

**SHEFFIELD CITY BOARD OF EDUCATION  
SHEFFIELD, ALABAMA**

**AUDITED  
FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2018**



**Certified Public Accountants**

# **SHEFFIELD CITY BOARD OF EDUCATION**

Sheffield, Alabama

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## INDEPENDENT AUDITORS' REPORT

Members of the Board  
Sheffield City Board of Education

### 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 Sheffield City 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 Sheffield City Board of Education's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Sheffield City Board of Education, as of September 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, the Schedule of the Board's Proportionate Share of the Net Pension Liability, the Schedule of Board Contributions – Pension, the Board's Proportionate Share of the Net OPEB Liability, and the Schedule of Board Contributions – OPEB on pages 35-41, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not 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. Our opinion on the basic financial statements is not affected by this missing information.

### *Other Information*

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

The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 3, 2019, on our consideration of the Sheffield City Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Board'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 Sheffield City Board of Education's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "The Sparks CPA Firm, P.C." in a cursive, flowing script.

The Sparks CPA Firm, P.C.  
Certified Public Accountants  
Red Bay, Alabama  
June 3, 2019

## **BASIC FINANCIAL STATEMENTS**

**SHEFFIELD CITY BOARD OF EDUCATION**  
**Statement of Net Position**  
**September 30, 2018**

	<b>Governmental Activities</b>
<b><u>Assets</u></b>	
Cash and cash equivalents	\$ 6,127,556
Ad Valorem property taxes receivable	1,338,045
Intergovernmental receivables	343,390
Inventories	40,747
Restricted assets	805,013
Capital assets:	
Nondepreciable	838,563
Depreciable, net	6,489,686
Total Assets	<u>15,983,000</u>
<b><u>Deferred Outflows of Resources</u></b>	
Employer pension contribution	793,998
Proportionate share of collective deferred outflows related to net pension liability	659,000
Employer OPEB Contribution	278,623
Total Deferred Outflows of Resources	<u>1,731,621</u>
<b><u>Liabilities</u></b>	
Accounts payable	161,406
Unearned revenue	9,284
Salaries and benefits payable	819,857
Accrued interest payable	9,622
Long-term liabilities:	
Portion due or payable within one year:	
Notes payable	55,108
Portion due or payable after one year:	
Notes payable	3,422,420
Net pension liability	9,797,000
Net OPEB liability	8,247,491
Total Liabilities	<u>22,522,188</u>
<b><u>Deferred Inflows of Resources</u></b>	
Unavailable revenue - property taxes	1,338,045
Proportionate share of collective deferred inflows related to net pension liability	1,397,000
Proportionate share of collective deferred inflows related to Net OPEB liability	1,621,727
Total Deferred Inflows of Resources	<u>4,356,772</u>
<b><u>Net Position</u></b>	
Net investment in capital assets	3,850,721
Restricted for:	
Expendable:	
Capital projects	16,133
Debt service	826,842
School based activities	119,981
Unrestricted	(13,978,016)
Total Net Position	<u>\$ (9,164,339)</u>

The notes to the financial statements are an integral part of this statement.

**SHEFFIELD CITY BOARD OF EDUCATION**  
**Statement of Activities**  
**For the Year Ended September 30, 2018**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities:</b>					
Instructional services	\$ 6,641,419	\$ 120,769	\$ 4,757,083	\$ 59,109	\$ (1,704,458)
Instructional support services	2,188,620	60,577	1,572,584	-	(555,459)
Operation and maintenance services	1,531,625	20,244	629,645	218,610	(663,126)
Auxiliary services:					
Student transportation	142,327	9,259	87,247	12,687	(33,134)
Food service	1,044,470	820,927	92,483	-	(131,060)
General administration and central support	814,571	3,949	438,298	-	(372,324)
Interest and fiscal charges	23,834	-	-	-	(23,834)
Other expenditures	521,754	16,312	518,084	-	12,642
Total Governmental Activities	<u>\$ 12,908,620</u>	<u>\$ 1,052,037</u>	<u>\$ 8,095,424</u>	<u>\$ 290,406</u>	<u>\$ (3,470,753)</u>
<b>General Revenues:</b>					
Taxes:					
Property taxes for general purposes				\$ 1,455,957	
Sales tax				1,029,152	
Alcohol beverage tax				20,095	
Other taxes				29,150	
Grants and contributions not restricted for specific programs				197,928	
Investment earnings				735,277	
Miscellaneous				400,427	
Total General Revenues				<u>3,867,986</u>	
Change in Net Position					<u>397,233</u>
Net Position - Beginning, as previously reported					(52,602)
Prior Period Adjustments					<u>(9,508,970)</u>
Net Position - Beginning, as restated					(9,561,572)
Net Position - Ending					<u>\$ (9,164,339)</u>



**SHEFFIELD CITY BOARD OF EDUCATION**  
**Balance Sheet - Governmental Funds**  
**September 30, 2018**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 6,051,706	\$ 75,850	\$ 6,127,556
Cash with fiscal agents	-	805,013	805,013
Ad Valorem property taxes receivable	1,338,045	-	1,338,045
Intergovernmental receivables	217,149	126,241	343,390
Due from other funds	21,769	170,000	191,769
Inventories	-	40,747	40,747
Total Assets	<u>\$ 7,628,669</u>	<u>\$ 1,217,851</u>	<u>\$ 8,846,520</u>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 86,107	\$ 75,299	\$ 161,406
Unearned revenue	-	9,284	9,284
Salaries and benefits payable	680,936	138,921	819,857
Due to other funds	170,000	21,769	191,769
Total Liabilities	<u>937,043</u>	<u>245,273</u>	<u>1,182,316</u>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue - property taxes	1,338,045	-	1,338,045
Total Deferred Inflows of Resources	<u>1,338,045</u>	<u>-</u>	<u>1,338,045</u>
<b>Fund Balances</b>			
Nonspendable:			
Inventory	-	40,747	40,747
Restricted:			
Capital projects	-	16,133	16,133
Debt service	-	836,464	836,464
Grant activities	-	10,454	10,454
Assigned:			
School based activities	-	68,780	68,780
Unassigned	5,353,581	-	5,353,581
Total Fund Balances	<u>5,353,581</u>	<u>972,578</u>	<u>6,326,159</u>
Total Liabilities and Fund Balances	<u>\$ 7,628,669</u>	<u>\$ 1,217,851</u>	<u>\$ 8,846,520</u>

The notes to the financial statements are an integral part of this statement.

