Report on the

Henry County Board of Education

Henry 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

19-177

State of Alabama
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Rachel Laurie Riddle
Chief Examiner

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

Dear Madam:

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

Respectfully submitted,

Netteah K. Durham

Netteah K. Durham
Examiner of Public Accounts

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

Mae Ola Bell
Notary Public

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Department of
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SUMMARY

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

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

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

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

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

Board members and administrative personnel, as reflected on Exhibit 14, were invited to discuss the results of this report at an exit conference. Individuals in attendance were: Superintendent: Chris Padget; Chief School Financial Officer: Michelle Andrews; and Board Member: Jean Bush. Also in attendance were representatives from the Department of Examiners of Public Accounts: Cherie Raffle, Audit Manager and Netteah K. Durham, Examiner of Public Accounts.

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Independent Auditor's Report

Independent Auditor's Report

Members of the Henry County Board of Education,
Superintendent and Chief School Financial Officer
Abbeville, 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 Henry 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 Henry County Board of Education's basic financial statements as listed in the table of contents as Exhibits 1 through 6.

Management's Responsibility for the Financial Statements

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

Emphasis of Matter

As discussed in Note 11 to the financial statements, in the fiscal year ended September 30, 2018, the Henry 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 Statement Number 85, ***Omnibus 2017***. Our opinion on the basic financial statements is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Henry County Board of Education's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 13), as required by Title 2 U. S. ***Code of Federal Regulations*** Part 200, ***Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*** (*Uniform Guidance)*, is presented for the 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 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 accompanying 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 May 1, 2019, on our consideration of the Henry 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 Henry 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 Henry 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

May 1, 2019

Management's Discussion and Analysis (Required Supplementary Information)

HENRY COUNTY BOARD OF EDUCATION
Management Discussion and Analysis
September 30, 2018

Introduction

The Management's Discussion and Analysis (MD&A) of Henry 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 Henry 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 and the prior year is required to be presented in the MD&A.

Overview of the Financial Statements

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.

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).

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

Governmental Funds – The Board's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. The governmental funds statements - the *Balance Sheet* and the *Statement of Revenues, Expenditures and Changes in Fund Balances* – are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Board's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information that explains the relationship (or differences) between them on Exhibits 4 and 6.

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.

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 budgetary comparison schedules for the General Fund and the Special Revenue Fund. These schedules include an accompanying note explaining the differences between actual amounts as reported on the basis of budgeting and the GAAP basis of reporting. The RSI section also includes two pension and two other post-employment benefits (OPEB) related statements containing information about Employer's Contributions.

Financial Analysis of the Board as a Whole

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

HENRY COUNTY BOARD OF EDUCATION
Net Position

	Governmental Activities 2018	Governmental Activities 2017
Current and Other Assets	$ 14,983,624.47	$ 7,214,574.85
Capital Assets	23,811,649.77	24,419,236.53
Total Assets	38,795,274.24	31,633,811.38
Loss on Refunding of Debt	949,607.22	500,434.48
Employer Pension Contribution	1,483,239.78	1,452,813.02
Proportionate share of Pension Liability	1,101,000.00	1,737,000.00
Employer OPEB Contribution	598,307.85	
Total Deferred Outflows	4,132,154.85	3,690,247.50
Current Liabilities	1,115,696.14	1,163,820.65
Long-Term Liabilities:		
Portion Due or Payable Within One Year	211,593.79	258,115.97
Portion Due or Payable After One Year	59,963,742.61	36,202,706.33
Total Liabilities	61,291,032.54	37,624,642.95
Unavailable Property Taxes	1,779,372.21	1,545,019.78
Motor Vehicle Taxes Received in Advance	120,484.32	120,484.32
Proportionate share of Pension Liability	2,075,000.00	708,000.00
Proportionate share of OPEB Liability	2,818,030.00	
Total Deferred Inflows	6,792,886.53	2,373,504.10
Net Position:		
Net Investment in Capital Assets	7,822,208.27	8,629,848.71
Restricted	2,603,770.80	2,366,921.02
Unrestricted	(35,582,469.05)	(15,670,857.90)
Total Net Position	$(25,156,489.98)	$ (4,674,088.17)

The accompanying Notes to the Financial Statements are an integral part of the above statement. Note 11 – Restatements is shown below to clarify the above Statement of Net Position.

Note 11 – Restatement

In fiscal year 2018, the Board adopted Governmental Accounting Standards Board (GASB) Statement Number 75, ***Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions***, as amended by GASB Statement Number 85, ***Omnibus 2017***. The provisions of this Statement establish accounting and financial reporting standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures for postemployment benefits other than pensions (other postemployment benefits or OPEB). 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 a restatement of the September 30, 2017, net position in governmental activities. The result is a decrease in net position at October 1, 2017, of $19,534,934.00.

The impact of the restatement on net position as previously reported is as follows:

	Governmental Activities
Net Position, September 30, 2017, as Previously Reported	$ (4,674,088.17)
Restatement Due to GASB Statement Number 75:	
Net OPEB Amounts Due to Adoption of GASB Statement Number 75	(19,534,934.00)
Net Position, September 30, 2017, as Restated	$(24,209,022.17)

The Board's total revenues and expenditures are reflected in the following chart:

HENRY COUNTY BOARD OF EDUCATION
Changes in Net Position

	Governmental Activities 2018	Governmental Activities 2017
Revenues:		
Program Revenues:		
Charges for Services	$ 2,112,946.63	$ 2,080,412.69
Operating Grants and Contributions	17,001,388.14	17,040,868.26
Capital Grants and Contributions	833,752.00	852,504.00
General Revenues:		
Property Taxes	1,944,502.93	1,888,419.15
Sales Tax	1,576,208.45	1,399,473.50
Other Taxes	26,319.04	26,544.92
Interest	77,242.65	71,168.85
Other General Revenues	678,584.86	639,124.78
Total Revenues	24,250,944.70	23,998,516.35
Expenses:		
Instructional Services	13,272,861.30	13,462,749.84
Instructional Support Services	3,586,218.96	3,643,363.68
Operation and Maintenance Services	1,572,820.50	1,556,889.78
Student Transportation Services	1,605,752.51	1,662,903.34
Food Services	1,769,957.10	1,728,496.46
General Administrative Services	1,697,706.34	1,356,576.97
Interest and Fiscal Charges	540,460.94	622,587.93
Other Expenses	1,152,634.86	1,069,695.76
Total Expenses	25,198,412.51	25,103,263.76
Change in Net Position	(947,467.81)	(1,104,747.61)
Net Position – Beginning, as Restated	(24,209,022.17)	(3,569,340.56)
Net Position – Ending	$(25,156,489.98)	$ (4,674,088.17)

Program revenues, including operating grants and contributions, are the largest component of total revenues (82%).

- 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, are used to provide $4,302,857.93 not covered by program revenues.

Instructional services expenses, primarily salaries and benefits for classroom teachers, are the largest expense function of the Board (67%).

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

Financial Analysis of the Board’s Funds

The analysis of governmental funds serves the purpose of looking at what resources came into the funds, how they were spent, and what is available for future expenditures. Did the Board generate enough revenue to pay for current obligations? What is available for spending at the end of the year? The sound 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 $12,093,260.14. The Board’s major funds were the General Fund, Special Revenue Fund, and Capital Projects Fund.

***General Fund* –** The General Fund is the primary operating fund of the Board.

***Special Revenue Fund* –** The special revenue fund is used to account for all federal grants, for public school funds and for child nutrition program (school breakfast and lunch programs). The public school funds and child nutrition program funds are the only activities that have a fund balance each year.

***Capital Projects Fund* –** The capital projects fund is used to account for state financial resources paid on behalf of the Board for the acquisition, construction and improvement of major capital facilities. This fund is also used to account for local bond indebtedness used for the acquisition, construction and improvement of major capital facilities.

