

Report on the

Mobile County Board of School Commissioners

Mobile County, Alabama

October 1, 2016 through September 30, 2017

Filed: June 29, 2018



Department of Examiners of Public Accounts

50 North Ripley Street, Room 3201

P.O. Box 302251

Montgomery, Alabama 36130-2251

Website: www.examiners.alabama.gov

Rachel Laurie Riddle, Chief Examiner



State of Alabama
Department of
Examiners of Public Accounts

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

Ronald L. Jones
Chief Examiner

Honorable Ronald L. Jones
Chief Examiner of Public Accounts
Montgomery, Alabama 36130

Dear Sir:

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

Sworn to and subscribed before me this
the 24th day of May, 2018.

Sheila Blanchard
Notary Public

Respectfully submitted,

Angela B. Waters
Angela B. Waters
Examiner of Public Accounts

Sworn to and subscribed before me this
the 25th day of May, 2018.

Kei Green
Notary Public
My Commission Expires:
November 23, 2019

Lynn Benson
Lynn Benson
Examiner of Public Accounts

Sworn to and subscribed before me this
the 24th day of May, 2018.

Sheila Blanchard
Notary Public

John Geary
John Geary
Examiner of Public Accounts

Sworn to and subscribed before me this
the 24th day of May, 2018.

Sheila Blanchard
Notary Public

Joshua M. Jones
Joshua M. Jones
Examiner of Public Accounts

rb

18-179

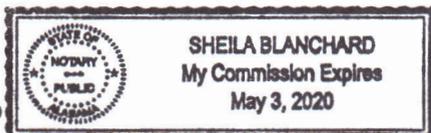


Table of Contents

	<i>Page</i>
Summary	A
<p>Contains items pertaining to federal, state and local legal compliance, Board operations and other matters.</p>	
Schedule of State and Local Compliance and Other Findings	C
<p>Contains detailed information about findings pertaining to state and local legal compliance and other findings.</p>	
Independent Auditor's Report	E
<p>Reports on whether the financial information constitutes a fair presentation of the financial position and results of financial operations in accordance with generally accepted accounting principles (GAAP).</p>	
<u>Basic Financial Statements</u>	1
<p>Provides the minimum combination of financial statements and notes to the financial statements that is required for the fair presentation of the Board's financial position and results of operations in accordance with GAAP.</p>	
Exhibit #1 Statement of Net Position	2
Exhibit #2 Statement of Activities	4
Exhibit #3 Balance Sheet – Governmental Funds	6
Exhibit #4 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	10
Exhibit #5 Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	11
Exhibit #6 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Exhibit #7 Statement of Fiduciary Net Position	14
Notes to the Financial Statements	15

Table of Contents

	<i>Page</i>
<u>Required Supplementary Information</u>	52
Provides information required by the Governmental Accounting Standards Board (GASB) to supplement the basic financial statements. This information has not been audited and no opinion is provided about the information.	
Exhibit #8 Schedule of the Employer’s Proportionate Share of the Net Pension Liability	53
Exhibit #9 Schedule of the Employer’s Contributions	54
Exhibit #10 Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	55
Exhibit #11 Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Special Revenue Fund	59
<u>Supplementary Information</u>	63
Contains financial information and notes relative to federal financial assistance.	
Exhibit #12 Schedule of Expenditures of Federal Awards	64
Notes to the Schedule of Expenditures of Federal Awards	68
<u>Additional Information</u>	69
Provides basic information related to the Board, including reports and items required by generally accepted government auditing standards and/or Title 2 U. S. <i>Code of Federal Regulations</i> Part 200, <i>Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)</i> for federal compliance audits.	
Exhibit #13 Board Members and Administrative Personnel – a listing of the Board members and administrative personnel.	70
Exhibit #14 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 – a report on internal controls related to the financial statements and on whether the Board complied with laws and regulations which could have a direct and material effect on the Board’s financial statements.	71

Table of Contents

	<i>Page</i>	
Exhibit #15	Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the <i>Uniform Guidance</i> – a report on internal controls over compliance with requirements of federal statutes, regulations, and the terms and conditions of federal awards applicable to major federal programs and an opinion on whether the Board complied with federal statutes, regulations, and the terms and conditions of its federal awards which could have a direct and material effect on each major program.	73
Exhibit #16	Schedule of Findings and Questioned Costs – a schedule summarizing the results of audit findings relating to the financial statements as required by <i>Government Auditing Standards</i> and findings and questioned costs for federal awards as required by the <i>Uniform Guidance</i> .	76
Exhibit #17	Schedule of Charges – a schedule that provides details on amounts that employees of the Board have been asked to repay.	78
	Order of the Chief Examiner	80
Exhibit #18	Auditee Response – a response by the Board on the results of the audit.	81



Department of
Examiners of Public Accounts

SUMMARY

**Mobile County Board of School Commissioners
October 1, 2016 through September 30, 2017**

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

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

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

Findings are numbered and reported by the fiscal year in which the finding originally occurred.

