Report on the

Escambia County
Board of Education

Escambia County, Alabama

October 1, 2017 through September 30, 2018

Filed: May 24, 2019

Department of
Examiners of Public Accounts

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Rachel Laurie Riddle, Chief Examiner

19-149

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Rachel Laurie Riddle
Chief Examiner

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

Dear Madam:

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

Sworn to and subscribed before me this
the 29 day of April, 2019.

Cathy Garner
Notary Public
Cathy Garner
My Commission Expires
March 19, 2022

Sworn to and subscribed before me this
the 3rd day of May, 2019.

Kristen Peacock
Notary Public

KRISTEN A PEACOCK
Notary Public, Alabama State At Large
My Commission Expires
August 25, 2019

Respectfully submitted,

David Quick
Examiner of Public Accounts

Misty Medders
Examiner of Public Accounts

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Department of
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SUMMARY

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

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 15. 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 programs. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards*** issued by the Comptroller General of the United States as well as the requirements of the Department of Examiners of Public Accounts under the authority of the ***Code of Alabama 1975***, Section 41-5A-12, as added by Act Number 2018-129.

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

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

Board members and administrative personnel, as reflected on Exhibit 15, were invited discuss the results of this report at an exit conference. Individuals in attendance were: Superintendent: John J. Knott; Chief School Financial Officer: Julie Madden; Board Members: Kevin Hoomes, Willie J. Grissett, Cindy Jackson, and Danny Benjamin. Also in attendance were representatives of the Department of Examiners of Public Accounts: Christina Smith, Audit Manager and David Quick, 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, 2018, 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, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 12 to the financial statements, during the fiscal year ended 2018, the Escambia County Board of Education adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement Number 75, ***Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions***, as amended by GASB Statement Number 85, ***Omnibus 2017***. Our opinion on the basic financial statements is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying Management's Discussion and Analysis (MD&A), the Schedule of the Employer's Proportionate Share of the Collective Net Pension Liability, the Schedule of the Employer's Proportionate Share of the Collective Net Other Postemployment Benefits (OPEB) Liability, the Schedules of the Employer's Contributions, and the Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual, (Exhibits 8 through 13), be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Escambia County Board of Education's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 14), 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, 2019, 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

Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

April 24, 2019

Management's Discussion and Analysis (Required Supplementary Information)

ESCAMBIA COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2018

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, 2018. 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 (2017-2018) and the prior year (2016-2017) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights of the 2017-2018 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 2018 fiscal year by $42.83 million (deficit net position). Of this amount, the unrestricted net position is a deficit $67.62 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 $34.3 million. The deficit is also the result of the implementation of GASB Statement Number 75 which required the reporting of the Board's share of the OPEB Liability and related amounts in the net amount of $41.24 million. The pension and OPEB amounts have a combined effect of $75.54 million.

- At the end of the fiscal year, the Board's governmental funds reported combined ending fund balances of $12.6 million. Approximately $6.7 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.

<u>Governmental funds</u> – 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.

<u>Fiduciary funds</u> – 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 and OPEB activity of the Board, which include the Schedule of Proportionate Share of the Collective Net Pension Liability, the Schedule of Proportionate Share of the Collective Net OPEB Liability and the Schedules 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.

Special Revenue Funds are 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.

Debt Service Funds are 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. Debt Service Funds should be used to report resources if legally mandated.

Capital Projects Funds are 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 2017	FY 2018	Variance
Current Assets	$22,312,078	$20,680,816	($1,631,262)
Capital Assets, Net of Depreciation	43,542,110	44,470,074	927,964
Total Assets	$65,854,188	$65,150,890	($703,298)
Employer Pension Contribution	2,826,070	2,865,781	39,711
Proportionate Share of Collective Deferred Outflows Related to Net Pension Liability	3,319,000	2,171,000	(1,148,000)
Employer OPEB Contribution	0	1,229,180	1,229,180
Total Deferred Outflows of Resources	$6,145,070	$6,265,961	$120,891
Current Liabilities	$3,406,797	$3,437,397	30,600
Noncurrent Liabilities	63,859,508	96,159,449	32,299,941
Total Liabilities	$67,266,305	$99,596,846	$32,330,541
Unavailable Revenue-Property Taxes	$4,600,000	$4,900,000	$300,000
Proportionate Share of Collective Deferred Inflows Related to Net Pension Liability	1,296,000	3,852,000	2,556,000
Proportionate Share of Collective Deferred Inflows Related to Net OPEB Liability	0	5,895,272	5,895,272
Total Deferred Inflows of Resources	$5,896,000	$14,647,272	$8,751,272
Net Position			
Net Investment in Capital Assets	$20,579,816	$21,731,286	$1,151,470
Restricted	3,960,642	3,065,014	(895,628)
Unrestricted	(25,703,505)	(67,623,567)	(41,920,062)
Total Net Position	**($1,163,047)**	**($42,827,267)**	**($41,664,220)**

The Board's assets and deferred outflows of resources were less than liabilities and deferred inflows of resources by $42,827,267 at the close of fiscal year 2018. The majority of the Board's net position is 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 $67,623,567 at the end of fiscal year 2018. 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 $34,299,219 for fiscal year 2018. GASB Statement Number 75 requires the inclusion of the Net OPEB Liability (included in noncurrent Liabilities), Employer OPEB Contribution (reported as a deferred outflow of resources), and the Proportionate Share of Collective Deferred Inflows Related to Net OPEB Liability (reported as a deferred inflow of resources), a net reduction to unrestricted net position of $41,244,545 for fiscal year 2018. 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 2017 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, 2017, and September 30, 2018.