Overall, the Board's governmental funds had more revenues than expenditures at the end of the fiscal year thereby contributing to an increase in the total fund balance.

General Fund Budgetary Highlights

The original 2018 fiscal year budget, adopted on September 18, 2017, reflected only guaranteed revenues and necessary expenditures since some of the state-funded programs had not been authorized at this point. The original budget figures were amended when necessary. Over the course of the year, the Board revised the annual operating budgets one time: June 12, 2018.

The comparison of General Fund original budget to the final amended budget of the Board is comprised of two amendments and can be briefly summarized as follows:

- Amendment #1 was necessary to budget to amend the budgeted beginning balances to reflect the actual ending fund balances from fiscal year 2017, to budget carryover amounts in certain Federal funds, and to allow for carryover of unexpended funds to the next fiscal year, and to add revenue and expenditures for funds sources not reflected in the original budget.

- Overall, the final amended budget is reflective of the actual operating activity for the year.

Capital Assets and Debt Administration

Capital Assets – At September 30, 2018, the Board had $23,811,649.77 (net of depreciation) invested in capital assets including land, land improvements, buildings, building improvements, equipment costing $5,000 or more, vehicles (including buses), and construction in progress. This amount is net of accumulated depreciation to date. 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.

Capital Assets (net of depreciation)

	September 30, 2018	September 30, 2017
Land and Land Improvements	$ 1,349,245.76	$ 1,257,515.38
Construction in Progress	111,350.00	
Buildings and Improvements	21,087,163.52	21,806,069.77
Vehicles	1,050,061.45	1,104,457.98
Equipment	213,829.04	251,193.40
Total Capital Assets (Net of Depreciation)	$23,811,649.77	$24,419,236.53

Capital assets decreased by a net of $607,586.76 for the 2018 fiscal year. (Additional information on the Board's capital assets is presented in the notes to the basic financial statements).

Long-Term Debt – At year-end, the Board had $60,175,336.40 in warrants, notes, and other long-term principal debt outstanding. (Additional information on the Board's long-term debt is presented in the notes to the basic financial statements).

Outstanding Long-Term Debt

	Governmental Activities For the Year Ended September 30, 2018		
	Beginning Balance	Net Change	Ending Balance
Warrants Payable	$14,672,000.00	$ 8,360,000.00	$23,032,000.00
Notes Payable	617,822.30	(58,115.97)	559,706.33
Certificate of Participation Payable	1,000,000.00		1,000,000.00
Net Pension Liability	20,171,000.00	(1,936,000.00)	18,235,000.00
Net OPEB Liability	20,110,473.00	(2,501,153.00)	17,609,320.00
Unamortized Discount		(260,689.93)	(260,689.93)
Total Long-Term Debt	$56,571,295.30	$ 3,604,041.10	$60,175,336.40

Long-term debt activity for the year consisted of the following:

Cooperative District Public Education Revenue Bonds Series 2011 were refinanced in July 2018 to create the Taxable School Refunding Warrants, Series 2018-A. New Capital Outlay School Warrants Series 2018-B were added as well.

It is the goal of this School Board to reduce its long term indebtedness as soon as possible.

Economic Factors and Next Year’s Budget

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

- The latest figures from the Alabama Department of Industrial Relations shows that Henry County’s unemployment rate of 4.2% is higher than the state average of 3.9%.

- The population in Henry County has stabilized, but the poverty level for Henry County is higher than the state average.

- The property tax base in Henry County did increase in 2018.

- Due to a State Department of Alabama requirement, beginning in 2018, the Henry County School System is required to share revenues collected from county-wide taxes with Dothan City Schools. The tax distribution rate for 2018 is 0.147059% and will increase in 2019 to a rate of 0.181971%.

- Sales tax revenue increased slightly in 2018, unfortunately due to loss of local business and the newly required tax distribution split with Dothan City Schools, a decrease is projected for 2019.

- Due to a State Department of Alabama requirement, beginning in 2018, the Henry County School System is required to share revenues collected from county-wide taxes with Dothan City Schools. The tax distribution rate for 2018 is 0.147059% and will increase in 2019 to a rate of 0.181971%.

Student Enrollment – Student enrollment figures overall have changed very little; however, enrollment increased slightly in the southern section of Henry County due to an increase in population, and enrollment decreased slightly in the northern section of Henry County due to graduation, the addition of a pre-k program at local elementary school, and an established private school located in north Henry County.

Medical and Retirement Costs **–** Employee health insurance is provided through the Public Education Employees’ Health Insurance Program (PEEHIP). PEEHIP health insurance employer cost is $800 per employee per month for fiscal year 2018. Employer contributions to the Teachers Retirement System (TRS) for Tier I employees was 12.24%, and 11.01% for Tier II employees. There was a state mandated salary increase of 2.5% for all employees The Board provided with local funds and additional 1% salary increase for support personnel. The Board must use local funds to pay the salary-related benefit costs not paid by state and federal funds.

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 Michelle Andrews, Chief School Financial Officer, P. O. Box 635, Abbeville, Alabama 36310, or by calling (334) 585-2206, ext. 1226 during regular office hours, Monday through Friday, from 7:30 A. M. to 3:30 P.M.

Basic Financial Statements

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Statement of Net Position
September 30, 2018

	Governmental Activities
Assets	
Cash	$ 10,694,942.96
Cash with Fiscal Agent	2,070,045.16
Ad Valorem Property Taxes Receivable	1,822,128.01
Receivables (Note 4)	340,199.86
Inventories	56,308.48
Capital Assets (Note 5):	
Nondepreciable	1,460,595.76
Depreciable, Net	22,351,054.01
Total Assets	38,795,274.24
Deferred Outflows of Resources	
Loss on Refunding of Debt	949,607.22
Employer Pension Contribution	1,483,239.78
Proportionate Share of Collective Deferred Outflows Related to Net Pension Liability	1,101,000.00
Employer Other Postemployment Benefit (OPEB) Contribution	598,307.85
Total Deferred Outflows of Resources	4,132,154.85
Liabilities	
Unearned Revenue	198,061.25
Salaries and Benefits Payable	792,446.55
Accrued Interest Payable	125,188.34
Long-Term Liabilities (Note 8):	
Portion Due or Payable Within One Year	211,593.79
Portion Due or Payable After One Year	59,963,742.61
Total Liabilities	61,291,032.54
Deferred Inflows of Resources	
Unavailable Revenue - Property Taxes	1,779,372.21
Revenue Received in Advance - Motor Vehicle Taxes	120,484.32
Proportionate Share of Collective Deferred Inflows Related to Net Pension Liability	2,075,000.00
Proportionate Share of Collective Deferred Inflows Related to Net OPEB Liability	2,818,030.00
Total Deferred Inflows of Resources	6,792,886.53
Net Position	
Net Investment in Capital Assets	7,822,208.27
Restricted for:	
Debt Service	2,023,851.74
Other Purposes	579,919.06
Unrestricted	(35,582,469.05)
Total Net Position	$ (25,156,489.98)

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

Statement of Activities
For the Year Ended September 30, 2018

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions
Governmental Activities:			
Instruction	$ 13,272,861.30	$ 371,266.54	$ 10,836,183.10
Instructional Support	3,586,218.96	136,154.76	2,958,746.37
Operation and Maintenance	1,572,820.50	59,139.63	486,926.08
Auxiliary Services:			
Student Transportation	1,605,752.51	30,224.58	1,241,934.30
Food Service	1,769,957.10	1,369,887.65	122,830.95
General Administration and Central Support	1,697,706.34	6,782.82	533,505.02
Interest and Fiscal Charges	540,460.94		
Other Expenses	1,152,634.86	139,490.65	821,262.32
Total Governmental Activities	$ 25,198,412.51	$ 2,112,946.63	$ 17,001,388.14