**SHEFFIELD CITY BOARD OF EDUCATION**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Statement of Net Position**  
**September 30, 2018**

**Exhibit IV**

Total fund balances for governmental funds	\$	6,326,159
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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 in the funds:

Cost of capital assets	\$ 16,852,248	
Accumulated depreciation	<u>(9,523,999)</u>	7,328,249

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.	55,998
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Deferred outflows and inflows of resources related to OPEB obligations are applicable to future periods and, therefore, are not reported in the governmental funds.	(1,343,104)
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Long-term liabilities and related accrued interest are not due and payable in the current period and, therefore, are not reported in the funds:

Current portion of long-term debt	(55,108)	
Noncurrent portion of long-term debt	(3,422,420)	
Accrued interest payable	(9,622)	
Net pension liability	(9,797,000)	
Net OPEB liability	<u>(8,247,491)</u>	(21,531,641)

Net position of governmental activities	\$	<u><u>(9,164,339)</u></u>
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The notes to the financial statements are an integral part of this statement.

**SHEFFIELD CITY BOARD OF EDUCATION**  
**Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds**  
**For the Year Ended September 30, 2018**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
State sources	\$ 6,740,490	\$ 289,674	\$ 7,030,164
Federal sources	77,347	1,993,523	2,070,870
Local sources	3,803,905	309,470	4,113,375
Other sources	30,706	22,447	53,153
Total Revenues	<u>10,652,448</u>	<u>2,615,114</u>	<u>13,267,562</u>
<b>Expenditures:</b>			
Instructional services	5,523,645	809,223	6,332,868
Instructional support services	1,899,301	232,594	2,131,895
Operation and maintenance services	1,485,086	59,570	1,544,656
Auxiliary services:			
Student transportation	121,573	300	121,873
Food service	-	1,103,205	1,103,205
General administration and central support	638,640	180,639	819,279
Other expenditures	325,489	146,195	471,684
Capital outlay	93,172	1,500	94,672
Debt service:			
Principal	-	33,976	33,976
Interest	-	24,401	24,401
Total Expenditures	<u>10,086,906</u>	<u>2,591,603</u>	<u>12,678,509</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>565,542</u>	<u>23,511</u>	<u>589,053</u>
<b>Other Financing Sources (Uses)</b>			
Indirect cost	124,774	-	124,774
Transfers in	24,718	470,286	495,004
Insurance proceeds	38,292	-	38,292
Transfers out	(245,417)	(249,587)	(495,004)
Total Other Financing Sources (Uses)	<u>(57,633)</u>	<u>220,699</u>	<u>163,066</u>
Net Changes in Fund Balances	507,909	244,210	752,119
Fund Balances - Beginning	4,845,672	728,368	5,574,040
Fund Balances - Ending	<u>\$ 5,353,581</u>	<u>\$ 972,578</u>	<u>\$ 6,326,159</u>

The notes to the financial statements are an integral part of this statement.

**SHEFFIELD CITY BOARD OF EDUCATION**  
**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes**  
**in Fund Balances to the Statement of Activities**  
**For the Year Ended September 30, 2018**

Net changes in fund balances total governmental funds \$ 752,119

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

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	121,571	
Depreciation expense	<u>(450,983)</u>	(329,412)

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.

33,976

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

Accrued interest payable	567	
Pension expense	21,608	
OPEB expense	<u>(81,625)</u>	(59,450)

Change in net position of governmental activities		\$ <u><u>397,233</u></u>
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**SHEFFIELD CITY BOARD OF EDUCATION**  
**Statement of Fiduciary Assets and Liabilities**  
**September 30, 2018**

		<b>Agency Funds</b>
		<hr/>
<b>Assets</b>		
Cash	\$	<hr/> 92,530
Total Assets	\$	<hr/> <hr/> 92,530
<b>Liabilities</b>		
Due to student clubs	\$	<hr/> 92,530
Total Liabilities	\$	<hr/> <hr/> 92,530

The notes to the financial statements are an integral part of this statement.

**SHEFFIELD CITY BOARD OF EDUCATION**  
**Notes to Financial Statements**  
**For the Year Ended September 30, 2018**

**Note 1 – Summary of Significant Accounting Policies**

The accompanying financial statements of the Sheffield City Board of Education (the Board), have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The most significant of the Board's accounting policies are described below.

**A. Financial Reporting Entity**

As defined by accounting principles generally accepted in the United States of America, Sheffield City Board of Education is considered a "primary government." The Board is composed of five members appointed by the Sheffield City Council. The Board is responsible for the general administration and supervision of the public schools for the educational interests of the City.

For financial reporting purposes, the Board has included all funds and organizations. The Board has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Board are such that exclusion would cause the Board's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Board to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Board. 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. However, for financial reporting purposes the Board is considered a component unit of the City of Sheffield.

**B. Government-wide and Fund Financial Statements**

Government-wide Financial Statements – The Statement of Net Position and the Statement of Activities report information on all the non-fiduciary activities of the Board. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Position presents the Board's non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

1. Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by outstanding balances of bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.
2. Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property taxes and other items not included among program revenues are reported instead as general revenues.

**SHEFFIELD CITY BOARD OF EDUCATION**  
**Notes to Financial Statements**  
**For the Year Ended September 30, 2018**

Fund Financial Statements - Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported in separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other governmental funds.

The Board reports the following major governmental fund:

- 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 received revenue from the Educational Trust Fund (ETF) and local taxes. Amounts appropriated from the ETF were allocated to the school board on a formula basis.

All other governmental funds not meeting the criteria established for major funds are presented in the other governmental column of the fund financial statements.

Additionally, the Board reports the following fund types:

**Governmental Fund Types**

- Special Revenue Funds – These funds are used to account for and report the proceeds of specific revenue sources (other than those derived from special assessments or dedicated for major capital projects) that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.
- Debt Service Funds – These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.
- Capital Projects Funds – These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

**Fiduciary Fund Type**

- Agency Funds – Agency Funds are used to report resources held by the Board in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

**C. Measurement Focus, Basis of Accounting**

In the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting, as are the Fiduciary Fund financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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. Measurable means knowing or being able to reasonably estimate the amount. 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 government considers revenues to be available if they are collected within 60 days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and judgments, are recorded only when payment is due.

**SHEFFIELD CITY BOARD OF EDUCATION**  
**Notes to Financial Statements**  
**For the Year Ended September 30, 2018**

Federal grants and assistance awards made on the basis of entitlement periods are recorded as receivables and revenues when entitlement occurs. Federal reimbursement type grants are recorded as revenues when the related expenditures are recognized. Use of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulations, which include subjecting grants to financial and compliance audits.