Table 2
Escambia County Board of Education
Changes in Net Position

	FY 2017	FY 2018	Variance
REVENUES			
Program Revenues:			
Charges for Services	$4,067,279	$4,049,782	($17,497)
Operating Grants and Contributions	31,091,234	30,834,774	(256,460)
Capital Grants and Contributions	1,373,821	1,573,580	199,759
General Revenues:			
Property Taxes - General	6,212,586	6,410,285	197,699
Sales & Use Tax - General	2,816,775	3,072,646	255,871
Miscellaneous Taxes	702,446	750,067	47,621
Grants and Contributions - Non Restricted	45,207	73,417	28,210
Investment Earnings	84,308	74,094	(10,214)
Miscellaneous	1,394,814	1,161,972	(232,842)
Total Revenues	**$47,788,470**	**$48,000,618**	**$212,148**
EXPENSES			
Governmental Activities:			
Instruction	$25,611,169	$25,589,933	($21,236)
Instructional Support	7,584,077	7,457,128	(126,949)
Operation and Maintenance	4,890,514	4,627,075	(263,439)
Food Service	3,286,201	3,318,499	32,298
Transportation	3,854,953	3,943,357	88,404
General Administration and Central Support	1,925,058	2,009,072	84,014
Other	1,352,183	1,190,599	(161,584)
Interest on Long-Term Debt	903,539	901,240	(2,299)
Total Expenses	**$49,407,694**	**$49,036,904**	**($370,790)**
Change in Net Position	**($1,619,224)**	**($1,036,286)**	**$582,938**
Net Position - Beginning of year, As Restated	**$456,177**	**($41,790,981)**	**($42,247,158)**
Net Position - End of year	**($1,163,047)**	**($42,827,267)**	**($41,664,220)**

Beginning Net Position was restated due to the implementation of GASB Statement Number 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The net amount of the restatement was $40,627,934. (See Note 12 – Restatement for additional information.)

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 $12,578,768 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 $49,036,904. The net cost of providing these services was offset by various program revenues to include charges for services, operating grants and capital grants ($36,458,136). The net cost of governmental activities was a negative $12,578,768. 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 2017		FY 2018	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction	$25,611,169	($4,942,665)	$25,589,933	($4,634,482)
Instructional Support	7,584,077	(2,267,337)	7,457,128	(2,132,306)
Operation and Maintenance	4,890,514	(2,876,426)	4,627,075	(2,720,178)
Auxiliary Services:				
Food Services	3,286,201	(405,402)	3,318,499	(464,975)
Transportation	3,854,953	(421,068)	3,943,357	(404,675)
General Administration and Central Support	1,925,058	(906,465)	2,009,072	(1,030,098)
Other	1,352,183	(152,458)	901,240	(290,814)
Interest on Long-Term Debt	903,539	(903,539)	1,190,599	(901,240)
Total	**$49,407,694**	**($12,875,360)**	**$49,036,904**	**($12,578,768)**

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 $12.6 million (as shown in Exhibit #3). Approximately $6.70 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 Pre-Kindergarten through grade 12 including pupil transportation. The General Fund ended FY 2018 with a fund balance of $7.45 million. The General Fund balance only decreased by approximately $278 thousand this year primarily due to the following reasons:

- Decrease in mandated Foundation Program transfer to Child Nutrition Program by approximately $701 thousand from $971,358 to $270,358 in FY 2018 as compared to $475,000 in FY 2017.
- Decrease in General Fund expenditures of $376,208, enhanced by an increase in General Fund revenues of $319,341. Local revenues accounted for approximately $464,853 of this increase, mainly attributable to an increase in County-wide sales tax and ad valorem tax collections during FY 2018.

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

General Fund Revenues
Table 4

	FY 2017	FY 2018	Variance
State	$27,312,247	$27,172,634	($139,613)
Federal	139,459	144,315	4,856
Local	10,634,332	11,099,185	464,853
Other	66,422	55,668	(10,755)
Total	$38,152,460	$38,471,801	$319,341

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

Table 5

	FY 2017	FY 2018	Variance
Instruction	$21,045,840	$21,227,426	$181,586
Instructional Support	6,159,911	6,057,198	(102,713)
Operation & Maintenance	4,388,492	4,169,675	(218,817)
Transportation	3,227,613	3,281,690	54,077
General Administration & Central Support	1,436,072	1,493,569	57,497
Other	616,251	589,496	(26,755)
Capital Outlay	1,460,624	1,139,765	(320,859)
Debt Service: Retirement of Debt; Interest & Fiscal Charges	991,862	991,638	(224)
Total	$39,326,665	$38,950,457	($376,208)

***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 a decrease in this fund of approximately $352 thousand for FY 2018. The revenues decreased by approximately $172 thousand and expenditures decreased by approximately $30 thousand, while net transfers into this fund decreased by approximately $205 thousand. The mandated Foundation transfer to the Child Nutrition Program was decreased by approximately $701 thousand as calculated and approved by the State Department of Education due to the 3.39 months' operating balance of the CNP fund in FY 2017. Federal Title funds experienced a slight decreases in revenues for FY 2018. The Special Revenue Fund ended the year with a healthy fund balance of $1,916,359.

***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 $1.35 million in FY 2018, 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 $2,526,546.

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 2018 budget to be submitted by September 15, 2017. The original 2018 fiscal year budget, adopted on September 14, 2017, was based on conservative revenue estimates. Locally funded teacher units increased by .62 units in FY 2018; thereby, increasing the total number of locally-funded units to 15.70. Included in this total were the four locally-funded teacher units assigned to 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 14, 2018 (Amendment #1). The primary reasons for Amendment #1 were to budget for Federal carryover funds, various grants and the reduction in the State Mandated CNP Transfer. 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, 2018, amounted to $44,470,074, 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 $928 thousand for the 2018 fiscal year. The non-depreciable assets of the Board increased by approximately $588 thousand attributable to continued construction in progress. The Board expended available resources to acquire $2.36 million in capital asset additions. These additions are reduced by the current year's depreciation expense of $2 million.