General Revenues:
Taxes:
Property Taxes for General Purposes
Property Taxes for Specific Purposes
Sales Tax
Other Taxes
Investment Earnings
Miscellaneous
Total General Revenues

Changes in Net Position

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

Net Position - End of Year

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

Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position Total Governmental Activities
$ 633,904.00	$ (1,431,507.66)
	(491,317.83)
9,541.00	(1,017,213.79)
190,307.00	(143,286.63)
	(277,238.50)
	(1,157,418.50)
	(540,460.94)
	(191,881.89)
$ 833,752.00	(5,250,325.74)
	1,834,224.30
	110,278.63
	1,576,208.45
	26,319.04
	77,242.65
	678,584.86
	4,302,857.93
	(947,467.81)
	(24,209,022.17)
	$ (25,156,489.98)

Balance Sheet
Governmental Funds
September 30, 2018

	General Fund	Special Revenue Fund
Assets		
Cash	$ 1,985,461.35	$ 1,238,519.01
Cash with Fiscal Agent		
Ad Valorem Property Taxes Receivable	1,822,128.01	
Receivables (Note 4)	195,376.47	144,823.39
Inventories		56,308.48
Total Assets	4,002,965.83	1,439,650.88
Liabilities, Deferred Inflows of Resources and Fund Balances		
Liabilities		
Unearned Revenues		198,061.25
Salaries and Benefits Payable	763,528.12	28,918.43
Total Liabilities	763,528.12	226,979.68
Deferred Inflows of Resources		
Unavailable Revenue - Property Taxes	1,779,372.21	
Revenue Received in Advance - Motor Vehicle Taxes	120,484.32	
Total Deferred Inflows of Resources	1,899,856.53	
Fund Balances		
Nonspendable:		
Inventories		56,308.48
Restricted:		
Capital Projects		
Debt Service		
Child Nutrition Program		522,546.58
Other Purposes		1,064.00
Assigned:		
Local Schools		632,752.14
Unassigned	1,339,581.18	
Total Fund Balances	1,339,581.18	1,212,671.20
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 4,002,965.83	$ 1,439,650.88

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

Capital Projects Fund	Other Governmental Fund	Total Governmental Funds
$ 7,456,869.13	$ 14,093.47	$ 10,694,942.96
795,998.16	1,274,047.00	2,070,045.16
		1,822,128.01
		340,199.86
		56,308.48
8,252,867.29	1,288,140.47	14,983,624.47
		198,061.25
		792,446.55
		990,507.80
		1,779,372.21
		120,484.32
		1,899,856.53
		56,308.48
7,391,967.68		7,391,967.68
860,899.61	1,288,140.47	2,149,040.08
		522,546.58
		1,064.00
		632,752.14
		1,339,581.18
8,252,867.29	1,288,140.47	12,093,260.14
$ 8,252,867.29	$ 1,288,140.47	$ 14,983,624.47

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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		$ 12,093,260.14
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
To Cost of Capital Assets is	$ 37,267,335.92	
Accumulated Depreciation is	(13,455,686.15)	
		23,811,649.77
Losses on refunding of debt are reported as deferred outflows of resources and are not available to pay for current-period expenditures and, therefore, are deferred on the Statement of Net Position.		949,607.22
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.		509,239.78
Deferred outflows and inflows of resources related to OPEB obligations are applicable to future periods and, therefore, are not reported in the governmental funds.		(2,219,722.15)
Long-term liabilities, including bonds/warrants payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Current Portion of Long-Term Debt	$ 211,593.79	
Noncurrent Portion of Long-Term Debt	59,963,742.61	
		(60,175,336.40)
Interest on long-term debt is not accrued in the funds but rather is recognized as an expenditure when due.		
Accrued Interest Payable		(125,188.34)
Total Net Position - Governmental Activities		$ (25,156,489.98)

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	$ 15,249,844.47	$ 6,500.00
Federal	49,568.28	2,685,669.68
Local	3,665,974.52	1,507,019.40
Other	39,556.42	29,055.26
Total Revenues	19,004,943.69	4,228,244.34
Expenditures		
Current:		
Instruction	10,803,588.41	1,561,122.12
Instructional Support	3,075,548.97	470,799.69
Operation and Maintenance	1,449,406.73	93,454.13
Auxiliary Services:		
Student Transportation	1,344,963.74	15,201.88
Food Service	965.34	1,676,782.35
General Administration and Central Support	1,119,803.41	240,086.86
Other	847,154.11	301,054.34
Capital Outlay	84,230.38	34,673.36
Debt Service:		
Principal Retirement		
Interest and Fiscal Charges		
Debt Issuance Costs/Other Debt Service		
Total Expenditures	18,725,661.09	4,393,174.73
Excess (Deficiency) of Revenues Over Expenditures	279,282.60	(164,930.39)
Other Financing Sources (Uses)		
Long-Term Debt Issued		
Transfers In	61,225.83	224,665.00
Other Financing Sources	1,049.32	
Transfers Out	(448,002.23)	(61,225.83)
Discounts on Long-Term Debt Issued		
Payments to Refunding Escrow Agent		
Total Other Financing Sources (Uses)	(385,727.08)	163,439.17
Net Changes in Fund Balances	(106,444.48)	(1,491.22)
Fund Balances - Beginning of Year	1,446,025.66	1,214,162.42
Fund Balances - End of Year	$ 1,339,581.18	$ 1,212,671.20

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

Capital Projects Fund	Other Governmental Fund	Total Governmental Funds
$ 775,981.68	$ 55,987.32	$ 16,088,313.47
		2,735,237.96
128,454.31	56,183.69	5,357,631.92
70.11	30.24	68,712.03
904,506.10	112,201.25	24,249,895.38
		12,364,710.53
		3,546,348.66
7,758.00		1,550,618.86
		1,360,165.62
		1,677,747.69
187,963.23	140,368.35	1,688,221.85
		1,148,208.45
264,758.02		383,661.76
200,000.00	58,115.97	258,115.97
493,898.15	91,103.13	585,001.28
	6,126.13	6,126.13
1,154,377.40	295,713.58	24,568,926.80
(249,871.30)	(183,512.33)	(319,031.42)
7,855,000.00	7,485,000.00	15,340,000.00
	276,158.91	562,049.74
		1,049.32
(52,821.68)		(562,049.74)
(160,886.25)	(101,459.80)	(262,346.05)
	(7,236,312.72)	(7,236,312.72)
7,641,292.07	423,386.39	7,842,390.55
7,391,420.77	239,874.06	7,523,359.13
861,446.52	1,048,266.41	4,569,901.01
$ 8,252,867.29	$ 1,288,140.47	$ 12,093,260.14

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			$ 7,523,359.13
Amounts reported for governmental activities in the Statement of Activities are different because:			
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the period.			
Capital Outlays	$	383,661.76	
Depreciation Expense		(990,655.23)	
			(606,993.47)
Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.			258,115.97
Discounts/issuance costs (prepaid insurance) on debt issuance are recorded as financing uses/expenditures in the governmental funds, but are deferred and amortized in the Statement of Activities.			262,346.05
Payments to refunding escrow agent are recorded as expenditures or other financing uses in the governmental funds, but reduce long-term liabilities in the Statement of Net Position and do not affect the Statement of Activities.			7,236,312.72
Proceeds from the issuance of debt are reported as financing sources in governmental funds and thus contribute to the change in fund balance. Issuing long-term debt increases liabilities in the Statement of Net Position but does not affect the Statement of Activities.			(15,340,000.00)
In the Statement of Activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. The change in net position differs from the change in fund balances by this amount.			
Loss on Disposition of Capital Assets			(593.29)

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

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

Accrued Interest Payable, Current Year Increase/(Decrease)	$ (59,462.57)	
Amortization of Deferred Discounts and Deferred Loss on Refunding	8,796.10	
Pension Expense, Current Year Increase/(Decrease)	36,573.24	
OPEB Expense, Current Year Increase/(Decrease)	294,108.15	
		(280,014.92)
Change in Net Position of Governmental Activities		$ (947,467.81)

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Note 1 – Summary of Significant Accounting Policies

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

A. Reporting Entity

The Board is governed by a separately elected board composed of five members elected by the qualified electors of the County. The Board is responsible for the general administration and supervision of the public schools for the educational interests of the County.