Property taxes, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. Property taxes are assessed for property as of October 1 of the preceding year based on the millage rates established by legislation. Property taxes are due and payable on the following October 1 and are delinquent after December 31.

Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt 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 and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Board's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

The effect of inter-fund activity has been eliminated from the government-wide statements.

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

**1. Cash, Cash equivalents, and Investments**

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

The **Code of Alabama 1975** Sections 19-3-120 and 19-3-120.1 outline the provisions for investments of funds. For accounting purposes, certificates of deposit are classified as investments if they have an original maturity greater than three months when acquired. The Board did not hold any investments in the current fiscal year.

**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 taxes are assessed for property 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 uncollectable 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 and capital projects.



**SHEFFIELD CITY BOARD OF EDUCATION**  
**Notes to Financial Statements**  
**For the Year Ended September 30, 2018**

**3. Inventories**

Donated commodities are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in/first-out basis). The costs of governmental fund type inventories are reported as expenditures when purchased.

**4. Restricted Assets**

Certain resources set aside for repayment of debt or for capital projects and improvements are classified as cash with fiscal agent and investments on the Balance Sheet and are classified as restricted assets on the Statement of Net Position because their use is limited.

**5. Capital Assets**

Capital assets, which include property, equipment, and infrastructure assets, are reported in the applicable governmental column in the government-wide financial statements. Such assets are valued at cost where historical records are available and an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the Board as assets with an initial, individual cost in excess of the thresholds in the table below.

Capital acquisition and construction are reflected as expenditures in the governmental fund statements and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statements.

Depreciation is calculated on the straight-line basis for all assets, except land.

The following schedule details the capitalization thresholds:

	Capitalization Threshold	Estimated Useful Life
Land	\$ 0	N/A
Land Improvements	50,000	20 years
Buildings	50,000	20-50 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/Inflows of Resources**

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Board reports deferred outflows of resources for employer contributions that are made subsequent to the management date and the Board's proportionate share of collective deferred outflows related to net pension liability.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Board presents deferred inflows of resources for unavailable revenue – property taxes and the Board's proportionate share of collective deferred inflows related to net pension liability.

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**7. Long-term Obligations**

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

In the fund financial statements, governmental fund types recognize debt issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**8. Compensated Absences**

Board approved employees earn non-vesting sick leave at the rate of one day per month worked. Employees hired prior to January 31, 2013 are considered Tier I employees and may use their accrued sick leave as membership service in determining the total years of creditable service in the teachers' retirement system, with no additional cost to the Board. Because employees do not receive compensation for unused sick leave at termination, no liability is recorded on the financial statements. Sick days are earned based on the number of whole months worked.

The Board has approved 4 days per year of personal leave with pay. Any unused personal leave is converted to sick leave; thus, no liability is recorded in the financial statements. Because unused personal leave cannot be carried over to succeeding years, no liability for unpaid leave is accrued in the financial statements.

Full-time members of the professional staff employed on a twelve-month basis for the fiscal year are entitled to ten (10) days of vacation per year. Unused vacation days are not allowed to accrue from one year to the next.

**9. Pensions**

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

**10. Postemployment Benefits Other Than Pensions (OPEB)**

The Alabama Retired Education Employees' Health Care Trust (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.

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**11. Net Position/Fund Balance**

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

- Net investment in capital assets – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. Any significant unspent related debt proceeds 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 – Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of the Board.  
Fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Governmental fund balance is classified as nonspendable, restricted, committed, assigned, or unassigned. Following are descriptions of fund classifications used by the Board:

*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 in-tact. 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.

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

*Committed fund balances* consist of amounts that are subject to a purpose constraint imposed by formal action of the Board before the end of the fiscal year and that require the same level of formal action to remove the constraint. The Board currently does not report any committed fund balances.

*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 Finance Officer to make a determination of the assigned amounts of fund balance. Such assignments may not exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. Assigned fund balances require the same level of authority to remove the constraint.

*Unassigned fund 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.

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**12. Change in Accounting Principle**

The Board implemented the following standard issued by the Governmental Accounting Standards Board (GASB) in the current fiscal year as required:

- GASB Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.

**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 except for salaries and benefits, which are budgeted only to the extent expected to be paid rather than on the modified accrual basis of accounting. Also, ad valorem taxes and certain federal revenues are budgeted only to the extent expected to be received rather than on the modified accrual basis of accounting. All other governmental funds adopt budgets on the modified accrual basis of accounting with the same exceptions if applicable. Capital project funds adopt project-length budgets. All appropriations lapse at fiscal year-end.

On or before October 1 of each year, the Board is required to prepare and submit to the State Superintendent of Education the annual budget to be adopted by the Board. The Superintendent or City Board of Education cannot approve any budget for operations of the school for any fiscal year, which shows expenditures in excess of income estimated to be available, plus any balances on hand.

Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

**Note 3 – Cash and Cash Equivalents, Cash with Fiscal Agents**

**Cash and Cash Equivalents**

The carrying amount of the Board's deposits with financial institutions reported in the governmental funds was \$6,127,556 and \$92,530 in the fiduciary funds.

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 Depository 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.

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Concentration 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 held 100% of its demand deposits at First Metro Bank.

**Cash with Fiscal Agents**

The carrying amount of cash with fiscal agents held by financial institutions at September 30, 2018 was \$805,013.

**Note 4 – Inter-fund Receivables, Payables, and Transfers**

Due From/To Other Funds

Receivable Fund	Payable Fund	Total
General Fund	Other Governmental Funds	\$ 21,769
Other Governmental Funds	General Fund	170,000
Total		<u>\$ 191,769</u>

Inter-fund transfers during the fiscal year ended September 30, 2018 were as follows:

Transfer In	Transfer Out	Total
General Fund	Other Governmental Funds	\$ 24,718
Other Governmental Funds	General Fund	245,417
Other Governmental Funds	Other Governmental Funds	224,869
Total		<u>\$ 495,004</u>

The Board typically uses transfers to fund ongoing operating subsidies, to recoup certain expenditures paid on behalf of the local schools, and to transfer any remaining balance in Debt Service to the General Fund after all debt obligations for the year have been made.

**Note 5 – Restricted Assets**

The restricted assets of \$805,013 represent the sinking fund portion of the 2014 Qualified Zone Academy Bond at September 30, 2018.