Capital Assets (Net of Depreciation)

	FY 2017	FY 2018	Variance
Land	$923,039	$923,039	$0
Land Improvements (Inexhaustible	109,664	109,664	0
Land Improvements (Exhaustible)	104,553	69,726	(34,827)
Buildings	15,644,830	15,196,958	(447,872)
Building Improvements	7,216,760	8,267,636	1,050,876
Equipment	2,951,785	2,973,940	22,155
Assets Under Capital Lease	2,255,805	2,005,161	(250,644)
Construction in Progress	14,335,674	14,923,950	588,276
	$43,542,110	$44,470,074	$927,964

Long-Term Debt – At year-end, the Board had $21,955,000 in warrants payable. This is a decrease of $515 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. $231,512 was paid on this lease purchase agreement during fiscal year 2018. 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 $35,484,000. Beginning with FY 2018, GASB Statement Number 75 requires the inclusion of the Net OPEB Liability with the Board's governmental activities long-term debt. At year-end, the Board's Net OPEB Liability was $36,578,453. More information with regard to the Board's long-term debt is presented in the *Notes to the Financial Statements, Note 9 – 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 2017 Financial Statement was posted on June 4, 2018 and the FY 2017 Audit Report was posted on June 18, 2018. Utilizing the EMMA Dataport Submission Portal, the FY 2018 Budget was posted on December 15, 2017 and the FY 2018 Budget Amendment #1 was posted on November 16, 2018. The FY 2018 Financial Statement (SDE Approved) was posted to EMMA on February 15, 2019. The FY 2019 Budget was posted on November 16, 2018. The FY 2018 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 (S&P) 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." On January 22, 2018, S&P Global Ratings Services published its revised criteria for assigning Issue Credit Ratings on Obligations that are linked to the Creditworthiness of U. S. Public Finance Obligors. Upon publishing the Ratings Linked Methodology, S&P's "Special Tax" criteria was superseded. S&P was then required to review the Board's Series 2013 Tax Anticipation Warrants using their new GO criteria, and then apply the Ratings Linked criteria to determine the final rating outcome. On April 10, 2018, S&P Global Ratings affirmed its 'A+' long-term rating and "stable outlook" on the Escambia County Board of Education special tax school warrants.

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 $3.5 million in FY2018 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 county-wide tax. However, the 4- mill tax referendum passed for all districts (1, 2, 3 and A) 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 2017 (4,498) and FY 2018 (4,422) shows a decrease in enrollment of 76 students. The decrease in enrollment resulted in a loss of 4.62 state-funded Foundation Program units for the 2018 fiscal year. Enrollment decreased from FY 2018 to FY 2019 (4,268) by 154 students. This decrease in enrollment resulted in a net loss of 7.97 state-funded Foundation Program units for the 2019 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 did not experience any changes for fiscal year 2018. PEEHIP costs remained at $800 per employee per month ($9,600 per year) for FY 2018. 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 2019 did not experience a change from FY 2018.

Employer contributions to the Teachers Retirement System (TRS) experienced changes in both Tiers in FY 2018. 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 2018, Tier I increased to 12.24 percent from 12.01 percent in FY17 and Tier II increased to 11.01 percent from 10.84 percent. In FY 2019, Tier I increased to 12.41 percent, and Tier II increased to 11.35 percent.

State-Mandated Raise – Governor Kay Ivey approved a 2.50 percent pay raise for teachers and support staff for FY 2018-19 (Act 2018-356) effective October 1, 2018. The Escambia County Board of Education approved at its regular meeting on June 26, 2018, to begin the 2.50 percent raise with the employee's contract year (effective July 1, 2018 through September 30, 2018) at an approximate cost of $80,729 (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 (251) 867-6251, extension 1009.

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Basic Financial Statements

Statement of Net Position
September 30, 2018

		Governmental Activities
Assets		
Cash and Cash Equivalents	$	7,771,093.45
Cash with Fiscal Agent		2,018,405.58
Investments		4,444,764.40
Ad Valorem Property Taxes Receivable		4,940,541.54
Receivables (Note 4)		1,382,120.65
Inventories		123,890.49
Capital Assets (Note 5):		
Nondepreciable		15,956,652.87
Depreciable, Net		28,513,421.37
Total Assets		65,150,890.35
Deferred Outflows of Resources		
Employer Pension Contribution		2,865,780.95
Proportionate Share of Collective Deferred Outflows Related to Net Pension Liability		2,171,000.00
Employer Other Postemployment Benefit (OPEB) Contribution		1,229,180.00
Total Deferred Outflows of Resources		6,265,960.95
Liabilities		
Accounts Payable		157,514.25
Unearned Revenue		16,311.53
Salaries and Benefits Payable		2,975,977.44
Accrued Interest Payable		287,594.02
Long-Term Liabilities:		
Portion Payable Within One Year		766,155.37
Portion Payable After One Year		95,393,294.05
Total Liabilities		99,596,846.66
Deferred Inflows of Resources		
Unavailable Revenue - Property Taxes		4,900,000.00
Proportionate Share of Collective Deferred Inflows Related to Net Pension Liability		3,852,000.00
Proportionate Share of Collective Deferred Inflows Related to OPEB Liability		5,895,272.00
Total Deferred Inflows of Resources	$	14,647,272.00

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

	Governmental Activities
Net Position	
Net Investment in Capital Assets	$ 21,731,285.79
Restricted for:	
Debt Service	445,512.48
Capital Projects	1,211,669.72
Child Nutrition	698,825.41
Other Purposes	709,006.52
Unrestricted	(67,623,567.28)
Total Net Position	$ (42,827,267.36)

Statement of Activities
For the Year Ended September 30, 2018

			Program Revenues	
Functions/Programs		**Expenses**	**Charges for Services**	**Operating Grants and Contributions**
Governmental Activities				
Instruction	$	25,589,933.40	$ 554,352.59	$ 19,586,518.32
Instructional Support		7,457,127.71	286,482.77	5,038,339.14
Operation and Maintenance		4,627,075.25	189,249.85	1,591,280.63
Auxiliary Services:				
Student Transportation		3,943,357.21	73,926.81	2,988,987.75
Food Service		3,318,498.81	2,694,638.75	158,884.60
General Administration and Central Support		2,009,072.47	19,687.89	802,421.44
Interest on Long-Term Debt		901,240.10		
Other		1,190,599.10	231,443.15	668,342.21
Total Governmental Activities	$	49,036,904.05	$ 4,049,781.81	$ 30,834,774.09