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

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

The Board reports the following major governmental funds:

- ***General Fund*** **–** The General Fund is the primary operating fund of the Board. It is used to account for all financial resources except those required to be accounted for in another fund. The Board primarily receives revenues from the Education Trust Fund (ETF) and local taxes. Amounts appropriated from the ETF were allocated to the school board on a formula basis.

- ***Special Revenue Fund*** **–** This fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Various federal, state and local funding sources are included in this fund. Some of the significant federal funding sources include the federal funds that are received for the Child Nutrition Program, Title I, and Special Education, in addition to various smaller grants, which are required to be spent for the purposes of the applicable federal grants. Also included in this fund are the public and non-public funds received by the local schools which are generally not considered restricted or committed.

- ***Capital Projects Fund*** **–** This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlay, including the acquisition or construction of capital facilities and other capital assets. The proceeds from the county sales tax that are to be used exclusively for capital improvement, capital construction and maintenance purposes are also accounted for and reported in this fund.

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.

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available 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 are both restricted and unrestricted net assets 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

Cash includes cash on hand and demand deposits.

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

Certain funds received from the State Department of Education for capital projects and improvements, as well as certain resources set aside for repayment of debt, included in cash and cash with fiscal agent on the balance sheet are considered as restricted assets because their use is limited. The Public School Capital Projects, Fleet Renewal, Bond Issue Payments, Bonds and Warrants, and Qualified Zone Academy Bonds funding sources are used to report proceeds that are restricted for use in various construction projects and the purchase of school buses. The Debt Service Fund is used to report resources set aside to pay the principal and interest on debt as it become due.

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 Improvements	$50,000	20 years
Buildings	$50,000	25 – 50 years
Building Improvements	$50,000	5 – 30 years
Equipment and Furniture	$ 5,000	5 – 20 years
Vehicles	$ 5,000	8 – 15 years
Equipment Under Capital Lease	$ 5,000	5 – 20 years

6. Deferred Outflows of Resources

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

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Premiums and discounts are deferred and amortized over the life of the debt. Debt payable is reported net of the applicable premium or discount. Issuance costs are reported as an expense in the period incurred.

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

8. Deferred Inflows of Resources

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

9. Net Position/Fund Balances

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

- ***Net Investment in Capital Assets*** – Capital assets minus accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets plus or minus any deferred outflows of resources and deferred inflows of resources that are attributable to those assets or related debt. Any significant unspent related debt proceeds and any deferred outflows or inflows at year-end related to capital assets are not included in this calculation.

- ***Restricted*** – Constraints imposed on net position by external creditors, grantors, contributors, laws or regulations of other governments, or law through constitutional provision or enabling legislation.

- ***Unrestricted*** – The net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted portion of net position. Assignments and commitments of unrestricted net position should not be reported on the face of the Statement of Net Position.

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

A. Nonspendable fund balances include amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Examples of nonspendable fund balance reserves for which fund balance shall not be available for financing general operating expenditures include: inventories, prepaid items, and long-term receivables.

B. Restricted fund balances consist of amounts that are subject to externally enforceable legal restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation.

C. Committed fund balances consist of amounts that are subject to a purpose constraint imposed by formal action or resolution of the Board, which is the highest level of decision-making authority, before the end of the fiscal year and that require the same level of formal action to remove the constraint.

D. Assigned fund balances consist of amounts that are intended to be used by the Board for specific purposes. The Board authorizes the Superintendent or Chief School Financial 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.

10. Minimum Fund Balance Policies

The Board has established a minimum fund balance policy. The Board's policy states that a General Fund reserve fund balance be maintained of an amount not less than one month's operating expenditures. Operating expenditures shall include all funds necessary to support the normal operations of the school district for one month. The Superintendent or Chief School Financial Officer shall inform the Board, before the Board votes on a budget or budget amendment, if the approval of the budget or the budget amendment will prevent the establishment or maintenance of one month's operating balance. A one-month operating balance shall be determined by dividing the General Fund expenditures and fund transfers out by twelve. In determining the General Fund expenditures and transfers out, the proposed budget or budget amendment shall be used.

E. Pensions

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

F. Postemployment Benefits Other than Pensions (OPEB)

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

Note 2 – Stewardship, Compliance, and Accountability

Budgets

Budgets are adopted on a basis of accounting consistent with accounting principles generally accepted in the United States of America (GAAP) for the General Fund with the exception of salaries and benefits, which are budgeted only to the extent expected to be paid rather than on the modified accrual basis of accounting. Also, sales tax and ad valorem tax revenues are budgeted only to the extent expected to be received rather than on the modified accrual basis of accounting. The Special Revenue Fund budgets on a basis of accounting consistent with GAAP with the exception of salaries and benefits, which are budgeted only to the extent expected to be paid rather than on the modified accrual basis of accounting. 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.

B. Cash With Fiscal Agent

Statutes authorize the Board to invest in obligations of the U. S. Treasury, obligations of any state of the United States, general obligations of any Alabama county or city board of education secured by pledge of the three-mill school tax and other obligations as outlined in the ***Code of Alabama 1975***, Section 19-3-120 and Section 19-3-120.1. The Board's cash with fiscal agent is to be invested in accordance with these applicable statutes.

As of September 30, 2018, the Board had cash with fiscal agents invested as follows:

Investments	Maturities	Rating	Fair Value
Fidelity Investments Money Market Funds – Treasury Only	180 Days or Less	AAAm	$ 29,946.93
United States Treasury Bills	10 Years or Less	N/A	795,666.01
Total			$825,612.94

Cash with fiscal agent also included $1,244,432.22 of QSCB, Series 2009 funds that are actually held by the State of Alabama for future debt payment. The funds are recorded by the Board as cash with fiscal agent in the Debt Service Fund.

Fair Value Measurement

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

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

U. S. Treasury Securities investments of $825,612.94 for Governmental Funds are valued based on an independent vendor service (Level 1 inputs).

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 – 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.

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 a formal investment policy that limits the amount of securities that can be held by counterparties.

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 a single issuer.