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**Note 6 – Capital Assets**

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

	Balance 10/1/2017	Additions	Deletions	Reclassified	Balance 09/30/2018
Governmental activities:					
Capital assets not being depreciated:					
Land and land improvements	\$ 837,063	\$ 1,500	\$ -	\$ -	\$ 838,563
Construction in progress	654,736	93,172	-	(747,908)	-
Total capital assets not being depreciated	1,491,799	94,672	-	(747,908)	838,563
Capital assets being depreciated:					
Buildings	5,937,874	-	-	747,908	6,685,782
Building improvements	8,185,778	-	-	-	8,185,778
Equipment & furniture	714,033	5,152	-	-	719,185
Vehicles	401,193	21,747	-	-	422,940
Total capital assets being depreciated	15,238,878	26,899	-	747,908	16,013,685
Less accumulated depreciation for:					
Buildings	4,327,817	60,917	-	-	4,388,734
Building improvements	3,950,658	335,074	-	-	4,285,732
Equipment & furniture	542,891	32,255	-	-	575,146
Vehicles	251,650	22,737	-	-	274,387
Total accumulated depreciation	9,073,016	450,983	-	-	9,523,999
Total depreciable capital assets, net	6,165,862	(424,084)	-	747,908	6,489,686
Governmental activities capital assets, net	\$ 7,657,661	\$ (329,412)	\$ -	\$ -	\$ 7,328,249

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

Governmental Activities:	Depreciation Expense
Instructional services	\$ 280,215
Instructional support services	45,737
Operations & maintenance services	5,400
Student transportation	18,880
Food service	43,284
General administrative	6,524
Other expenditures	50,943
Total Depreciation Expense - Governmental Activities	\$ 450,983

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**Note 7 – Long Term Debt**

The following is a summary of the general long-term debt transactions for the Board for the year ended September 30, 2018:

Description	Balance 9/30/2017	Additions	Reductions	Balance 09/30/2018	Amounts Due Within One Year
Capital Improvement Pool Bonds, Series 2009-C	\$ 69,398	-	33,976	\$ 35,422	\$ 35,422
Capital Improvement Pool Bonds, Series 2015-B	442,106	-	-	442,106	19,686
QZAB Bond, Series 2014	3,000,000	-	-	3,000,000	-
Totals	\$ <u>3,511,504</u>	<u>-</u>	<u>33,976</u>	\$ <u>3,477,528</u>	\$ <u>55,108</u>

**A. Capital Improvement Pool Bonds, Series 2009-C**

The Sheffield City Board of Education, Capital Improvement Pool Bond Series 2009-C, dated October 28, 2009, was authorized in the amount of \$779,690 at a rate of 4.49% and a maturity date of May 1, 2019. The warrant was issued to finance capital improvements to the various schools in the system.

The warrant will be payable solely out of and secured by the annual amounts of Leveraged Funds allocated and distributed to the Sheffield City Board of Education (the pledged revenues) that is equal to the principal and interest due on the above described debt, pursuant to the said section 16-13-234, Code of Alabama 1975 (the leveraged funds). The Series 2009-C was partially refunded by the issuance of the Capital Improvement Pool Refunding Bonds, Series 2015-B.

Payment of principal and interest on this warrant to the Alabama Public School and College Authority will be made by the finance director of the State of Alabama.

<u>Fiscal Year Ending September 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service to Maturity</u>
2019	\$ 35,422	\$ 1,417	\$ 36,839
Totals	\$ <u>35,422</u>	\$ <u>1,417</u>	\$ <u>36,839</u>

**B. Capital Improvement Pool Bonds, Series 2015-B**

On May 5, 2015, The Alabama Public School and College Authority, on behalf of various Boards of Education in the pool, issued \$47,610,000 in Capital Improvement Pool Refunding Bonds Series 2015-B (Series 2015-B) with interest rates ranging from 3.00% to 5.00% to partially refund \$29,790,000 of outstanding Capital Improvement Bonds Series 2008 (Series 2008) with interest rates ranging from 3.25% to 4.25% and \$22,415,000 of outstanding Capital Improvement Bonds Series 2009-C (Series 2009-C) with interest rates ranging from 3.00% to 4.00%. The Board had .93% participation in the Series 2009-C Bonds. This resulted in the Board being obligated for \$442,106 of the total principal of \$47,610,000. These bonds have a maturity date of May 1, 2029.

The warrant will be payable solely out of and secured by the annual amounts of Leveraged Funds allocated and distributed to the Sheffield City Board of Education (the pledged revenues) that is equal to

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the principal and interest due on the above described debt, pursuant to the said section 16-13-234, Code of Alabama 1975 (the leveraged funds).

Payment of principal and interest on this warrant to the Alabama Public School and College Authority will be made by the finance director of the State of Alabama.

<u>Fiscal Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service to Maturity</u>
2019	\$ 19,686	\$ 21,625	\$ 41,311
2020	36,169	20,641	56,810
2021	37,933	18,832	56,765
2022	39,837	16,936	56,773
2023	41,880	14,944	56,824
2024-2028	242,597	41,153	283,750
2029	24,004	3,385	27,389
Totals	\$ <u>442,106</u>	\$ <u>137,516</u>	\$ <u>579,622</u>

**C. Qualified Zone Academy Bonds, Series 2014**

Section 226 of the Taxpayer Relief Act of 1997 (Public Law 105-34) provides for a sources of capital at no or at nominal interest rates for costs incurred by certain public schools in connection with the establishment of special academic programs from kindergarten through secondary school, in partnership with the business community. The Board, in agreement with First Metro Bank, has entered into such an arrangement dated June 11, 2014, in the original amount of \$3,000,000.

This agreement establishes a method of repayment for a qualified interest-free debt instrument. The agreement requires the Board to deposit funds annually into a sinking fund account on or before March 15. The amount on deposit at September 30, 2018 was \$805,013. The amount accumulated in the sinking fund at the end of the fifteen-year period will be sufficient to retire the debt. The following schedule reports the annual deposits to be made to the sinking fund by the Board.

<u>Fiscal Year Ending September 30,</u>	<u>Amount</u>
2019	\$ 200,000
2020	200,000
2021	200,000
2022	200,000
2023	200,000
2024-2028	1,000,000
2029	200,000
Totals	\$ <u>2,200,000</u>

**Note 8 – Pledged Revenues**

The Board issued Capital Improvement Pool Bonds, Series 2009-C which are pledged to be repaid from their allocation of public school funds received from the State of Alabama. The proceeds were used for capital improvements throughout the school district. Future revenues in the amount of \$36,839 are pledged to repay the principal and interest on the bonds at September 30, 2019. Pledged funds in the amount of \$36,752 were used to pay principal and interest on the bonds during the fiscal year ended September 30, 2018. The Series 2009-C bonds will mature in fiscal year 2019.