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, as Restated (Note 12)

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
$ 814,580.48	$ (4,634,482.01)
	(2,132,305.80)
126,366.44	(2,720,178.33)
475,768.00	(404,674.65)
	(464,975.46)
156,865.08	(1,030,098.06)
	(901,240.10)
	(290,813.74)
$ 1,573,580.00	(12,578,768.15)
	6,410,285.44
	3,072,645.86
	73,951.07
	676,116.13
	73,417.44
	74,094.14
	1,161,972.18
	11,542,482.26
	(1,036,285.89)
	(41,790,981.47)
	$ (42,827,267.36)

Balance Sheet
Governmental Funds
September 30, 2018

	General Fund	Special Revenue Fund
Assets		
Cash and Cash Equivalents	$ 5,890,742.44	$ 639,103.40
Cash with Fiscal Agent		
Investments	4,346,991.65	97,772.75
Ad Valorem Property Taxes Receivable	4,940,541.54	
Receivables (Note 4)	152,238.48	1,229,882.17
Inventories		123,890.49
Total Assets	15,330,514.11	2,090,648.81
Liabilities, Deferred Inflows of Resources and Fund Balances		
Liabilities		
Accounts Payable	135,611.35	21,902.90
Unearned Revenues		16,311.53
Salaries and Benefits Payable	2,839,902.93	136,074.51
Total Liabilities	2,975,514.28	174,288.94
Deferred Inflows of Resources		
Unavailable Revenues - Property Taxes	4,900,000.00	
Total Deferred Inflows of Resources	4,900,000.00	
Fund Balances		
Nonspendable:		
Inventories		123,890.49
Restricted for:		
Debt Service		
Capital Projects	43,331.00	
Child Nutrition Program		574,934.92
Other Purposes	709,006.52	
Assigned to:		
Local Schools		1,217,534.46
Unassigned	6,702,662.31	
Total Fund Balances	7,454,999.83	1,916,359.87
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 15,330,514.11	$ 2,090,648.81

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

Capital Projects Fund	Other Governmental Fund	Total Governmental Funds
$ 1,241,214.66	$ 32.95	$ 7,771,093.45
1,285,332.03	733,073.55	2,018,405.58
		4,444,764.40
		4,940,541.54
		1,382,120.65
		123,890.49
2,526,546.69	733,106.50	20,680,816.11
		157,514.25
		16,311.53
		2,975,977.44
		3,149,803.22
		4,900,000.00
		4,900,000.00
		123,890.49
	733,106.50	733,106.50
2,526,546.69		2,569,877.69
		574,934.92
		709,006.52
		1,217,534.46
		6,702,662.31
2,526,546.69	733,106.50	12,631,012.89
$ 2,526,546.69	$ 733,106.50	$ 20,680,816.11

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

Total Fund Balances - Governmental Funds (Exhibit 3)			$ 12,631,012.89
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		$ 83,016,788.56	
Less: Accumulated Depreciation		(38,546,714.32)	
			44,470,074.24
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.			1,184,780.95
Deferred outflows and inflows of resources related to other postemployment benefits (OPEB) are applicable to future periods and, therefore, are not reported in the governmental funds.			(4,666,092.00)
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	$ 530,000.00	21,425,000.00	
Capital Lease Contracts Payable	236,155.37	1,905,841.05	
Net Pension Liability		35,484,000.00	
Net OPEB Liability		36,578,453.00	
Accrued Interest Payable	287,594.02		
	$ 1,053,749.39	$ 95,393,294.05	(96,447,043.44)
Total Net Position - Governmental Activities (Exhibit 1)			$ (42,827,267.36)

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

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

	General Fund	Special Revenue Fund
Revenues		
State	$ 27,172,634.16	$
Federal	144,314.84	5,826,699.13
Local	11,099,184.75	1,972,090.89
Other	55,667.50	78,514.33
Total Revenues	38,471,801.25	7,877,304.35
Expenditures		
Current:		
Instruction	21,227,426.34	2,683,206.27
Instructional Support	6,057,197.79	1,218,431.26
Operation and Maintenance	4,169,674.90	164,870.42
Auxiliary Services:		
Student Transportation	3,281,690.26	49,853.43
Food Service		3,371,454.37
General Administration and Central Support	1,493,569.44	259,385.25
Other	589,495.87	593,742.12
Capital Outlay	1,139,764.55	53,735.82
Debt Service:		
Principal Retirement	130,000.00	
Interest and Fiscal Charges	861,637.50	
Total Expenditures	38,950,456.65	8,394,678.94
Excess (Deficiency) of Revenues Over Expenditures	(478,655.40)	(517,374.59)
Other Financing Sources (Uses)		
Indirect Cost	306,761.78	
Transfers In	105,314.98	270,358.00
Other Sources	57,328.24	
Sale of Capital Assets	1,321.60	
Transfers Out	(270,358.00)	(105,314.98)
Total Other Financing Sources (Uses)	200,368.60	165,043.02
Net Changes in Fund Balances	(278,286.80)	(352,331.57)
Fund Balances - Beginning of Year	7,733,286.63	2,268,691.44
Fund Balances - End of Year	$ 7,454,999.83	$ 1,916,359.87

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

	Capital Projects Fund	Other Governmental Fund	Total Governmental Funds
	$ 1,185,469.00	$ 385,000.00	$ 28,743,103.16
			5,971,013.97
	19,023.61	4,691.71	13,094,990.96
			134,181.83
	1,204,492.61	389,691.71	47,943,289.92
			23,910,632.61
			7,275,629.05
	238,941.25		4,573,486.57
			3,331,543.69
			3,371,454.37
	279,541.00		2,032,495.69
			1,183,237.99
	1,750,831.29		2,944,331.66
	231,511.94	385,000.00	746,511.94
	45,072.10		906,709.60
	2,545,897.58	385,000.00	50,276,033.17
	(1,341,404.97)	4,691.71	(2,332,743.25)
			306,761.78
		7,500.00	383,172.98
			57,328.24
			1,321.60
	(7,500.00)		(383,172.98)
	(7,500.00)	7,500.00	365,411.62
	(1,348,904.97)	12,191.71	(1,967,331.63)
	3,875,451.66	720,914.79	14,598,344.52
	$ 2,526,546.69	$ 733,106.50	$ 12,631,012.89

