of Education's internal control over compliance.

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

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

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

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



Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

April 24, 2018

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2017

Section I – Summary of Examiner's Results

Financial Statements

Type of opinion issued: Unmodified

Internal control over financial reporting:
 Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:
 Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified? _____ Yes X None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) of the *Uniform Guidance*? _____ Yes X No

Identification of major programs:

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

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000.00

Auditee qualified as low-risk auditee? X Yes _____ No

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2017

Section II – Financial Statement Findings (GAGAS)

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

Section III – Federal Awards Findings and Questioned Costs

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