Note 4 – Receivables

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

	General Fund	Special Revenue Fund	Totals
Receivables:			
Accounts	$	$ 47.75	$ 47.75
Taxes	118,570.87		118,570.87
Intergovernmental	76,805.60	144,775.64	221,581.24
Total Receivables	$195,376.47	$144,823.39	$340,199.86

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 and Land Improvements	$ 1,257,515.38	$ 91,730.38	$	$ 1,349,245.76
Construction in Progress		111,350.00		111,350.00
Total Capital Assets, Not Being Depreciated	1,257,515.38	203,080.38		1,460,595.76
Capital Assets Being Depreciated:				
Buildings	20,299,441.79			20,299,441.79
Buildings Improvements	11,090,773.94			11,090,773.94
Equipment and Furniture	1,242,776.37	27,173.36		1,269,949.73
Vehicles	3,052,495.26	153,408.02	(59,328.58)	3,146,574.70
Total Capital Assets Being Depreciated	35,685,487.36	180,581.38	(59,328.58)	35,806,740.16
Less Accumulated Depreciation for:				
Buildings	(6,263,353.12)	(376,910.32)		(6,640,263.44)
Buildings Improvements	(3,320,792.84)	(341,995.93)		(3,662,788.77)
Equipment and Furniture	(991,582.97)	(64,537.72)		(1,056,120.69)
Vehicles	(1,948,037.28)	(207,211.26)	58,735.29	(2,096,513.25)
Total Accumulated Depreciation	(12,523,766.21)	(990,655.23)	58,735.29	(13,455,686.15)
Total Capital Assets Being Depreciated, Net	23,161,721.15	(810,073.85)	(593.29)	22,351,054.01
Governmental Activities Capital Assets, Net	$ 24,419,236.53	$(606,993.47)	$ (593.29)	$ 23,811,649.77

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

	Current Year Depreciation Expense
Governmental Activities:	
Instruction	$705,819.14
Instructional Support	415.68
Operation and Maintenance	8,214.14
Auxiliary Services:	
Food Service	66,540.37
Student Transportation	208,147.26
General Administration and Central Support	1,518.64
Total Depreciation Expense – Governmental Activities	$990,655.23

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 $1,483,239.78 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 $18,235,000.00 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2016. The Board's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2017, the Board's proportion was 0.185531%, which was a decrease of 0.000787% from its proportion measured as of September 30, 2016.

For the year ended September 30, 2018, the Board recognized pension expense of $1,519,000.00. 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	$	$ 782,000.00
Changes of assumptions	1,088,000.00	
Net difference between projected and actual earnings on pension plan investments		1,090,000.00
Changes in proportion and differences between Employer contributions and proportionate share of contributions	13,000.00	203,000.00
Employer contributions subsequent to the measurement date	1,483,239.78	
Total	$2,584,239.78	$2,075,000.00

The $1,483,239.78 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	$(226,000.00)
2020	$ 87,000.00
2021	$(434,000.00)
2022	$(379,000.00)
2023	$ (22,000.00)
Thereafter	$

E. Actuarial Assumptions

The net 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 for TRS were based on the 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 Equivalents	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, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

	1% Decrease (6.75%)	Current Rate (7.75%)	1% Increase (8.75%)
Board's proportionate share of collective net pension liability	$25,152	$18,235	$12,384
(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 Public Education Employees' Health Insurance Plan (PEEHIP). Active and retiree health insurance benefits are paid through PEEHIP. In accordance with GASB, the Trust is considered a component unit of the State of Alabama (the "State") and is included in the State's Comprehensive Annual Financial Report.

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 Board. 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 $17,609,320.00 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2016. The Board's proportion of the net OPEB liability was based on a projection of the Board's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At September 30, 2017, the Board's proportion was 0.237085%, which was a decrease of 0.013287% from its proportion measured as of September 30, 2016.

For the year ended September 30, 2018, the Board recognized OPEB expense of $892,416.00, with no special funding situations. At September 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	$	$1,828,374.00
Net difference between projected and actual earnings on OPEB plan investments		93,753.00
Changes in proportion and differences between Employer contributions and proportionate share of contributions		895,903.00
Employer contributions subsequent to the measurement date	598,307.85	
Total	$598,307.85	$2,818,030.00

The $598,307.85 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	$(544,333.00)
2020	$(544,333.00)
2021	$(544,333.00)
2022	$(544,333.00)
2023	$(520,895.00)
Thereafter	$(119,803.00)

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 (*)	3.25% - 5.00%
Long-Term Investment Rate of Return (**)	7.25%
Municipal Bond Index Rate at the Measurement Date	3.57%
Municipal Bond Index Rate at the Prior Measurement Date	2.93%
Projected Year for Fiduciary Net Position (FNP) to be Depleted	2042
Single Equivalent Interest Rate the Measurement Date	4.63%
Single Equivalent Interest Rate the Prior Measurement Date	4.01%
Healthcare Cost Tread 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

(*) Includes 3.00% wage inflation.
(**) Compounded annually, net of investment expense and includes inflation.

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

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

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

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

The long-term expected return on plan assets is to be reviewed as part of regular experience studies prepared every five years, in conjunction with similar analysis for the Teachers' Retirement System of Alabama. Several factors should be considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent 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 Real Rate of Return (*)
Fixed Income	30.00%	4.40%
U. S. Large Stocks	38.00%	8.00%
U. S. Mid Stocks	8.00%	10.00%
U. S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	15.00%	9.50%
Cash	5.00%	1.50%
Total	100.00%	

(*) Geometric mean, includes 2.5% inflation

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	$14,217,436.00	$17,609,320.00	$21,985,778.00

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	$21,286,004.00	$17,609,320.00	$14,678,543.00

H. OPEB Plan Fiduciary Net Position

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

Note 8 – Long-Term Debt

On July 1, 2018, the Board issued $7,485,000.00 in Taxable School Refunding Warrants, Series 2018-A, dated July 1, 2018, with interest rates from 3.625% to 4.125%. The Series 2018-A Warrants are issued for the following purposes: advance refunding and defeasance of all of the outstanding Public Education Revenue Bonds, Series 2011 issued by the Henry County Public Education Cooperative District on behalf of the Board, and paying the costs of issuing the Series 2018-A Warrants.

On July 1, 2018, the Board issued $7,855,000.00 in Capital Outlay School Warrants, Series 2018-B, dated July 1, 2018, with interest rates from 3.625% to 3.750%. The Series 2018-B Warrants are issued for the following purposes: providing funds for capital projects by the Board and paying the costs of issuing the Series 2018-B Warrants.

On July 1, 2016, the Board issued $1,670,000.00 in Capital Outlay School Warrants, Series 2016, dated July 1, 2016, with interest rates from 1.75% to 3.0%. The Series 2016 Warrants are issued for the following purposes: advance refunding and defeasance of certain of the outstanding Public Education Revenue Bonds, Series 2011 issued by the Henry County Public Education Cooperative District on behalf of the Board, and paying the costs of issuing the Series 2016 Warrants.

On February 1, 2015, the Board issued $3,465,000.00 in Capital Outlay School Warrants, Series 2015, dated February 1, 2015, with interest rates from 0.50% to 4.0%. The Series 2015 Warrants are issued for the following purposes: advance refunding and defeasance of all of the outstanding Tax Anticipation Warrants, Series 2006 issued by Henry County Public Education Cooperative District on behalf of the Board, paying for various capital improvements to the Board's public school facilities, and paying the costs of issuing the Series 2015 Warrants.

On April 8, 2010, the Board entered into an agreement with First Security Leasing for the payment of a contract to Schneider Electric for building improvements to provide energy savings. The principal amount of the loan is $672,714.04 and is to be paid off in October 2025.

Qualified Zone Academy Bonds (QZAB's)

On June 21, 2005, a Trustee issued Certificates of Participation in Qualified Zone Academy Bonds (QZAB's), which were to be sold to one or more commercial banks. The ratable portion of the proceeds of the sale of the Certificates of Participation allocable to each Board of Education were deposited in a separate account of the Project Fund and are available for use only for the related Board of Education and its QZAB projects. The Henry County Board of Education issued Qualified Zone Academy Bonds totaling $1,000,000 and received net proceeds totaling $950,000 after paying issuance costs of $50,000. As also described in the Official Proposal Form, it is contemplated that the Alabama School Finance Cooperative and the Trustee (with written endorsement of each Board of Education) will enter into a guaranteed investment contract that will provide for the investment of moneys sufficient to pay each Board's payment at the maturity date of the QZAB's, which is July 12, 2015. The Henry County Board of Education is required to make level annual escrow payments of $75,475.07 beginning July 12, 2006, and ending July 12, 2015, that, together with the earnings under the guaranteed investment contract, will be sufficient to make the base payment at the maturity date, whereupon the Board's obligation will be satisfied. None of the base payment represents the payment of interest. Deposits made into the escrow fund shall remain the property of the Board pledged to the payment of the base payment to the Alabama School Finance Cooperative on the base payment date.