An instance of noncompliance with state and local laws and regulations and other matters was found during the audit as shown on the Schedule of State and Local Compliance and Other Findings and it is summarized below:

CURRENT FINDING

- ◆ 2017-001 relates to discrepancies noted regarding ticket sales for athletic events at LeFlore High School.

Findings that were presented in prior audits have not been resolved as shown on the Schedule of State and Local Compliance and Other Findings and they are summarized below.

UNRESOLVED PRIOR FINDINGS

- ◆ 2016-001 relates to LeFlore High School not following policies and procedures regarding ticket sales reports for athletic events.
- ◆ 2007-002 relates to local schools not following proper receipting procedures.

As reflected on Exhibit 17, charges against employees resulted from the failure to deposit money collected from ticket sales at athletic events. Official demand was made on the employees to pay the charges. The employees failed to show just cause as to why the amounts should not be paid; therefore, relief was accordingly denied, as evidenced by the Order of the Chief Examiner contained in this report. The amounts due remain unpaid and, as a result, this report will be certified to the Attorney General for collection.

The following officials/administrative personnel were invited to an exit conference to discuss the results of the audit: Superintendent: Martha L. Peek; Chief School Financial Officer: Lori Zirlott; former Chief School Financial Officer: Dinish Simpson; and Board Members: Douglas Harwell, Jr., Don Stringfellow, Dr. Reginald Crenshaw, Robert Battles, and Dr. William Foster.

The following individuals attended the exit conference, held at the Board's office: Superintendent: Martha L. Peek; Chief School Financial Officer: Lori Zirlott; Board Members: Douglas Harwell, Jr., Robert Battles and Dr. William Foster; and representatives from the Department of Examiners of Public Accounts: Brian Wheeler, Audit Manager, and Angela Waters, Examiner. Results of the audit were discussed via phone with former Chief School Financial Officer, Dinish Simpson and Board Members: Dr. Reginald Crenshaw and Don Stringfellow.

*Schedule of State and Local
Compliance and Other Findings*

Schedule of State and Local Compliance and Other Findings
For the Year Ended September 30, 2017

Ref. No.	Finding/Noncompliance
2017-001	<p><u>Finding:</u> The Mobile County Board of School Commissioners Local School Accounting Department requires ticket sales reports for athletic events to be properly completed and reconciled to the deposits being made for ticket sales. At LeFlore High School, unreconciled differences, i.e. shortages, were noted between the amounts collected for ticket sales and the amounts given to the school bookkeeper to be deposited into the school's bank account. These shortages, totaling \$4,791.00 were documented on the ticket sales reports, and are reflected as joint Charges Against Employees on Exhibit 17.</p> <p><u>Recommendation:</u> Policies and procedures regarding ticket sales reports for athletic events should be followed. All ticket sales reports should be completed properly and reconciled to the deposits being made for ticket sales.</p>
2016-001	<p><u>Finding:</u> The Mobile County Board of School Commissioners Local School Accounting Department requires ticket sales reports for athletic events to be properly completed and reconciled to the deposits being made for ticket sales. Also, school personnel working at athletic events should be paid through the Board's payroll system at an hourly rate based on the approved salary schedule. School personnel working at basketball events were paid cash from the monies collected at each event at LeFlore High School which resulted in the ticket sales reports not being filled out correctly nor being reconciled to the deposits made for ticket sales.</p> <p><u>Recommendation:</u> Policies and procedures regarding ticket sales reports for athletic events should be followed. All school personnel working at athletic events should be paid through the Board's payroll system according to the approved salary schedule.</p>
2007-002	<p><u>Finding:</u> The Mobile County Board of School Commissioners Local School Accounting Department requires certain receipting procedures to be followed by all local school personnel. All funds collected and receipted by teachers should be turned into the school's office on a daily basis and the funds should be deposited daily by office personnel. Teachers did not always turn in funds collected from students to the office in a timely manner at Fonde Elementary and LeFlore High School and office personnel did not make daily deposits at Fonde Elementary School.</p> <p><u>Recommendation:</u> Proper receipting and deposit procedures should be followed at all local schools.</p>

Independent Auditor's Report

Independent Auditor's Report

Members of the Mobile County Board of School Commissioners,
Superintendent and Chief School Financial Officer
Mobile, Alabama

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Mobile County Board of School Commissioners, as of September 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), the Schedule of the Employer's Proportionate Share of the Net Pension Liability, the Schedule of the Employer's Contributions, and the Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Exhibits 8 through 11), be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted 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.