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

Net Changes in Fund Balances - Total Governmental Funds (Exhibit 5)			$	(1,967,331.63)
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 ($2,944,331.66) differed from depreciation ($2,002,557.95) in the current period.				941,773.71
Repayment of warrant principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.				746,511.94
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	$	(1,321.60)		
Gain/(Loss) on Disposition of Capital Assets		(12,487.86)		(13,809.46)
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	$	5,469.50		
Net Change in Pension Expense		(132,288.95)		
Net Change in Other Postemployment Benefits Expense		(616,611.00)		
				(743,430.45)
Change in Net Position of Governmental Activities (Exhibit 2)			$	(1,036,285.89)

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

Statement of Fiduciary Net Position
September 30, 2018

		Agency Funds
Assets		
Cash and Cash Equivalents	$	118,698.55
Total Assets		118,698.55
Liabilities		
Accounts Payable		70,531.14
Salaries and Benefits Payable		47,367.41
Other Liabilities		800.00
Total Liabilities	$	118,698.55

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

Note 1 – Summary of Significant Accounting Policies

The financial statements of the 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.

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.

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.

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.

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.

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 Statement of Net Position.

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. 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.

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.

E. Pensions

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

F. Postemployment Benefits Other than Pensions (OPEB)

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

Note 2 – Stewardship, Compliance, and Accountability

Budgets

Budgets are adopted on a basis of accounting consistent with accounting principles generally accepted in the United States of America (GAAP) for the General Fund and 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.

B. Cash with Fiscal Agent

The Board reports cash with fiscal agent in its cash and cash equivalents. As of September 30, 2018, the Board had the following cash with fiscal agent:

Investment	Maturity	Fair Value
Regions Trust Cash Sweep	N/A	$2,018,405.58
Total		$2,018,405.58

N/A = Not Applicable

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

The Board has the following fair value measurements as of September 30, 2018.

Sweep investments of $2,018,405.58 for governmental funds are valued based on an independent vendor service (Level 2 inputs).

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.

Note 4 – Receivables

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

	General Fund	Special Revenue Fund	Total
Receivables:			
Accounts	$ 1,444.32	$	$ 1,444.32
Intergovernmental	101,684.71	1,229,882.17	1,331,566.88
Other	49,109.45		49,109.45
Total Receivables	$152,238.48	$1,229,882.17	$1,382,120.65

Note 5 – Capital Assets

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

	Balance 10/01/2017	Additions	Retirements	Balance 09/30/2018
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	$ 923,038.51	$	$	$ 923,038.51
Land Improvements (Inexhaustible)	109,664.10			109,664.10
Construction in Progress	14,335,674.33	588,275.93		14,923,950.26
Total Capital Assets, Not Being Depreciated	15,368,376.94	588,275.93		15,956,652.87
Capital Assets, Being Depreciated:				
Land Improvements (Exhaustible)	348,269.00			348,269.00
Buildings	31,574,580.49	38,947.95		31,613,528.44
Buildings Improvements	20,522,855.94	1,727,975.50		22,250,831.44
Equipment	9,932,979.39	589,132.28	(181,053.86)	10,341,057.81
Assets Under Capital Lease	2,506,449.00			2,506,449.00
Total Capital Assets, Being Depreciated	64,885,133.82	2,356,055.73	(181,053.86)	67,060,135.69
Less Accumulated Depreciation for:				
Land Improvements (Exhaustible)	(243,716.04)	(34,827.00)		(278,543.04)
Buildings	(15,929,750.06)	(486,820.30)		(16,416,570.36)
Buildings Improvements	(13,306,096.51)	(677,098.18)		(13,983,194.69)
Equipment	(6,981,193.92)	(553,168.23)	167,244.40	(7,367,117.75)
Assets Under Capital Lease	(250,644.24)	(250,644.24)		(501,288.48)
Total Accumulated Depreciation	(36,711,400.77)	(2,002,557.95)	167,244.40	(38,546,714.32)
Total Capital Assets, Being Depreciated, Net	28,173,733.05	353,497.78	(13,809.46)	28,513,421.37
Total Governmental Activities Capital Assets, Net	$ 43,542,109.99	$ 941,773.71	$ (13,809.46)	$ 44,470,074.24

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

	Current Year Depreciation Expense
Governmental Activities:	
Instruction	$1,282,200.32
Instructional Support	51,957.00
Auxiliary Services:	
Student Transportation	523,709.70
Food Service	144,690.93
Total Depreciation Expense – Governmental Activities	$2,002,557.95

Note 6 – Defined Benefit Pension Plan

A. Plan Description

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

B. Benefits Provided

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

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

C. Contributions

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

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

Participating employers' contractually required contribution rate for the year ended September 30, 2018, was 12.24% of annual pay for Tier 1 members and 11.01% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the Board were $2,865,780.95 for the year ended September 30, 2018.

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

At September 30, 2018, the Board reported a liability of $35,484,000.00 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2016. The Board's proportion of the collective net pension liability was based on the employers' share of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2017, the Board's proportion was 0.361031%, which was an increase of 0.000640% from its proportion measured as of September 30, 2016.

For the year ended September 30, 2018, the Board recognized pension expense of $2,998,000.00. At September 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$	$1,521,000.00
Changes in assumptions	2,118,000.00	
Net difference between projected and actual earnings on pension plan investments		2,122,000.00
Changes in proportion and differences between employer contributions and proportionate share of contributions	53,000.00	209,000.00
Employer contributions subsequent to the measurement date	2,865,780.95	
Total	$5,036,780.95	$3,852,000.00

The $2,865,780.95 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending:	
September 30, 2019	$(397,000.00)
2020	$ 223,000.00
2021	$(781,000.00)
2022	$(691,000.00)
2023	$ (35,000.00)
Thereafter	$

E. Actuarial Assumptions

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

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

(*) Net of pension plan investment expense

The actuarial assumptions used in the actuarial valuation as of September 30, 2016, 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.