PSCA Capital Outlay Bonds

On December 16, 2009, the Alabama Public School and College Authority issued Capital Improvement Pool Qualified School Construction Bonds Series 2009-D (Tax Credit Bonds) with a tax credit rate of 5.76% and interest rate of 1.865% on behalf of various Boards of Education in the State. The Board had a 2.058% participation in the bonds resulting in the Board's share of principal, issuance costs and net proceeds of $3,002,000.00, $26,425.00 and $2,975,574.64, respectively. The Board is required to make sinking fund deposits of $156,227.66 on December 15 of each year for fifteen years so that such deposits and any interest earned thereon shall be used to pay the principal of the bonds upon maturity and are pledged to pay the debt service requirements of the bonds. The sinking fund deposits and interest payments are payable from and secured by a pledge of the Board's allocable share of Public School Capital Outlay Funds.

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:					
Bonds/Warrants and Notes Payable:					
Bonds/Warrants Payable	$14,672,000.00	$15,340,000.00	$ (6,980,000.00)	$23,032,000.00	$160,000.00
Unamortized Discount		(262,346.05)	1,656.12	(260,689.93)	(9,935.80)
Notes Payable	617,822.30		(58,115.97)	559,706.33	61,529.59
Total Bonds/Warrants and Notes Payable	15,289,822.30	15,077,653.95	(7,036,459.85)	23,331,016.40	211,593.79
Other Liabilities:					
Certificate of Participation Payables – Qualified Zone Academy Bonds (QZAB)	1,000,000.00			1,000,000.00	
Net Pension Liability	20,171,000.00		(1,936,000.00)	18,235,000.00	
Net OPEB Liability	20,110,473.00		(2,501,153.00)	17,609,320.00	
Total Other Liabilities	41,281,473.00		(4,437,153.00)	36,844,320.00	
Total Governmental Activities Long-Term Liabilities	$56,571,295.30	$15,077,653.95	$(11,473,612.85)	$60,175,336.40	$211,593.79

(*) The beginning balance was restated due to the implementation of GASB Statement Number 75 – see Note 11.

Payments on the bonds and warrants payable are made by the Debt Service Fund with ad valorem property taxes; sales and use taxes; and Public School Funds withheld from the Board's allocation from the Alabama Department of Education. The long-term notes payable are for energy savings building improvements and payments are made from the Debt Service Fund.

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

	Taxable School Tax Refunding Warrants, Series 2018-A		Capital Outlay School Warrants, Series 2018-B	
Fiscal Year Ending	Principal	Interest	Principal	Interest
September 30, 2019	$	$ 257,116.16	$	$ 252,996.25
2020		296,672.50		291,918.76
2021		296,672.50		291,918.76
2022		296,672.50		291,918.76
2023		296,672.50		291,918.76
2024-2028		1,483,362.50		1,459,593.80
2029-2033	1,895,000.00	1,311,819.42		1,459,593.80
2034-2038	3,250,000.00	830,131.30		1,459,593.80
2039-2043	2,340,000.00	142,550.65	2,115,000.00	1,416,456.30
2044-2048			5,740,000.00	661,687.50
Totals	$7,485,000.00	$5,211,670.03	$7,855,000.00	$7,877,596.49

	Long-Term Notes Payable		Qualified School Construction Bonds Series 2009	
Fiscal Year Ending	Principal	Interest	Principal	Interest
September 30, 2019	$ 61,529.59	$ 31,529.07	$	$ 55,987.32
2020	65,143.72	27,914.94		55,987.32
2021	68,970.14	24,088.52		55,987.32
2022	73,021.32	20,037.34		55,987.32
2023	77,310.46	15,748.20		55,987.32
2024-2028	213,731.10	18,915.55	3,002,000.00	125,971.16
2029-2033				
2034-2038				
2039-2043				
2044-2048				
Totals	$559,706.33	$138,233.62	$3,002,000.00	$405,907.76

Capital Outlay School Warrants, Series 2016		Tax Anticipation Capital Improvement Warrants, Series 2015	
Principal	Interest	Principal	Interest
$ 15,000.00	$ 41,066.25	$ 145,000.00	$ 94,750.00
20,000.00	40,760.00	145,000.00	92,937.50
20,000.00	40,410.00	155,000.00	90,687.50
20,000.00	40,060.00	155,000.00	87,975.00
20,000.00	39,710.00	160,000.00	84,825.00
215,000.00	189,825.00	895,000.00	359,562.50
345,000.00	157,765.00	1,140,000.00	170,600.00
570,000.00	103,935.00	260,000.00	5,200.00
410,000.00	18,600.00		
$1,635,000.00	$672,131.25	$3,055,000.00	$986,537.50

Certificates of Participation Payable – QZAB		Total Principal and Interest Requirements to Maturity
Principal	Interest	
$	$	$ 954,974.64
		1,036,334.74
1,000,000.00		2,043,734.74
		1,040,672.24
		1,042,172.24
		7,962,961.61
		6,479,778.22
		6,478,860.10
		6,442,606.95
		6,401,687.50
$1,000,000.00	$	$39,883,782.98

Deferred Outflows on Refunding and Discounts

The Board has a deferred loss on refunding and a discount in connection with the issuance of the Taxable School Tax Refunding Warrants, Series 2018-A. The deferred loss and discount are being amortized using the straight-line method over a period of 268 months.

The Board has a discount in connection with the issuance of the Capital Outlay School Warrants, Series 2018-B. The discount is being amortized using the straight-line method over a period of 358 months.

	Deferred Loss on Refunding	Discount
Total Deferred Loss on Refunding and Discount	$956,747.20	$262,346.05
Amount Amortized Prior Years		
Balance Deferred Loss on Refunding and Discount	956,747.20	262,346.05
Current Amount Amortized	(7,139.98)	(1,656.12)
Balance Deferred Loss on Refunding and Discount	$949,607.22	$260,689.93

Pledged Revenues

The Board issued Series 2015 and Series 2016 Capital Outlay School Warrants which are pledged to be repaid with the Board's share of the County's Sales and Use Tax. A portion of the sales tax is authorized by Act Number 827, Acts of Alabama 1973, and the Board receives 50% of this tax. There is also a special sales tax levied by the Henry County Commission pursuant to provisions of the ***Code of Alabama 1975***, Section 40-12-4, of which the Board receives 100% of the proceeds. The proceeds of the Capital Outlay Warrants, Series 2015, were used for advance refunding and defeasance of all of the outstanding Tax Anticipation Warrants, Series 2006 issued by Henry County Public Education Cooperative District on behalf of the Board, paying for various capital improvements to the Board's public school facilities, and paying the costs of issuing the Series 2015 Warrants. The proceeds of the Capital Outlay Warrants, Series 2016, were used for advance refunding and defeasance of certain of the outstanding Public Education Revenue Bonds, Series 2011 issued by the Henry County Public Education Cooperative District on behalf of the Board, and paying the costs of issuing the Series 2016 Warrants. Future revenues in the amount of $6,348,668.75 are pledged to repay the interest and principal on the tax anticipation warrants as of September 30, 2018. Proceeds from the County's Sales and Use Tax in the amount of $1,657,669.47 were received by the Board during the fiscal year ending September 30, 2018, of which $292,503.75 was used to pay principal and interest on the Capital Outlay Warrants. The Series 2015 Warrants will mature in fiscal year 2034. The Series 2016 Warrants will mature in fiscal year 2041.