The Mobile County Board of School Commissioners has not presented a Management's Discussion and Analysis (MD&A) that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

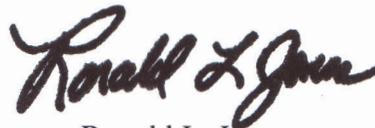
Supplementary Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with **Government Auditing Standards**, we have also issued our report dated May 21, 2018, on our consideration of the Mobile County Board of School Commissioners' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Mobile County Board of School Commissioners' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** in considering the Mobile County Board of School Commissioners' internal control over financial reporting and compliance.



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

Montgomery, Alabama

May 21, 2018

Basic Financial Statements

Statement of Net Position
September 30, 2017

	Governmental Activities
<u>Assets</u>	
Cash and Cash Equivalents	\$ 43,633,452.72
Investments	314,038.56
Ad Valorem Property Taxes Receivable	112,110,869.33
Receivables (Note 4)	9,808,289.19
Inventories	2,749,152.86
Restricted Assets - Cash with Fiscal Agent	24,899,639.10
Prepaid Items	283,539.93
Capital Assets (Note 5):	
Nondepreciable	111,357,982.45
Depreciable, Net	427,735,866.47
Total Assets	<u>732,892,830.61</u>
<u>Deferred Outflows of Resources</u>	
Loss on Refunding of Debt	13,672,039.82
Employer Pension Contribution	33,767,078.91
Proportionate Share of Collective Deferred Outflows Related to Net Pension Liability	39,934,000.00
Total Deferred Outflows of Resources	<u>87,373,118.73</u>
<u>Liabilities</u>	
Payables (Note 9)	4,236,499.84
Accrued Interest Payable	1,473,175.30
Unearned Revenue	1,657,323.73
Salaries and Benefits Payable	31,989,821.59
Long-Term Liabilities:	
Portion Payable Within One Year:	
Bonds/Warrants Payable	7,914,687.27
Funding Agreement	4,285,000.00
Lease-Purchase Payable	1,903,458.72
Plus: Unamortized Premium	1,755,952.42
Liability for Compensated Absences	399,878.34
Portion Payable After One Year:	
Bonds/Warrants Payable	267,578,323.43
Funding Agreement	715,000.00
Tax Credit Warrants	23,135,000.00
Lease-Purchase Payable	9,710,049.26
Plus: Unamortized Premium	22,731,242.95
Net Pension Liability	469,498,000.00
Liability for Compensated Absences	2,227,995.87
Total Liabilities	<u>\$ 851,211,408.72</u>

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

	Governmental Activities
<hr/>	
<u>Deferred Inflows of Resources</u>	
Unavailable Revenue - Property Taxes	\$ 112,110,869.33
Revenue Received in Advance - Motor Vehicle Taxes	3,737,080.95
Proportionate Share of Collective Deferred Inflows Related to Net Pension Liability	<u>20,221,000.00</u>
Total Deferred Inflows of Resources	<u>136,068,950.28</u>
<u>Net Position</u>	
Net Investment in Capital Assets	222,652,429.50
Restricted for:	
Capital Projects	3,349,864.84
Debt Service	24,349,075.26
Other Purposes	2,734,400.15
Unrestricted	<u>(420,100,179.41)</u>
Total Net Position	<u><u>\$ (167,014,409.66)</u></u>

Statement of Activities
For the Year Ended September 30, 2017

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<u>Governmental Activities</u>			
Instruction	\$ 291,790,054.96	\$ 7,008,954.83	\$ 216,934,189.65
Instructional Support	86,411,996.64	4,588,248.08	60,391,316.74
Operation and Maintenance	60,397,274.33	606,536.68	15,379,781.06
Auxiliary Services:			
Student Transportation	35,169,422.04	461,985.09	27,246,768.67
Food Services	40,236,864.08	31,745,475.21	3,153,491.32
General Administrative and Central Support	31,497,118.38	42,624.40	16,145,160.48
Interest and Fiscal Charges	11,171,683.24		
Other Expenses	15,880,527.77	1,169,374.37	12,419,351.56
Total Governmental Activities	<u>\$ 572,554,941.44</u>	<u>\$ 45,623,198.66</u>	<u>\$ 351,670,059.48</u>

General Revenues:

Taxes:

Property Taxes for General Purposes
Property Taxes for Specific Purposes
Local Sales Tax
Alcohol Beverage Tax
Other Taxes