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.

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

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

	1% Decrease (6.75%)	Current Rate (7.75%)	1% Increase (8.75%)
Board's proportionate share of collective net pension liability	$48,944	$35,484	$24,098
(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, 2017. The supporting actuarial information is included in the GASB Statement Number 67 Report for the TRS prepared as of September 30, 2017. The auditor's report dated August 20, 2018, on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense for the sum of all participating entities as of September 30, 2017, along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

Note 7 – Other Postemployment Benefits (OPEB)

A. Plan Description

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

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

B. Benefits Provided

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

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

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

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

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

C. Contributions

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

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

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

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

At September 30, 2018, the Board reported a liability of $36,578,453 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of September 30, 2017 and the total OPEB liability used to calculate the collective net OPEB liability was determined by an actuarial valuation as of September 30, 2016. The Board's proportion of the collective net OPEB liability was based on a projection of the Board's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At September 30, 2017, the Board's proportion was 0.492478%, which was a decrease of 0.028217% from its proportion measured as of September 30, 2016.

For the year ended September 30, 2018, the Board recognized OPEB expense of $1,845,791, with no special funding situations. At September 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	$	$3,797,937.00
Net difference between projected and actual earnings on OPEB plan investments		194,747.00
Changes in proportion and differences between employer contributions and proportionate share of contributions		1,902,588.00
Employer contributions subsequent to the measurement date	1,229,180.00	
Total	$1,229,180.00	$5,895,272.00

The $1,229,180.00 reported as deferred outflows of resources related to OPEB resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending:	
September 30, 2019	$(1,138,653)
2020	$(1,138,653)
2021	$(1,138,653)
2022	$(1,138,653)
2023	$(1,089,966)
Thereafter	$ (250,694)

E. Actuarial Assumptions

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

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

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

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

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

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

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

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

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

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

(*) Geometric mean, includes 2.5% inflation

F. Discount Rate

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

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

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

	1% Decrease (6.75% Decreasing to 4% for Pre-Medicare, 4% for Medicare Eligible, and 1% for Optional Plans)	Current Healthcare Trend Rate (7.75% Decreasing to 5% for Pre-Medicare, 5% for Medicare Eligible, and 2% for Optional Plans)	1% Increase (8.75% Decreasing to 6% for Pre-Medicare, 6% for Medicare Eligible, and 3% for Optional Plans)
Board's proportionate share of collective net OPEB liability	$29,533	$36,578	$45,669

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

	1% Decrease (3.63%)	Current Rate (4.63%)	1% Increase (5.63%)
Board's proportionate share of collective net OPEB liability	$44,216	$36,578	$30,491
(Dollar amounts in thousands)			

H. OPEB Plan Fiduciary Net Position

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

Note 8 – 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, 2018. 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, 2018:

Fiscal Year Ending	Governmental Activities
September 30, 2019	$ 276,584.04
2020	276,584.04
2021	276,584.04
2022	276,584.04
2023	276,584.04
2024-2027	944,996.00
Total Minimum Lease Payments	2,327,916.20
Less: Amount Representing Interest	185,919.78
Present Value of Net Minimum Lease Payments	$2,141,996.42

Note 9 – 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, 2018:

	Debt Outstanding 10/01/2017 (*)	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 09/30/2018	Amounts Due Within One Year
Governmental Activities:					
Warrants Payable:					
Series 2013 Warrants	$ 22,470,000.00	$	$ (515,000.00)	$21,955,000.00	$530,000.00
Capital Lease Contracts Payable	2,373,508.36		(231,511.94)	2,141,996.42	236,155.37
Net Pension Liability	39,016,000.00		(3,532,000.00)	35,484,000.00	
Net OPEB Liability	41,823,457.00		(5,245,004.00)	36,578,453.00	
Total Governmental Activities Long-Term Liabilities	$105,682,965.36	$	$(9,523,515.94)	$96,159,449.42	$766,155.37

(*) The beginning balance was restated due to the implementation of GASB Statement Number 75, see Note 12.

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:

	Tax Anticipation Warrants, Series 2013		Capital Lease Contracts Payable		Total Principal and Interest Requirements
Fiscal Year Ending	Principal	Interest			to Maturity
September 30, 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	625,000.00	747,887.50	255,679.37	20,904.67	1,649,471.54
2024-2028	3,535,000.00	3,340,156.25	912,894.15	32,101.85	7,820,152.25
2029-2033	4,195,000.00	2,681,675.00			6,876,675.00
2034-2038	5,105,000.00	1,773,900.00			6,878,900.00
2039-2043	6,235,000.00	643,500.00			6,878,500.00
Totals	$21,955,000.00	$12,426,568.75	$2,141,996.42	$185,919.78	$36,709,484.95

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 $34,381,568.75 are pledged to repay the principal and interest on the warrants at September 30, 2018. Pledged funds in the amount of $1,376,637.50 were used to pay principal and interest on the warrants during the fiscal year ended September 30, 2018. This amount represents 30% of the pledged funds received by the Board during this fiscal year. The Series 2013 warrants will mature in fiscal year 2043.

Note 10 – 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.