The Board had participation in the Capital Improvement Pool Qualified Construction Bonds Series 2009-D issued by the Alabama Public School and College Authority. The Board's sinking fund deposits and interest payments are pledged to be repaid with the Board's allocation share of Public School Capital Outlay Funds. The proceeds of the bonds are to be used for kitchen and classroom projects at local schools. Future revenues in the amount of $3,407,907.76 are pledged to repay the principal and interest on the bonds at September 30, 2018. Proceeds from the allocation of Public School Capital Outlay Funds in the amount of $577,916.68 were received by the Board during the fiscal year ending September 30, 2018, of which $55,987.32 was used to pay interest on the bonds. The Series 2009 Qualified School Construction Bonds will mature in fiscal year 2026.

The Board issued Series 2018-A Taxable School Refunding Warrants and Series 2018-B Capital Outlay School Warrants which are pledged to be repaid with the proceeds received from the Board's 3 mill district ad valorem tax and county-wide 5 mill, 3 mill, and 1 mill ad valorem taxes. The 3 mill district ad valorem tax is authorized by Constitutional Amendment 3 of the Constitution of Alabama, 1901. The Board's county-wide 5 mill, 3 mill, and 1 mill ad valorem taxes are levied by the Henry County Commission pursuant to provisions of the ***Code of Alabama 1975***, Section 16-13-165 and Section 16-13-188. The proceeds from Series 2018-A Warrants will be used for the advance refunding and defeasance of the Public Education Revenue Bonds, Series 2011. The proceeds of the 2018-B Warrants will be used for providing funds for capital projects. Future revenues in the amount of $28,429,266.52 are pledged to repay the principal and interest on the warrants as of September 30, 2018. Proceeds from the ad valorem taxes in the amount of $1,585,970.00 were received by the Board during the fiscal year ending September 30, 2018, none of which was used to pay the principal and interest on the warrants (since this was the year of debt issuance). The Series 2018-A Taxable School Refunding Warrants will mature in fiscal year 2041. The Series 2018-B Capital Outlay School Warrants will mature in fiscal year 2048.

Defeased Debt

On July 1, 2018, the Board issued $7,485,000.00 in Taxable School Refunding Warrants, Series 2018-A with interest rates of 3.625 to 4.125 percent to advance refund $6,780,000.00 of outstanding Public Education Revenue Bonds, Series 2011 with an interest rate of 1.00 to 5.375 percent. The net proceeds of $7,236,312.72 (after payment of $130,006.73 in underwriting fees, and other issuance costs) were used to purchase U. S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Public Education Revenue Bonds, Series 2011. As a result, the Public Education Revenue Bonds, Series 2011 are considered to be defeased and the liability for those warrants has been removed.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $456,312.72. This difference was combined with the remaining difference of the old debt and amortized over the life of the new debt. As a result of the advance refunding, the Board decreased its total debt service requirements by $156,711.57 which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of $67,189.67.

Note 9 – Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board has insurance for its buildings and contents through the State Insurance Fund (SIF) part of the State of Alabama, Department of Finance, Division of Risk Management, which operates as a common risk management and insurance program for state owned properties and county boards of education. The Board pays an annual premium based on the amount of coverage requested. The SIF is self-insured up to $3.5 million per occurrence and purchases commercial insurance for claims in excess of $3.5 million. Automobile liability insurance and errors and omissions insurance are 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 10 – Interfund Transactions

Interfund Transfers

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

	General Fund	Special Revenue Fund	Other Governmental Fund	Totals
Transfers Out:				
General Fund	$	$224,665.00	$223,337.23	$448,002.23
Special Revenue Fund	61,225.83			61,225.83
Capital Projects Fund			52,821.68	52,821.68
Totals	$61,225.83	$224,665.00	$276,158.91	$562,049.74

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

Note 11 – Restatement

In fiscal year 2018, the Board adopted Governmental Accounting Standards Board (GASB) Statement Number 75, ***Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions***, as amended by GASB Statement Number 85, ***Omnibus 2017***. The provisions of this Statement establish accounting and financial reporting standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures for postemployment benefits other than pensions (other postemployment benefits or OPEB). 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 a restatement of the September 30, 2017, net position in Governmental Activities. The impact of the restatement is as follows:

	Governmental Activities
Governmental Activities, Net Position, September 30, 2017, as Previously Reported	$ (4,674,088.17)
Restatement Due to the Adoption of GASB Statement Number 75:	
Deferred Outflows of Resources	575,539.00
Net OPEB Liability	(20,110,473.00)
Governmental Activities, Net Position, September 30, 2017, as Restated	$(24,209,022.17)

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	0.185531%	0.186318%
Employer's proportionate share of the collective net pension liability	$ 18,235	$ 20,171
Employer's covered payroll during the measurement period (*)	$ 12,296	$ 11,856
Employer's proportionate share of the collective net pension liability as a percentage of its covered payroll	148.30%	170.13%
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	
	0.187710%		0.189010%
$	19,645	$	17,171
$	11,846	$	11,989
	165.84%		143.22%
	67.51%		71.01%

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

	2018	2017
Contractually required contribution	$ 1,483	$ 1,453
Contributions in relation to the contractually required contribution	$ 1,483	$ 1,453
Contribution deficiency (excess)	$	$
Employer's covered payroll	$ 12,316	$ 12,296
Contributions as a percentage of covered payroll	12.04%	11.82%

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

2016		2015	
$	1,400	$	1,382
$	1,400	$	1,382
$		$	
$	11,856	$	11,846
	11.81%		11.67%

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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		0.237085%
Employer's proportionate share of the collective net OPEB liability	$	17,609
Employer's covered payroll during the measurement period (*)	$	12,296
Employer's proportionate share of the collective net OPEB liability as a percentage of its covered payroll		143.21%
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 - 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 Post Employment Benefits (OPEB) Alabama Retired Education Employees' Health Care Trust For the Year Ended September 30, 2018 (Dollar amounts in thousands)

		2018
Contractually required contribution	$	598
Contributions in relation to the contractually required contribution	$	598
Contribution deficiency (excess)	$	
Employer's covered payroll	$	12,316
Contributions as a percentage of covered payroll		4.86%

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%
Medicate 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	$ 15,011,186.01	$ 15,082,698.28	$ 15,249,844.47
Federal	1,200.00	1,200.00	49,568.28
Local	3,462,786.14	3,462,786.14	3,647,435.54
Other	20,100.00	20,100.00	39,556.42
Total Revenues	18,495,272.15	18,566,784.42	18,986,404.71
Expenditures			
Current:			
Instruction	10,778,670.17	10,702,256.49	10,926,126.75
Instructional Support	3,025,417.49	3,043,524.76	3,083,492.22
Operation and Maintenance	1,161,919.08	1,292,875.08	1,446,839.53
Auxiliary Services:			
Student Transportation	1,251,772.32	1,250,635.00	1,356,802.97
Food Service			965.34
General Administration and Central Support	1,168,992.15	1,168,992.15	1,119,803.41
Other	615,236.36	615,236.36	861,738.06
Capital Outlay	83,532.78	83,532.78	84,230.38
Total Expenditures	18,085,540.35	18,157,052.62	18,879,998.66
Excess (Deficiency) of Revenues Over Expenditures	409,731.80	409,731.80	106,406.05
Other Financing Sources (Uses)			
Transfers In			61,225.83
Other Financing Sources	180,000.00	180,000.00	1,049.32
Sale of Capital Assets	5,000.00	5,000.00	
Transfers Out	(717,256.97)	(717,256.97)	(448,002.23)
Total Other Financing Sources (Uses)	(532,256.97)	(532,256.97)	(385,727.08)
Net Change in Fund Balances	(122,525.17)	(122,525.17)	(279,321.03)
Fund Balances - Beginning of Year	2,590,968.39	2,340,432.87	2,940,128.74
Fund Balances - End of Year	$ 2,468,443.22	$ 2,217,907.70	$ 2,660,807.71

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	$	$ 15,249,844.47
		49,568.28
(1)	18,538.98	3,665,974.52
		39,556.42
	18,538.98	19,004,943.69
(2)	(122,538.34)	10,803,588.41
(2)	(7,943.25)	3,075,548.97
(2)	2,567.20	1,449,406.73
(2)	(11,839.23)	1,344,963.74
		965.34
		1,119,803.41
(2)	(14,583.95)	847,154.11
		84,230.38
	(154,337.57)	18,725,661.09
	172,876.55	279,282.60
		61,225.83
		1,049.32
		(448,002.23)
		(385,727.08)
	172,876.55	(106,444.48)
(3)	(1,494,103.08)	1,446,025.66
	$ (1,321,226.53)	$ 1,339,581.18

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

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

The Board budgets on the modified accrual basis of accounting with the following exceptions:

(1) Local taxes are not budgeted as revenues unless receivable in time to pay budgeted expenditures.