Grants and Contributions Not Restricted
for Specific Programs

Investment Earnings
Gain on Disposition of Capital Assets
Miscellaneous

Total General Revenues

Changes in Net Position

Net Position - Beginning of Year

Net Position - End of Year

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

		Net (Expenses) Revenues and Changes in Net Position	
Capital Grants and Contributions		Total Governmental Activities	
\$	6,602,894.13	\$	(61,244,016.35)
	205,055.92		(21,227,375.90)
	2,557,531.59		(41,853,425.00)
	3,203,764.00		(4,256,904.28)
			(5,337,897.55)
	4,386,251.63		(10,923,081.87)
			(11,171,683.24)
			(2,291,801.84)
<u>\$</u>	<u>16,955,497.27</u>		<u>(158,306,186.03)</u>

87,765,332.58
33,928,792.40
9,230,738.10
2,196,567.12
3,683,871.86
45,424.64
3,382,269.61
37,781.95
8,519,037.62
<u>148,789,815.88</u>
(9,516,370.15)
<u>(157,498,039.51)</u>
<u>\$ (167,014,409.66)</u>

Balance Sheet
Governmental Funds
September 30, 2017

	General Fund	Special Revenue Fund
<u>Assets</u>		
Cash and Cash Equivalents	\$ 14,540,427.02	\$ 12,565,013.81
Cash with Fiscal Agents		
Investments		314,038.56
Ad Valorem Property Taxes Receivable	85,374,638.37	
Receivables (Note 4)	2,318,089.99	7,042,729.01
Interfund Receivables	3,455,196.31	871,309.86
Inventories	1,585,955.70	1,114,431.36
Prepaid Items	283,539.85	
Total Assets	<u>107,557,847.24</u>	<u>21,907,522.60</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>		
<u>Liabilities</u>		
Payables (Note 9)	1,883,201.95	1,649,900.02
Interfund Payables	872,975.50	3,129,393.27
Unearned Revenue	526,056.01	1,131,267.72
Salaries and Benefits Payable	30,500,013.96	1,489,807.63
Liability for Compensated Absences	230,000.00	
Total Liabilities	<u>34,012,247.42</u>	<u>7,400,368.64</u>
<u>Deferred Inflows of Resources</u>		
Unavailable Revenue - Property Taxes	85,374,638.37	
Revenue Received in Advance - Motor Vehicle Taxes	2,316,608.45	
Total Deferred Inflows of Resources	<u>\$ 87,691,246.82</u>	<u>\$</u>

Debt Service Fund	Capital Projects Fund	Total Governmental Funds
\$ 24,899,639.10	\$ 16,528,011.89	\$ 43,633,452.72
		24,899,639.10
		314,038.56
	26,736,230.96	112,110,869.33
	447,470.19	9,808,289.19
	1,665.64	4,328,171.81
	48,765.80	2,749,152.86
	0.08	283,539.93
<u>24,899,639.10</u>	<u>43,762,144.56</u>	<u>198,127,153.50</u>
	703,397.87	4,236,499.84
	325,803.04	4,328,171.81
		1,657,323.73
		31,989,821.59
		230,000.00
	<u>1,029,200.91</u>	<u>42,441,816.97</u>
	26,736,230.96	112,110,869.33
	1,420,472.50	3,737,080.95
<u>\$</u>	<u>\$ 28,156,703.46</u>	<u>\$ 115,847,950.28</u>

Balance Sheet
Governmental Funds
September 30, 2017

	General Fund	Special Revenue Fund
<u>Fund Balances</u>		
Nonspendable:		
Inventories	\$ 1,585,955.70	\$ 1,114,431.36
Prepaid Items	283,539.85	
Restricted for:		
Debt Service		
Capital Projects		
Child Nutrition Program		2,046,994.20
Fleet Renewal		
Other Purposes		687,405.95
Assigned to:		
Local Schools		10,629,487.51
Capital Projects		
Other Purposes	500,000.00	28,834.94
Unassigned	(16,515,142.55)	
Total Fund Balances	<u>(14,145,647.00)</u>	<u>14,507,153.96</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 107,557,847.24</u>	<u>\$ 21,907,522.60</u>

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

Debt Service Fund	Capital Projects Fund	Total Governmental Funds
\$	\$ 48,765.80	\$ 2,749,152.86 283,539.85
24,899,639.10	12,926,810.52	24,899,639.10 12,926,810.52 2,046,994.20 1,392,384.15 687,405.95
	1,392,384.15	10,629,487.51 208,279.72 528,834.94 (16,515,142.55)
	208,279.72	
24,899,639.10	14,576,240.19	39,837,386.25
\$ 24,899,639.10	\$ 43,762,144.56	\$ 198,127,153.50