The Board issued Capital Improvement Pool Bonds, Series 2015-B which are pledged to be repaid from their allocation of public school funds received from the State of Alabama. The proceeds were used for capital improvements throughout the school district. Future revenues in the amount of \$576,958 are pledged to repay the principal and interest on the bonds at September 30, 2019. Pledged funds in the



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amount of \$21,625 was used to pay interest due on the bonds during the fiscal year ended September 30, 2018. The Series 2015-B bonds will mature in fiscal year 2029.

**Note 9 – Risk Management**

The Board is exposed to various risks of loss related to torts; theft of damage to the 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), Alabama Department of finance, Division of Risk Management, which operates as a common risk management and insurance program for state-owned properties and boards of education. The Board pays an annual premium based on the amount of coverage. The SIF is self-insured up to \$3.5 million per occurrence and purchases commercial insurance for claims in excess of \$3.5 million. Errors and omissions insurance and vehicle liability insurance is purchased from the Alabama Risk Management for Schools (ARMS), a public entity risk pool. The ARMS collects the premiums and purchases excess insurance for any amount of coverage requested by pool participants in excess of the coverage provided.

The current insurance provides coverage up to \$1 million per occurrence and a maximum of \$2 million in aggregate claims. The Board purchases commercial insurance for fidelity bonds. Settled claims in the past three years have not exceeded the commercial insurance coverage. 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 set 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 the specified amount monthly to the PEEHIF for each employee. The Board contribution is applied against the employees' premium for the coverage selected and the employee pays any remaining premium.

The State Board of Adjustments is a state agency with which people can file claims against the Board to collect reimbursement for damages when all other means have been exhausted. 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 – Defined Benefit Pension Plan**

**A. General Information about the Pension Plan**

**Plan description**

The TRS, a cost-sharing multiple-employer public employee retirement plan, was established as of September 15, 1939, pursuant to the *Code of Alabama 1975, Title 16, Chapter 25* (Act 419 of the Legislature of 1939) for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by State supported educational institutions. The responsibility for the general administration and operation of the TRS is vested in its Board of Control which consists of 15 trustees. The plan is administered by the Retirement Systems of Alabama (RSA). The Code of Alabama 1975, Title 16 Chapter 25 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](http://www.rsa-al.gov).

**Benefits provided**

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the TRS. Benefits for TRS members vest after 10 years of creditable service. TRS members who retire after age 60 with 10 years or more of creditable service or with 25

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years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the TRS are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 TRS members are eligible for retirement after age 62 with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the TRS are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. Members are eligible for disability retirement if they have 10 years of 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 equal to the annual earnable compensation of the member as reported to the Plan for the preceding year ending June 30 are paid to a qualified beneficiary.

Contributions

Covered members of the TRS contributed 5.00% 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 6.00% 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 6.00% 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 7.00% of earnable compensation.

Participating employers' contractually required contribution rate for the year ended September 30, 2017 was 12.01% of annual pay for Tier 1 members and 10.82% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the Board were \$793,998 for the year ended September 30, 2018.

**B. 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 \$9,797,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2016. The Board's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2017, the Board's proportion was 0.099684%, which was a decrease of 0.003791% from its proportion measured as of September 30, 2016.

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For the year ended September 30, 2018, the Board recognized pension expense of \$772,390. At September 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 420,000
Change in assumptions	585,000	-
Net difference between projected and actual earnings on pension plan investments	-	586,000
Changes in proportion and differences between Board contributions and proportionate share of contributions	74,000	391,000
Employer contributions subsequent to the measurement date	793,998	-
Total	\$ <u>1,452,998</u>	\$ <u>1,397,000</u>

\$793,998 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 ended September 30:	Amount
2018	\$ (165,000)
2019	15,000
2020	(291,000)
2021	(273,000)
2022	(24,000)

**C. Actuarial assumptions**

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

Inflation	2.75%
Investment rate of return	7.75% (net of pension plan investment expense)
Projected salary increases	3.25% - 5.00%

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

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

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

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	Target Allocation	Long-Term Expected Real 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	<u>100.00%</u>	

\*Includes assumed rate of inflation of 2.50%

**D. Discount rate**

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

**Sensitivity of the Board's proportionate share of 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:

	1.00% Decrease (6.75%)	Current Discount Rate (7.75%)	1.00% Increase (8.75%)
Board's proportionate share of the net pension liability	\$ 13,514,000	\$ 9,797,000	\$ 6,654,000

**E. Pension plan fiduciary net position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2017. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2016. 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 schedule is also available. The additional financial and actuarial information is available at [www.rsa-al.gov/index.php/employers/financial-reports/gasb-68-reports/](http://www.rsa-al.gov/index.php/employers/financial-reports/gasb-68-reports/).

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**Note 11 – Other Postemployment Benefits (OPEB)**

**A. Plan Description**

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

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

***Benefits provided***

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

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

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for this plan, and the plan covers most out-of-pocket expenses not covered by the primary plan. The plan cannot be used as a supplement to Medicare, the PEEHIP Hospital Medical Plan, or the State or Local Governmental Plans administered by the State Employees' Insurance Board (SEIB).

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

**Contributions**

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

For employees who retired after September 30, 2005, but before January 1, 2012, the employer contribution of the health insurance premium set forth by the Board for each retiree class is reduced by 2.00% for each year of service less than 25 and increased by 2.00% percent for each year of service over 25 subject to adjustment by the Board for changes in Medicare premium costs required to be paid by a retiree. In no case does the employer contribution of the health insurance premium exceed 100.00% of the total health insurance premium cost for the retiree.

For employees who retired after December 31, 2011, the employer contribution to the health insurance premium set forth by the Board for each retiree class is reduced by 4.00% for each year of service less than 25 and increased by 2.00% for each year over 25, subject to adjustment by the Board for changes in Medicare premium costs required to be paid by a retiree. In no case does the employer contribution of the health insurance premium exceed 100.00% of the total health insurance premium cost for the retiree. For employees who retired after December 31, 2011, who are not covered by Medicare, regardless of years of service, the employer contribution to the health insurance premium set forth by the Board for each retiree class is reduced by a percentage equal to 1.00% multiplied by the difference between the Medicare entitlement age and the age of the employee at the time of retirement as determined by the Board. This reduction in the employer contribution ceases upon notification to the Board of the attainment of Medicare coverage.

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

At September 30, 2018, the Board reported a liability of \$8,247,491 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 0.111041%, which was a decrease of 0.010700% from its proportion measured as of September 30, 2016.