(2) Salaries of teachers and other personnel with contracts of less than 12 months are paid over a 12 month period. Expenditures for salaries (and related fringe benefits) are budgeted based on the amount that will be paid from budgeted revenues. However, salaries (and related benefits) earned but not paid are reported as expenditures on the financial statements.

Net Change in Fund Balance - Budget to GAAP

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

$	18,538.98
	154,337.57
$	172,876.55

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			
State	$ 1,000.00	$ 1,000.00	$ 6,500.00
Federal	2,607,072.00	2,860,798.48	2,685,669.68
Local	1,412,455.00	1,412,455.00	1,507,019.40
Other	41,000.00	41,000.00	29,055.26
Total Revenues	4,061,527.00	4,315,253.48	4,228,244.34
Expenditures			
Current:			
Instruction	1,337,534.00	1,482,495.68	1,561,122.12
Instructional Support	359,278.42	437,318.55	470,799.69
Operation and Maintenance	23,775.00	41,774.00	93,454.13
Auxiliary Services:			
Student Transportation	28,195.00	28,195.00	15,201.88
Food Service	1,658,978.38	1,686,978.38	1,682,740.76
General Administration and Central Support	244,360.42	244,360.42	240,086.86
Other	342,289.16	355,014.83	301,054.34
Capital Outlay	30,000.00	30,000.00	34,673.36
Total Expenditures	4,024,410.38	4,306,136.86	4,399,133.14
Excess (Deficiency) of Revenues Over Expenditures	37,116.62	9,116.62	(170,888.80)
Other Financing Sources (Uses)			
Transfers In	512,091.33	512,091.33	224,665.00
Transfers Out	(22,000.00)	(22,000.00)	(61,225.83)
Total Other Financing Sources (Uses)	490,091.33	490,091.33	163,439.17
Net Change in Fund Balances	527,207.95	499,207.95	(7,449.63)
Fund Balances - Beginning of Year	1,329,312.02	1,239,584.83	1,249,039.26
Fund Balances - End of Year	$ 1,856,519.97	$ 1,738,792.78	$ 1,241,589.63

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	$	6,500.00
		2,685,669.68
		1,507,019.40
		29,055.26
		4,228,244.34
		1,561,122.12
		470,799.69
		93,454.13
		15,201.88
(1)	(5,958.41)	1,676,782.35
		240,086.86
		301,054.34
		34,673.36
	(5,958.41)	4,393,174.73
	5,958.41	(164,930.39)
		224,665.00
		(61,225.83)
		163,439.17
	5,958.41	(1,491.22)
(2)	(34,876.84)	1,214,162.42
	$ (28,918.43)	$ 1,212,671.20

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

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

The Board budgets on the modified accrual basis of accounting with the following exceptions:

(1) Salaries of teachers and other personnel with contracts of less than 12 months are paid over a 12 month period. Expenditures for salaries (and related fringe benefits) are budgeted based on the amount that will be paid from budgeted revenues. However, salaries (and related benefits) earned but not paid are reported as expenditures on the financial statements.

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.

$	5,958.41
$	5,958.41

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Supplementary Information

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

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number
U. S. Department of Agriculture	
Passed Through Alabama Department of Education	
Child Nutrition Cluster:	
School Breakfast Program - Cash Assistance	10.553
National School Lunch Program:	
Cash Assistance	10.555
Non-Cash Assistance (Commodities)	10.555
Sub-Total National School Lunch Program	
Sub-Total Child Nutrition Cluster (M)	
State Administrative Expenses for Child Nutrition	10.560
Fresh Fruit and Vegetable Program	10.582
Total U. S. Department of Agriculture	
U. S. Department of Education	
Passed Through Alabama Department of Education	
Title I Grants to Local Educational Agencies	84.010
Special Education Cluster:	
Special Education - Grants to States	84.027
Special Education - Preschool Grants	84.173
Sub-Total Special Education Cluster	
Career and Technical Education - Basic Grants to States	84.048
Supporting Effective Instruction State Grants	84.367
Student Support and Academic Enrichment Program	84.424
Passed Through Alabama Department of Early Childhood Education	
Preschool Development Grants	84.419
Total U. S. Department of Education	
Social Security Administration	
Passed Through Alabama Department of Education	
Social Security - Disability Insurance	96.001
Total Expenditures of Federal Awards	

(M) = Major Program
N/A = Not Available/Not Applicable

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

Pass-Through Grantor's Number	Total Federal Expenditures
N/A	$ 311,080.29
N/A	716,831.00
N/A	89,295.26
	806,126.26
	1,117,206.55
N/A	6,600.00
N/A	26,901.06
	1,150,707.61
S010A170001	804,074.59
H07A170015	574,516.00
H173A170088	20,467.15
	594,983.15
V048A170001	38,284.35
S367A170002	128,209.26
N/A	17,999.00
N/A	50,000.00
	1,633,550.35
N/A	980.00
	$ 2,785,237.96

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended September 30, 2018

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of the Henry 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 Henry County Board of Education, it is not intended to and does not present the financial position or changes in net position of the Henry 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 Henry County Board of Education has not elected to use the 10-percent de minimis indirect cost rate as allowed in the *Uniform Guidance*.

Additional Information

Board Members and Administrative Personnel

October 1, 2017 through September 30, 2018

Board Members		Term Expires
Hon. Mary Wiggins	Chairperson	2022
Hon. John Cameron	Vice-Chairperson	2018
Hon. Emanuel Davis	Member	2022
Hon. Eddie L. Chambers, Sr.	Member	2020
Hon. Jean Bush	Member	2018
Administrative Personnel		
Hon. Chris Padget	Superintendent	2020
Michelle Andrews	Chief School Financial Officer	Indefinite
Marc Nicholas	Chief School Financial Officer	June 20, 2018

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 Henry County Board of Education,
Superintendent and Chief School Financial Officer
Abbeville, Alabama

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards*** issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Henry 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 Henry County Board of Education's basic financial statements and have issued our report thereon dated May 1, 2019.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Henry 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 Henry County Board of Education'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 Henry County Board of Education'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

May 1, 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 Henry County Board of Education,
Superintendent and Chief School Financial Officer
Abbeville, Alabama

Report on Compliance for Each Major Federal Program

We have audited the Henry 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 each of the Henry County Board of Education's major federal program for the year ended September 30, 2018. The Henry County Board of Education's major federal program is identified in the Summary of Examiner's Results Section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the 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 Henry County Board of Education's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States; and 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 Henry County Board of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Henry 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

<u>Opinion on the Major Federal Program</u>

In our opinion, the Henry County Board of Education complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2018.

<u>Report on Internal Control Over Compliance</u>

Management of the Henry 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 Henry 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 for the purpose of expressing our opinion on compliance for the major program and to test and report on internal control over compliance in accordance with the *Uniform Guidance*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Henry County Board of Education's internal control over compliance.

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

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

May 1, 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
10.553 and 10.555	Child Nutrition Cluster

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

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.	