This Page Intentionally Blank

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

Total Fund Balances - Governmental Funds (Exhibit 3) \$ 39,837,386.25

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

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

The Cost of Capital Assets is	\$876,978,401.05	
Accumulated Depreciation is	<u>(337,884,552.13)</u>	539,093,848.92

Losses on refunding of debt are reported as deferred outflows of resources and are not available to pay for current period expenditures and therefore are deferred on the Statement of Net Position.	13,672,039.82
--	---------------

Deferred outflows and deferred inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.	53,480,078.91
---	---------------

Long-term liabilities, including bonds/warrants payable, are not due and payable in
the current period and, therefore, are not reported as liabilities in the funds.

Current Portion of Long-Term Debt	\$ 16,028,976.75	
Noncurrent Portion of Long-Term Debt	<u>795,595,611.51</u>	(811,624,588.26)

Interest on long-term debt is not accrued in the funds but rather is recognized as an
expenditure when due.

Accrued Interest Payable	<u>(1,473,175.30)</u>
--------------------------	-----------------------

Total Net Position - Governmental Activities (Exhibit 1)	<u><u>\$(167,014,409.66)</u></u>
--	----------------------------------

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

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

	General Fund	Special Revenue Fund
<u>Revenues</u>		
State	\$ 301,290,795.90	\$
Federal	45,424.64	79,901,057.51
Local	109,374,558.25	17,158,544.65
Other	541,207.24	1,433,480.30
Total Revenues	411,251,986.03	98,493,082.46
<u>Expenditures</u>		
Current:		
Instruction	244,862,931.20	28,930,401.13
Instructional Support	67,991,139.65	16,281,602.18
Operation and Maintenance	50,006,961.40	196,983.08
Auxiliary Services:		
Student Transportation	29,451,735.31	1,501,292.22
Food Services	945.55	42,983,456.09
General Administrative and Central Support	20,928,062.39	2,755,001.39
Other	4,150,704.38	11,389,412.66
Capital Outlay	22,382.20	600,452.73
Debt Service:		
Principal Retirement		
Interest and Fiscal Charges		
Total Expenditures	417,414,862.08	104,638,601.48
Excess (Deficiency) of Revenues Over Expenditures	(6,162,876.05)	(6,145,519.02)
<u>Other Financing Sources (Uses)</u>		
Indirect Cost	5,438,800.02	
Transfers In	20,437,419.34	6,107,075.42
Other Financing Sources	37,386.93	71.26
Sale of Capital Assets	63,684.02	23,904.78
Transfers Out	(21,707,678.03)	(2,129,370.23)
Total Other Financing Sources (Uses)	4,269,612.28	4,001,681.23
Net Changes in Fund Balances	(1,893,263.77)	(2,143,837.79)
Fund Balances - Beginning of Year	(12,252,383.23)	16,650,991.75
Fund Balances - End of Year	\$ (14,145,647.00)	\$ 14,507,153.96

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

Debt Service Fund	Capital Projects Fund	Total Governmental Funds
\$	\$ 16,914,880.27	\$ 318,205,676.17
		79,946,482.15
857,063.90	34,186,545.85	161,576,712.65
1,171,237.56		3,145,925.10
<u>2,028,301.46</u>	<u>51,101,426.12</u>	<u>562,874,796.07</u>
	676,014.13	274,469,346.46
	381,664.79	84,654,406.62
	9,344,121.40	59,548,065.88
		30,953,027.53
		42,984,401.64
	8,450,572.12	32,133,635.90
		15,540,117.04
	21,067,150.79	21,689,985.72
8,880,000.00	4,807,681.43	13,687,681.43
11,736,428.14	662,106.73	12,398,534.87
<u>20,616,428.14</u>	<u>45,389,311.39</u>	<u>588,059,203.09</u>
<u>(18,588,126.68)</u>	<u>5,712,114.73</u>	<u>(25,184,407.02)</u>
		5,438,800.02
22,645,117.42		49,189,612.18
	88,535.08	125,993.27
		87,588.80
	(25,352,563.92)	(49,189,612.18)
<u>22,645,117.42</u>	<u>(25,264,028.84)</u>	<u>5,652,382.09</u>
4,056,990.74	(19,551,914.11)	(19,532,024.93)
20,842,648.36	34,128,154.30	59,369,411.18
<u>\$ 24,899,639.10</u>	<u>\$ 14,576,240.19</u>	<u>\$ 39,837,386.25</u>

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

Net Changes in Fund Balances - Total Governmental Funds (Exhibit 5) \$ (19,532,024.93)