Note 11 – Interfund Transfers

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

	Transfers Out			
	General Fund	Special Revenue Fund	Capital Projects Fund	Total
Transfers In:				
General Fund	$	$105,314.98	$	$105,314.98
Special Revenue Fund	270,358.00			270,358.00
Other Governmental Fund			7,500.00	7,500.00
Totals	$270,358.00	$105,314.98	$7,500.00	$383,172.98

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

Note 12 – Restatement

In fiscal year 2018, the Board adopted Governmental Accounting Standards Board Statement Number 75 (GASB 75), ***Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)***, as amended by GASB Statement Number 85, ***Omnibus 2017***. The provisions of GASB 75 establish accounting and financial reporting standards for postemployment benefits other than pensions that are provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts. Implementation of this statement requires a restatement to beginning net position. The adoption of this statement has a significant impact on the Board's financial statements. For fiscal year 2018, the Board made prior period adjustments due to the adoption of GASB Statement Number 75 which required the restatement of the September 30, 2017 net position in Governmental Activities. The impact of the restatements are as follows:

	Governmental Activities
Governmental Activities, Net Position, September 30, 2017, as Previously Reported	$ (1,163,047.47)
Restatements Due to the Adoption of GASB Statement Number 75:	
Net OPEB Liability	(41,823,457.00)
Deferred Outflows of Resources	1,195,523.00
Governmental Activities, Net Position, September 30, 2017, as Restated	$(41,790,981.47)

Note 13 – Construction and Other Significant Commitments

As of September 30, 2018, the Board was obligated for the remaining amounts unpaid under the following construction contracts:

W. S. Neal High School:	
Replacement Buildings & Renovations	$1,221,575.39
Phase II Completion of Auditorium & Field House	759,500.00
Re-Roofing of New High School	1,236,000.00
Total	$3,217,075.39

Required Supplementary Information

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

	2018	2017
Employer's proportion of the collective net pension liability	0.361031%	0.360391%
Employer's proportionate share of the collective net pension liability	$ 35,484	$ 39,016
Employer's covered payroll during the measurement period (*)	$ 23,977	$ 22,987
Employer's proportionate share of the collective net pension liability as a percentage of its covered payroll	147.99%	169.73%
Plan fiduciary net position as a percentage of the total collective pension liability	71.50%	67.93%

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

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

2016		2015	
	0.362161%		0.364403%
$	37,903	$	33,104
$	22,944	$	23,140
	165.20%		143.06%
	67.51%		71.01%

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

	2018	2017
Contractually required contribution	$ 2,866	$ 2,826
Contributions in relation to the contractually required contribution	$ 2,866	$ 2,826
Contribution deficiency (excess)	$	$
Employer's covered payroll	$ 23,951	$ 23,977
Contributions as a percentage of covered-employee payroll	11.97%	11.79%

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

	2016		2015
$	2,709	$	2,673
$	2,709	$	2,673
$		$	
$	22,987	$	22,944
	11.78%		11.65%

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

		2018
Employer's proportion of the collective net OPEB liability		0.492478%
Employer's proportionate share of the collective net OPEB liability (asset)	$	36,578
Employer's covered-employee payroll during the measurement period (*)	$	20,205
Employer's proportionate share of the collective net OPEB liability (asset) as a percentage of its covered payroll		181.03%
Plan fiduciary net position as a percentage of the total collective OPEB liability		15.37%

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

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

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

		2018
Contractually required contribution	$	1,229
Contributions in relation to the contractually required contribution	$	1,229
Contribution deficiency (excess)	$	
Employer's covered-employee payroll	$	20,270
Contributions as a percentage of covered payroll		6.06%

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

Changes in Actuarial Assumptions

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

Recent Plan Changes

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

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

Method and Assumptions Used in Calculations of Actuarially Determined Contributions

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

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

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

	Budgeted Amounts		Actual Amounts
	Original	**Final**	**Budgetary Basis**
Revenues			
State	$ 27,028,640.00	$ 27,029,743.00	$ 27,172,634.16
Federal			144,314.84
Local	9,587,911.00	9,657,411.00	11,099,184.75
Other	7,126.00	7,126.00	55,667.50
Total Revenues	36,623,677.00	36,694,280.00	38,471,801.25
Expenditures			
Current:			
Instruction	21,455,577.00	21,692,604.00	21,240,807.62
Instructional Support	6,362,937.00	6,380,761.00	6,038,034.12
Operation and Maintenance	4,350,884.00	4,468,390.00	4,170,998.99
Auxiliary Services:			
Student Transportation	3,962,717.00	3,978,975.00	3,289,019.61
Food Service			
General Administration and Central Support	1,648,844.00	1,666,682.00	1,492,671.64
Other	570,179.00	578,516.00	597,281.45
Capital Outlay	1,431,588.00	1,946,536.00	1,139,764.55
Debt Service:			
Principal Retirement	130,000.00	130,000.00	130,000.00
Interest and Fiscal Charges	861,638.00	861,638.00	861,637.50
Total Expenditures	40,774,364.00	41,704,102.00	38,960,215.48
Excess (Deficiency) of Revenues Over Expenditures	(4,150,687.00)	(5,009,822.00)	(488,414.23)
Other Financing Sources (Uses)			
Indirect Cost	317,130.00	321,226.00	306,761.78
Transfers In	95,140.00	95,840.00	105,314.98
Other Financing Sources			57,328.24
Sale of Capital Assets			1,321.60
Transfers Out	(982,358.00)	(281,358.00)	(270,358.00)
Other Financing Uses		(98,583.00)	
Total Other Financing Sources (Uses)	(570,088.00)	37,125.00	200,368.60
Net Changes in Fund Balances	(4,720,775.00)	(4,972,697.00)	(288,045.63)
Fund Balances - Beginning of Year	10,273,573.00	10,579,782.00	10,580,964.20
Fund Balances - End of Year	$ 5,552,798.00	$ 5,607,085.00	$ 10,292,918.57

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	$	$ 27,172,634.16
		144,314.84
		11,099,184.75
		55,667.50
		38,471,801.25
(1)	13,381.28	21,227,426.34
(1)	(19,163.67)	6,057,197.79
(1)	1,324.09	4,169,674.90
(1)	7,329.35	3,281,690.26
(1)	(897.80)	1,493,569.44
(1)	7,785.58	589,495.87
		1,139,764.55
		130,000.00
		861,637.50
	9,758.83	38,950,456.65
	9,758.83	(478,655.40)
		306,761.78
		105,314.98
		57,328.24
		1,321.60
		(270,358.00)
		200,368.60
	9,758.83	(278,286.80)
(2)	(2,847,677.57)	7,733,286.63
	$ (2,837,918.74)	$ 7,454,999.83

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

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

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.