For the year ended September 30, 2018, the System recognized OPEB expense of \$360,251, with no special funding situations. At September 30, 2018, the System reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

**SHEFFIELD CITY BOARD OF EDUCATION**  
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**For the Year Ended September 30, 2018**

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	856,336
Net difference between projected and actual earnings on OPEB plan investments	-	43,910
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	721,481
Employer contributions subsequent to the measurement date	278,623	-
Total	\$ <u>278,623</u>	\$ <u>1,621,727</u>

\$278,623 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 ended September 30:**

2019	(312,663)
2020	(312,663)
2021	(312,663)
2022	(312,663)
2023	(301,685)
Thereafter	(69,390)

**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 <sup>1</sup>	3.25%-5.00%
Long-term investment rate of return <sup>2</sup>	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 trend rate	
Pre-Medicare eligible	7.75%
Medicare eligible	5.00%
Ultimate trend rate	
Pre-Medicare eligible	5.00%
Medicare eligible	5.00%
Year of ultimate trend rate	2022

<sup>1</sup>Includes 3.00% wage inflation.

<sup>2</sup>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.

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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:

	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 Equivalents	5.00%	1.50%
Total	<u>100.00%</u>	

\*Geometric mean, includes 2.50% inflation.

### ***Discount Rate***

The discount rate (also known as the Single Equivalent Interest Rate (SEIR), as described by GASB 74) used to measure the total OPEB liability at September 30, 2017 was 4.63%. The discount rate used to measure the total OPEB liability at the prior measurement 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,



**SHEFFIELD CITY BOARD OF EDUCATION**  
**Notes to Financial Statements**  
**For the Year Ended September 30, 2018**

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.

Sensitivity of the Board's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates.

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

	1.00% Decrease (6.75% decreasing to 4.00% for Medicare eligible, and 1.00% for optional plans)	Current Healthcare Trend Rate (7.75% decreasing to 5.00% for pre- Medicare, 5.00% for Medicare eligible, and 2.00% for optional plans)	1.00% Increase (8.75% decreasing to 6.00% for Medicare eligible, and 3.00% for optional plans)
Net OPEB Liability	\$ 6,658,871	\$ 8,247,491	\$ 10,297,247

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

	1.00% Decrease (3.63%)	Current Discount Rate (4.63%)	1.00% Increase (5.63%)
Net OPEB Liability	\$ 9,969,501	\$ 8,247,491	\$ 6,874,834

***OPEB plan fiduciary net position***

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

**Note 12 – Contingent Liabilities**

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

The Sheffield City Board of Education is party to legal proceeding in the normal course of operations. These legal proceedings are not likely to have a material adverse impact on the affected funds of the Board. The Board has adequate legal defenses, intends to contest the cases vigorously, and believes there is a very good likelihood of favorable outcomes. The potential loss to the Board should be minimal.

**SHEFFIELD CITY BOARD OF EDUCATION**  
**Notes to Financial Statements**  
**For the Year Ended September 30, 2018**

**Note 13 – Restatement of Net Position**

As previously described in note 1(12) in fiscal year 2018, the Board adopted Governmental Accounting Standards Board (GASB) Statement No. 75. The implementation of this GASB pronouncement requires a restatement of beginning net position. The impact of the restatement on the net position as previously reported is as follows:

Explanation	Amount
Net position – beginning, September 30, 2017, as previously reported	\$ (52,602)
Net position liability (measurement date)	(9,778,529)
Deferred outflows – contributions made during fiscal year 2017	269,559
Net position – beginning, September 30, 2018, as restated	\$ (9,561,572)

**Note 14 – Effects of Deferred Amounts on Net Position**

The unrestricted net position amount of (\$13,978,016) includes the effect of deferring the recognition of expenses resulting from the deferred outflow from pensions and OPEB. The \$793,998 balance of deferred outflows of resources related to employer pension contributions will be recognized as an expense and will decrease unrestricted net position in the next fiscal period. The \$659,000 balance of proportionate share of collective deferred outflows related to net pension liability will be recognized as an expense and will decrease the unrestricted net position over the next 5 years. The \$278,623 balance of employer OPEB contributions will be recognized as an expense and will decrease unrestricted net position in the next fiscal period.

The unrestricted net position amount of (\$13,979,016) includes the effect of deferring the recognition of revenues resulting from a deferred inflow from pensions, OPEB, and unavailable revenue from property taxes. The \$1,397,000 balance of deferred inflow of resources related to the proportionate share of collective deferred inflows related to net pension liability will be recognized as revenue and will increase the unrestricted net position over the next 5 years. The \$1,621,727 balance of deferred inflow of resources related to the proportionate share of collective deferred inflows related to net OPEB liability will be recognized as revenue and will increase the unrestricted net position over the next 6 years. The \$1,338,045 of deferred inflows of resources related to the unavailable revenue from property taxes will be recognized as revenue in the subsequent fiscal year when the taxes are both due and collectible and available to fund operations.

Please reference Note 10 and 11 for details on amortization of deferred outflows/inflows of resources related to pensions and OPEB.

**Note 15 – Prior Period Adjustment**

A summary of significant Net Position/Fund Balance adjustments is as follows:

**Exhibit B – Statement of Activities**

Explanation	Amount
1. Implementation of GASB 75:	
Net pension liability (measurement date)	\$ (9,778,529)
Deferred outflows – contributions made during fiscal year 2018	269,559
Total prior period adjustment related to GASB 75	\$ (9,508,970)