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

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

Capital Outlays	\$ 21,689,985.72	
Depreciation Expense	<u>(15,957,894.95)</u>	5,732,090.77

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. 13,687,681.43

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

Proceeds from Sale of Capital Assets	\$ (87,588.80)	
Gain on Disposition of Capital Assets	<u>37,781.95</u>	(49,806.85)

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

Accrued Interest Payable, Current Year Decrease	\$ 487,397.94	
Compensated Absences, Current Year Decrease in Noncurrent Portion	1,144,144.59	
Amortization of Premiums/Loss on Refunding	739,453.69	
Pension Expense, Current Year Increase	<u>(11,725,306.79)</u>	<u>(9,354,310.57)</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ (9,516,370.15)

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

Statement of Fiduciary Net Position
September 30, 2017

	Agency Funds
<u>Assets</u>	
Cash and Cash Equivalents	\$ 11,375,897.08
Receivables	756.55
Total Assets	<u>11,376,653.63</u>
<u>Liabilities</u>	
Salaries and Benefits Payable	<u>11,376,653.63</u>
Total Liabilities	<u>\$ 11,376,653.63</u>

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

Notes to the Financial Statements

For the Year Ended September 30, 2017

Note 1 – Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

Notes to the Financial Statements

For the Year Ended September 30, 2017

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

Fund Financial Statements

The fund financial statements provide information about the Board's funds, including fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The Board reports the following major governmental funds:

- ◆ **General Fund** – The General Fund is the primary operating fund of the Board. It is used to account for all financial resources except those required to be accounted for in another fund. The Board primarily receives revenues from the Education Trust Fund (ETF) and local taxes. Amounts appropriated from the ETF were allocated to the school board on a formula basis.
- ◆ **Special Revenue Fund** – This fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Various federal and local funding sources are included in this fund. Some of the significant federal funding sources include the federal funds that are received for Special Education, Title I, and the Child Nutrition Program in addition to various smaller grants, which are required to be spent for the purposes of the applicable federal grants. Also included in this fund are the public and non-public funds received by the local schools which are generally not considered restricted or committed.
- ◆ **Debt Service Fund** – This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest and the accumulation of resources for principal and interest payments maturing in future years.

Notes to the Financial Statements

For the Year Ended September 30, 2017

- ◆ **Capital Projects Fund** – This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlay, including the acquisition or construction of capital facilities and other capital assets. The proceeds from the county sales tax that are to be used exclusively for capital improvement, capital construction and maintenance purposes are also accounted for and reported in this fund. Some of the significant funding sources include the funds that are received for capital projects such as the Public School Fund – Capital Outlay, State Paid on Behalf, Fleet Renewal, and Special County Ad Valorem funding sources.

The Board reports the following fiduciary fund type:

Fiduciary Fund Type

- ◆ **Agency Funds** – These funds are used to report assets held by the Board in a purely custodial capacity. The Board collects these assets and transfers them to the proper individual, private organizations, or other government.

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within sixty (60) days of the end of the current fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. General long-term debt issued and acquisitions under capital leases are reported as other financing sources.

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

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

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

1. Deposits and Investments

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

Statutes authorize the Board to invest in obligations of the U. S. Treasury, obligations of any state of the United States, general obligations of any Alabama county or city board of education secured by the pledged of the three-mill school tax and certificates of deposit.

Investments are reported at fair value, based on quoted market prices, except for money market investments and repurchase agreements, which are reported at amortized cost, and certificates of deposit, which are reported at cost. The Board reports all money market investments – U. S. Treasury bills and bankers' acceptances having a remaining maturity at time of purchase of one year or less – at amortized cost.

2. Receivables

Sales tax receivables are based on the amounts collected within 60 days after year-end.

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

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

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

3. Inventories

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

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Restricted Assets

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

6. Capital Assets

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

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

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

	Capitalization Threshold	Estimated Useful Life
Land Improvements	\$50,000	20 years
Buildings	\$50,000	50 years
Building Improvements	\$50,000	7 – 30 years
Equipment and Furniture	\$ 5,000	5 – 20 years
Vehicles	\$ 5,000	8 years
Equipment Under Capital Lease	\$ 5,000	15 – 20 years

7. Deferred Outflows of Resources

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

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond/Warrant premiums and discounts are deferred and amortized over the life of the debt. Bonds/Warrants payable are reported gross of the applicable bond/warrant premium or discount. Bond/Warrant issuance costs are reported as an expense in the period incurred.

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

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

9. Compensated Absences

The Board's annual leave policy consists of the following: All administrative and supervisory personnel who are employed for twelve months are entitled to earn annual leave.