$	9,758.83
$	9,758.83

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

	Budgeted Amounts		Actual Amounts
	Original	**Final**	**Budgetary Basis**
Revenues			
Federal	$ 5,708,465.00	$ 6,204,581.08	$ 5,826,699.13
Local	2,421,950.00	2,438,812.00	1,972,090.89
Other	67,322.00	67,322.00	78,514.33
Total Revenues	8,197,737.00	8,710,715.08	7,877,304.35
Expenditures			
Current:			
Instruction	2,811,875.00	2,975,434.00	2,683,206.27
Instructional Support	1,280,178.00	1,546,471.29	1,218,431.26
Operation and Maintenance	240,555.00	243,497.00	164,870.42
Auxiliary Services:			
Student Transportation	91,634.00	99,294.00	49,853.43
Food Service	3,474,838.00	3,474,838.00	3,341,582.99
General Administration and Central Support	244,723.00	275,695.00	259,385.25
Other	716,743.00	804,136.79	593,742.12
Capital Outlay	30,250.00	54,720.00	53,735.82
Total Expenditures	8,890,796.00	9,474,086.08	8,364,807.56
Excess (Deficiency) of Revenues Over Expenditures	(693,059.00)	(763,371.00)	(487,503.21)
Other Financing Sources (Uses)			
Transfers In	1,177,369.00	479,387.00	270,358.00
Transfers Out	(290,151.00)	(293,869.00)	(105,314.98)
Other Fund Uses	(12,849.00)	(12,849.00)	
Total Other Financing Sources (Uses)	874,369.00	172,669.00	165,043.02
Net Changes in Fund Balances	181,310.00	(590,702.00)	(322,460.19)
Fund Balances - Beginning of Year	2,225,124.00	2,374,104.00	2,374,104.57
Fund Balances - End of Year	$ 2,406,434.00	$ 1,783,402.00	$ 2,051,644.38

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	$	$ 5,826,699.13
		1,972,090.89
		78,514.33
		7,877,304.35
		2,683,206.27
		1,218,431.26
		164,870.42
		49,853.43
(1)	(29,871.38)	3,371,454.37
		259,385.25
		593,742.12
		53,735.82
	(29,871.38)	8,394,678.94
	(29,871.38)	(517,374.59)
		270,358.00
		(105,314.98)
		165,043.02
	(29,871.38)	(352,331.57)
(2)	(105,413.13)	2,268,691.44
	$ (135,284.51)	$ 1,916,359.87

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

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

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.

$	(29,871.38)
$	(29,871.38)

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Supplementary Information

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

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
U. S. Department of Education		
Passed Through Alabama Department of Education		
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 (M)		
Title I Grants to Local Educational Agencies (M)	84.010	N.A.
Career and Technical Education - Basic Grants to States	84.048	N.A.
Safe and Drug-Free Schools and Communities - State Grants	84.186	N.A.
Twenty-First Century Community Learning Centers	84.287	N.A.
Rural Education	84.358	N.A.
Improving Teacher Quality State Grants	84.367	N.A.
U. S. Department of Education		
Passed Through the Curators of the University of Missouri		
Investing in Innovation (i3) Fund	84.411	N.A.
U. S. Department of Education		
Passed Through Alabama Department of Early Childhood Education		
Preschool Development Grants	84.419	N.A.
Total U. S. Department of Education		
U. S. Department of Agriculture		
Passed Through Alabama Department of Education		
Child Nutrition Cluster:		
National School Lunch Program:		
Cash Assistance	10.555	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		
State Administrative Expenses for Child Nutrition	10.560	N.A.
Passed Through Escambia County Commission		
Schools and Roads - Grants to States	10.665	N.A.
Total U. S. Department of Agriculture		
Sub-Total Forward		

Pass-Through to Subrecipients	Total Federal Expenditures
N.A.	$ 1,037,492.19
N.A.	23,001.00
	1,060,493.19
N.A.	1,833,838.63
N.A.	93,534.00
N.A.	35,565.79
N.A.	109,482.57
N.A.	80,019.00
N.A.	161,019.05
N.A.	36,538.08
N.A.	233,293.56
	3,643,783.87
N.A.	1,682,256.06
N.A.	152,289.77
	1,834,545.83
N.A.	635,669.19
	2,470,215.02
N.A.	11,508.79
N.A.	65,717.00
	2,547,440.81
	$ 6,191,224.68

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

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
Sub-Total Brought Forward		
Social Security Administration		
Passed Through Alabama Department of Education		
Social Security - Disability Insurance	96.001	N.A.
U. S. Department of Heath and Human Services		
Passed Through Alabama Department of Education		
Child Care and Development Block Grant	93.575	N.A
General Services Administration		
Passed Through Alabama Department of		
Economic and Community Affairs		
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.

Pass-Through to Subrecipients	Total Federal Expenditures
	$ 6,191,224.68
N.A.	1,700.00
N.A	11,600.00
N.A.	2,284.09
	$ 6,206,808.77

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 elected not 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 State of Alabama Department of Education.

Additional Information

Board Members and Administrative Personnel

October 1, 2017 through September 30, 2018

Board Members		**Term Expires**
Hon. Willie J. Grissett	Chairman	2020
Hon. Kevin Hoomes	Member	2020
Hon. David Nolin	Member	2022
Hon. Danny Benjamin	Member	2024
Hon. Cindy Jackson	Member	2022
Hon. Mike Edwards	Member	2024
Hon. Coleman Wallace	Member	2024
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, 2018, 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, 2019.

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

Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

April 24, 2019

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

Independent Auditor's Report

Members of the 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 programs for the year ended September 30, 2018. The Escambia County Board of Education's major federal programs are identified in the Summary of Examiner's Results Section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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 programs for the year ended September 30, 2018.

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

Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

April 24, 2019

Section I – Summary of Examiner's Results

Financial Statements

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

Federal Awards

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

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.010	Title I Grants to Local Educational Agencies
84.027 and 84.173	Special Education Cluster

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

Section II – Financial Statement Findings (GAGAS)

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

Section III – Federal Awards Findings and Questioned Costs

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