**SHEFFIELD CITY BOARD OF EDUCATION**  
**Notes to Financial Statements**  
**For the Year Ended September 30, 2018**

**Note 16 – Subsequent Events**

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the Sheffield City Board of Education evaluated the activity of the District through June 3, 2019 which is the date the financial statements were issued or available to be issued and determined that no subsequent events have occurred that require disclosure in the notes to the financial statements. No adjustments were considered necessary to the financial statements.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**SHEFFIELD CITY BOARD OF EDUCATION**  
**Statement of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget and Actual - General Fund**  
**For the Year Ended September 30, 2018**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>(Budgetary Basis)</b>	<b>Final Budget - Positive (Negative)</b>
<b>Revenues</b>				
State sources	\$ 6,498,558	\$ 6,686,843	\$ 6,740,490	\$ 53,647
Federal sources	71,000	78,300	77,347	(953)
Local sources	3,427,250	3,427,250	3,803,905	376,655
Other sources	29,500	29,500	30,706	1,206
Total Revenues	<u>10,026,308</u>	<u>10,221,893</u>	<u>10,652,448</u>	<u>430,555</u>
<b>Expenditures</b>				
<b>Current:</b>				
Instructional services	5,352,873	5,509,260	5,506,173	3,087
Instructional support services	1,770,113	1,801,661	1,888,794	(87,133)
Operation and maintenance services	1,178,116	1,205,792	1,495,740	(289,948)
Auxiliary Services:				
Student transportation	155,111	155,111	125,408	29,703
General administration and central support	671,719	675,172	635,253	39,919
Other expenditures	371,844	399,860	327,193	72,667
Capital outlay	-	-	93,172	(93,172)
Total Expenditures	<u>9,499,776</u>	<u>9,746,856</u>	<u>10,071,733</u>	<u>(324,877)</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>526,532</u>	<u>475,037</u>	<u>580,715</u>	<u>105,678</u>
<b>Other Financing Sources (Uses):</b>				
Indirect cost	164,724	129,756	124,774	(4,982)
Transfers in	227,687	258,687	26,723	(231,964)
Insurance proceeds	-	55,000	38,292	(16,708)
Transfers out	(545,760)	(576,760)	(247,424)	329,336
Total Other Financing Sources (Uses)	<u>(153,349)</u>	<u>(133,317)</u>	<u>(57,635)</u>	<u>75,682</u>
Net Change in Fund Balances	373,183	341,720	523,080	181,360
Fund Balances - Beginning of Year	5,393,820	5,511,425	5,511,425	-
Fund Balances - End of Year	<u>\$ 5,767,003</u>	<u>\$ 5,853,145</u>	<u>\$ 6,034,505</u>	<u>\$ 181,360</u>

**SHEFFIELD CITY BOARD OF EDUCATION**  
**Schedule of the Board's Proportionate Share of the Net Pension Liability**  
**Teachers' Retirement Plan of Alabama**  
**For the Year Ended September 30, 2018**

Exhibit IX

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Board's proportion of the net pension liability	0.099684%	0.103475%	0.104412%	0.116349%
Board's proportionate share of the net pension liability	\$ 9,797,000	\$ 11,202,000	\$ 10,927,000	\$ 9,324,000
Board's covered payroll	\$ 6,597,022	\$ 6,639,834	\$ 6,605,494	\$ 6,509,642
Board's proportionate share of the net pension liability as a percentage of its covered payroll	148.51%	168.71%	165.42%	143.23%
Plan fiduciary net position as a percentage of the total pension liability	71.50%	67.93%	67.51%	71.01%

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

**SHEFFIELD CITY BOARD OF EDUCATION**  
**Schedule of Board Contributions**  
**Teachers' Retirement System of Alabama**  
**For the Year Ended September 30, 2018**

**Exhibit X**

	<u><b>2018</b></u>	<u><b>2017</b></u>	<u><b>2016</b></u>	<u><b>2015</b></u>
Contractually required contribution	\$ 793,998	\$ 780,390	\$ 777,849	\$ 770,470
Contributions in relation to the contractually required contribution	<u>(793,998)</u>	<u>(780,390)</u>	<u>(777,849)</u>	<u>(770,470)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 Board's covered payroll	 6,607,082	 6,597,022	 6,639,834	 6,605,494
Contributions as a percentage of covered payroll	12.02%	11.83%	11.71%	11.66%

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

The notes to the required supplementary information are an integral part of this schedule.

**SHEFFIELD CITY BOARD OF EDUCATION**  
**Schedule of the Board's Proportionate Share of the Net OPEB Liability**  
**Alabama Retired Education Employees' Health Care Trust**  
**For the Year Ended September 30, 2018**

	<b>2018</b>
Board's proportion of the net OPEB liability	0.11041%
Board's proportionate share of the net OPEB liability	\$ 8,247,491
Board's covered-employee payroll	\$ 6,314,947
Board's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	130.60%
Plan fiduciary net position as a percentage of the total OPEB liability	15.37%

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



**SHEFFIELD CITY BOARD OF EDUCATION**  
**Schedule of Board Contributions - OPEB**  
**Alabama Retired Education Employees' Health Care Trust**  
**For the Year Ended September 30, 2018**

	<u><b>2018</b></u>
Contractually required contribution	\$ 360,251
Contributions in relation to the contractually required contribution	<u>(360,251)</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>
Board's covered-employee payroll	\$ 6,425,798
Contributions as a percentage of covered-employee payroll	5.61%

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

**SHEFFIELD CITY BOARD OF EDUCATION**  
**Notes to the Required Supplementary Information**  
**For the Year Ended September 30, 2018**

**Note 1 – Excess of Expenditures Over Appropriations**

The Board budgeted appropriations for General Fund expenditures based on anticipated revenue. 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.

**Note 2 – Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures**

	<u>General Fund</u>
<b>Sources/inflows of resources</b>	
Actual total revenue budgetary basis	\$ <u>10,652,448</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances – governmental funds	\$ <u>10,652,448</u>
<b>Expenditures:</b>	
Actual total expenditures budgetary basis	\$ 10,071,733
Differences – budget to GAAP	
Salaries and related fringe benefits	<u>15,173</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances – governmental funds	\$ <u>10,086,906</u>

**Note 3 – Notes to Pension Required Supplementary Information Schedules**

***(1) Change in assumptions.***

2017:

The expectation of mortality rates for TRS were based on the RP-2000 Combined Mortality Table as in the prior year, but the adjustments for mortality improvements was changed to the Scale BB projected 2020 rather than the Scale AA projected to 2015 as was used in the prior year audit report.

The discount rate used to measure the total net pension liability was changed from 8.00% to 7.75%.

Assumed rates of salary increase were adjusted from 3.50%-8.25% to 3.25%-5.00%.

The price inflation and investment rate of return assumptions were changed from 3.00% to 2.75% and 8.00% to 7.75%, respectively.

***(2) Method and assumptions used in calculations of actuarially determined contributions.***

The actuarial funding method used to develop the benchmarks are the Entry Age Normal actuarial cost method. The actuarial methods and assumptions used will be those last adopted by the Board of Control based upon the advice and recommendation of the actuary. The actuary shall conduct an investigation into the system's experience at least every five years and utilize the results of the investigation to form the basis for those recommendations.