Annual leave for current twelve-month employees (240 days), those assigned or hired prior to July 1, 1999, accrues in accordance with the following policy:

An employee with 119 months of service or less accrues annual leave at a rate of ten (10) days per year. An employee with 120 months of service or more accrues annual leave at a rate of fifteen (15) days per year.

Newly hired or transferred twelve-month employees (260 days) are those assigned after June 30, 1999. The 260-day employees will accrue annual leave at a rate of five (5) days per year until they have twelve (12) months of service, when it increases to ten (10) days per year.

Annual leave will be fifteen (15) days per year after 120 months of service and twenty (20) days per year after 240 months of service.

A maximum of forty-five (45) days of annual leave may be accumulated and paid upon retirement or termination of service.

For twelve-month employees, effective June 30, 2003, any annual leave in excess of forty-five (45) days shall become sick leave days and may be used as sick leave or accumulated for purposes of retirement, subject to the Retirement Systems of Alabama (RSA) rules at the time of retirement.

10. Deferred Inflows of Resources

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

Notes to the Financial Statements

For the Year Ended September 30, 2017

11. Pensions

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

12. Net Position/Fund Balances

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

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

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

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

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

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be the determination of the Board or its designee 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 determination of the Board or its designee that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

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

Note 2 – Stewardship, Compliance, and Accountability

A. Budgets

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

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

B. Deficit Fund Balances/Net Position of Individual Funds

At September 30, 2017, the following governmental fund had a deficit fund balance:

General Fund	\$14,145,647.00
--------------	-----------------

The deficit in the General Fund is a result of the salary accrual adjustment. Salaries and benefits payable at September 30, 2017, are funded with an appropriation from the State of Alabama that is not legally available to the Board until October 1, and therefore is not reflected as revenue in the Board's financial statements as of September 30, 2017.

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

Note 3 – Deposits and Investments

A. Deposits and Certificates of Deposit

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

The Board has \$314,038.56 of its funds in Certificates of Deposit. These certificates of deposit are classified as "Deposits" in order to determine insurance and collateralization. However, they are classified as "Investments" on the financial statements.

Notes to the Financial Statements

For the Year Ended September 30, 2017

B. Cash with Fiscal Agent

The Board has deposits totaling \$24,899,639.10 in the Debt Service Fund which are shown as cash with fiscal agents on the fund financial statements and restricted assets on the governmental-wide financial statements. Funds are invested in short-term money market funds and amounts in excess of FDIC coverage are required by the provisions of the bond covenant to be invested in federal securities. Amounts on deposit with fiscal agents are invested as shown below:

Investment Type	Fair Value	Maturity	Rating
Series 2009-A Warrant Fund RMK Select Treasury Money Market CLA	\$ 1,188.40	Less than 60 days	Standard & Poor's A+
Series 2009-B Warrant Fund RMK Select Treasury Money Market CLA	\$ 278.71	Less than 60 days	Standard & Poor's A+
Series 2009-TC Warrant Fund RMK Select Treasury Money Market CLA	\$ 516.85	Less than 60 days	Standard & Poor's AA-
Series 2009-TC Sinking Fund Account Natixis Bank	\$8,995,918.92	Less than 60 days	Unrated
Series 2010 Taxable-Direct Subsidy QSCB-RMK	\$ 268.28	Less than 60 days	Standard & Poor's AA-
Series 2010 Taxable-Direct Subsidy QSCB-Sinking Fund Acct-Natixis Bank	\$7,537,449.51	Less than 60 days	Unrated
2011 Capital Pool Warrants (SDE) Qualified Zone Academy Bonds	\$6,678,467.36	Less than 60 days	N/A
Series 2012 Capital Outlay Warrants RMK Select Treasury Money Market CLA	\$ 5,438.32	Less than 60 days	Standard & Poor's AA-
Series 2016A Warrant Fund RMK Select Treasury Money Market CLA	\$ 8,287.08	Less than 60 days	Standard & Poor's AA-
Series 2016B Warrant Fund RMK Select Treasury Money Market CLA	\$ 9,947.56	Less than 60 days	Standard & Poor AA-
QZAB 2003 Trust Fund U. S. Treasury NTS SEC Stripped	\$ 756,421.47	Less than 60 days	Unrated
QZAB 2003 Trust Fund U. S. Treasury Bills	\$ 128,257.01	Less than 60 days	Unrated
QZAB 2005 Trust Fund U. S. Treasury Bills	\$ 777,199.63	Less than 60 days	Unrated

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

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The credit rating, if applicable and available, is presented in the table of investments. The Board has no policy on credit risk.