**SHEFFIELD CITY BOARD OF EDUCATION**  
**Notes to the Required Supplementary Information**  
**For the Year Ended September 30, 2018**

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

**Note 4 – Notes to OPEB Required Supplementary Information Schedules**

**(1) Changes in actuarial assumptions**

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

**(2) Recent Plan Changes**

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

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

**(3) 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, 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 contribution rate reported in that schedule:

Actuarial cost method	Projected Unit Credit
Amortization method	Level percent of pay, closed
Remaining amortization period	27 years
Asset valuation method	Market value of assets
Healthcare cost trend rate	
Pre-Medicare eligible	7.75%
Medicare eligible	5.00%
Ultimate trend rate	
Pre-Medicare eligible	5.00%
Medicare eligible	5.00%
Year of ultimate trend rate	2019 for pre-Medicare eligible
	2017 for Medicare eligible
Investment rate of return	5.00%, including inflation

## **SUPPLEMENTARY INFORMATION**

**SHEFFIELD CITY BOARD OF EDUCATION**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended September 30, 2018**

Federal Grantor/Pass - Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
<b><u>U.S. Department of Defense</u></b>		
Direct Program:		
Reserve Officers' Training Corps	12.XXX	\$ 73,055
<b>Total U.S. Department of Defense</b>		<u>73,055</u>
<b><u>U.S. Department of Agriculture</u></b>		
Passed-through Alabama Department of Education:		
Child Nutrition Cluster:		
School Breakfast Program	10.553	202,038
National School Lunch Program	10.555	<u>572,749</u>
		774,787
State Administrative Expenses for Child Nutrition	10.560	2,983
Fresh Fruit & Vegetable Program	10.582	<u>43,381</u>
Total Child Nutrition Cluster		<u>821,151</u>
Total passed-through Alabama Department of Education		<u>821,151</u>
<b>Total U.S. Department of Agriculture</b>		<u>821,151</u>
<b><u>U.S. Department of Education</u></b>		
Direct Program:		
Impact Aid-PL 874-Regular	84.041	<u>3,274</u>
Passed-through Alabama Department of Education:		
Special Education Cluster:		
Special Education-Grants to States	84.027	295,563
Special Education-Preschool Grants	84.173	<u>13,672</u>
Total Special Education Cluster		309,235
Title I Grants to Local Educational Agencies	84.010	600,453
Career and Technical Education - Basic Grants to States	84.048	24,139
Twenty-First Century Community Learning Centers	84.287	150,000
Advanced Placement Program	84.330	1,440
Supporting Effective Instruction State Grants	84.367	70,083
Student Support and Academic Enrichment Program	84.424	<u>17,022</u>
Total passed-through Alabama Department of Education		<u>1,172,372</u>
<b>Total U.S. Department of Education</b>		<u>1,175,646</u>
<b><u>U.S. Department of Health and Human Services</u></b>		
Passed-through Alabama Department of Education:		
Social Security Disability Insurance	96.001	<u>1,018</u>
Total passed-through Alabama Department of Education		<u>1,018</u>
<b>Total U.S. Department of Health and Human Services</b>		<u>1,018</u>
<b>Total Federal Awards</b>		\$ <u><u>2,070,870</u></u>

The accompanying notes to the Schedule of Expenditures of Federal Awards is an integral part of this schedule.

**SHEFFIELD CITY BOARD OF EDUCATION**  
**Notes to 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 Sheffield City Board of Education under programs of the federal government for the year ended September 30, 2018. 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 Sheffield City Board of Education, it is not intended to and does not present the financial position, changes in net position or cash flows of the Sheffield City 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. Negative amounts show on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

**Note 3 – Non-Cash Awards**

The Sheffield City Board of Education is the recipient of certain non-cash assistance in the form of donated commodities received from the U.S. Department of Agriculture. Revenues and expenditures are recorded for the value of commodities received. In addition, the Sheffield City Board of Education may receive certain other non-cash assistance from federal and state awarding agencies. The amount of non-cash assistance received at September 30, 2018 was \$46,120.

**Note 4 – Indirect Cost Rate**

The Sheffield City Board of Education has elected to not use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

## **ADDITIONAL INFORMATION**

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

Superintendent and School Board  
Sheffield City Board of Education

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sheffield City Board of Education, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise Sheffield City Board of Education's basic financial statements, and have issued our report thereon dated June 3, 2019.

**Internal Control Over Financial Reporting**

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Sheffield City 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

Florence, Alabama  
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Corinth, Mississippi  
Phone: (662)286-7082

Iuka, Mississippi  
Phone: (662)423-5057



express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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

A handwritten signature in black ink that reads "The Sparks CPA Firm, P.C." The signature is written in a cursive, flowing style.

The Sparks CPA Firm, P.C.  
Certified Public Accountants  
Red Bay, Alabama  
June 3, 2019



Member of:

American Institute of Certified Public Accountants

Alabama Society of Certified Public Accountants

Mississippi Society of Certified Public Accountants

Certified Public Accountants

www.sparkscpas.com

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

Members of the Board  
Sheffield City Board of Education  
Sheffield, Alabama

**Report on Compliance for Each Major Federal Program**

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

***Management's Responsibility***

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

***Auditors' Responsibility***

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

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

***Opinion on Each Major Federal Program***

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

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## Report on Internal Control Over Compliance

Management of Sheffield City 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 Sheffield City Board of Education's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Sheffield City Board of Education's internal control over compliance.

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

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

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



The Sparks CPA Firm, P.C.  
Certified Public Accountants  
Red Bay, Alabama  
June 3, 2019

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**SHEFFIELD CITY BOARD OF EDUCATION**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended September 30, 2018**

**Section I: Summary of Auditors' Results**

*Financial Statements:*

- |    |   |  |
|----|---|--|
| 1. | Type of auditors' report issued:<br>Governmental Activities<br>General Fund<br>Aggregate remaining fund information | Unmodified<br>Unmodified<br>Unmodified |
| 2. | Internal control over financial reporting:  |  |
| a. | Material weakness(es) identified?   | No                                     |
| b. | Significant deficiency(ies) identified?   | None Reported                          |
| 3. | Noncompliance material to financial statements noted?   | No                                     |

*Federal Awards:*

- |    |  |               |
|----|--|---------------|
| 4. | Internal control over major programs:  |               |
| a. | Material weakness(es) identified?  | No            |
| b. | Significant deficiency(ies) identified?  | None Reported |
| 5. | Any findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | No            |
| 6. | Type of auditors' report issued on compliance for Major federal programs:                    | Unmodified    |
| 7. | Identification of major programs:  |               |
| a. | CFDA# 84.027, 84.173 Special Education Cluster   |               |
| b. | CFDA# 84.287 Twenty First Century Community Learning Centers                                 |               |
| 8. | The dollar threshold used to distinguish between Type A and type B programs:                 | \$750,000     |
| 9. | Auditee qualified as low-risk auditee?   | Yes           |

**Section II: Financial Statement Findings**

The results of our tests did not disclose any findings related to the financial statements that are required to be reported under *Government Auditing Standards*.

**Section III – Federal Award Findings and Questioned Costs**

The results of our tests did not disclose any findings and questioned costs related to the federal awards.