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

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

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

Note 4 – Receivables

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

	General Fund	Special Revenue Fund	Capital Projects Fund	Total
Receivables:				
Accounts	\$ 65,019.51	\$	\$	\$ 65,019.51
Intergovernmental	2,185,116.98	7,010,290.48	447,470.19	9,642,877.65
Other	67,953.50	32,438.53		100,392.03
Total Receivables	<u>\$2,318,089.99</u>	<u>\$7,042,729.01</u>	<u>\$447,470.19</u>	<u>\$9,808,289.19</u>

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

Note 5 – Capital Assets

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

	Balance 10/01/2016	Additions/ Reclassifications (*)	Retirements/ Reclassifications (*)	Balance 09/30/2017
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 9,060,445.92	\$	\$	\$ 9,060,445.92
Construction in Progress	92,797,506.30	20,286,730.15	(10,786,699.92)	102,297,536.53
Total Capital Assets, Not Being Depreciated	101,857,952.22	20,286,730.15	(10,786,699.92)	111,357,982.45
Capital Assets Being Depreciated:				
Land Improvements (Exhaustible)	10,776,631.89	173,489.00		10,950,120.89
Buildings	467,540,982.63	8,503,226.91		476,044,209.54
Buildings Improvements	197,398,534.75	2,751,590.56		200,150,125.31
Equipment and Vehicles	55,976,180.67	761,649.02	(3,249,482.33)	53,488,347.36
Assets Under Capital Lease	24,987,615.50			24,987,615.50
Total Capital Assets Being Depreciated	756,679,945.44	12,189,955.49	(3,249,482.33)	765,620,418.60
Less Accumulated Depreciation for:				
Land Improvements (Exhaustible)	(3,110,708.02)	(543,168.83)		(3,653,876.85)
Buildings	(240,399,058.91)	(6,772,375.29)		(247,171,434.20)
Buildings Improvements	(28,093,492.81)	(3,964,199.71)		(32,057,692.52)
Equipment and Vehicles	(45,391,563.92)	(1,554,698.19)	3,199,675.48	(43,746,586.63)
Assets Under Capital Lease	(8,131,509.00)	(3,123,452.93)		(11,254,961.93)
Total Accumulated Depreciation	(325,126,332.66)	(15,957,894.95)	3,199,675.48	(337,884,552.13)
Total Capital Assets Being Depreciated, Net	431,553,612.78	(3,767,939.46)	(49,806.85)	427,735,866.47
Total Governmental Activities Capital Assets, Net	\$ 533,411,565.00	\$ 16,518,790.69	\$(10,836,506.77)	\$ 539,093,848.92
(*) Included in the "Additions/Reclassifications" and the "Retirements/Reclassifications" columns are \$10,786,699.92 in reclassifications from Construction in Progress to Land Improvements, Buildings and Building Improvements in the amounts of \$145,892.40, \$8,464,605.91 and \$2,176,201.61, respectively.				

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

	Current Year Depreciation Expense
Governmental Activities:	
Instruction	\$10,497,872.50
Instructional Support	18,786.09
Operation and Maintenance	263,722.84
Auxiliary Services – Transportation	3,640,162.96
Auxiliary Services – Food Services	557,449.95
General Administrative and Central Support	979,292.91
Other	607.70
Total Depreciation Expense – Governmental Activities	\$15,957,894.95

Notes to the Financial Statements

For the Year Ended September 30, 2017

Note 6 – Defined Benefit Pension Plan

A. Plan Description

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

B. Benefits Provided

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

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

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

C. Contributions

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

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

Participating employers' contractually required contribution rate for the year ended September 30, 2017, was 12.01% of annual pay for Tier 1 members and 10.82% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the Board were \$33,767,078.91 for the year ended September 30, 2017.

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

At September 30, 2017, the Board reported a liability of \$469,498,000.00 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015. The Board's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2016, the Board's proportion was 4.336764%, which was a decrease of .076160% from its proportion measured as of September 30, 2015.

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

For the year ended September 30, 2017, the Board recognized pension expense of \$45,491,000.00. At September 30, 2017, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$	\$12,091,000.00
Changes of assumptions	33,149,000.00	
Net difference between projected and actual earnings on pension plan investments	6,785,000.00	
Changes in proportion and differences between employer contributions and proportionate share of contributions		8,130,000.00
Employer contributions subsequent to the measurement date	33,767,078.91	
Total	\$73,701,078.91	\$20,221,000.00

The \$33,767,078.91 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending	
September 30, 2018	\$ 3,837,000.00
2019	\$ 3,837,000.00
2020	\$11,473,000.00
2021	\$ (612,000.00)
2022	\$ 1,178,000.00
Thereafter	\$

E. Actuarial Assumptions

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

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

Notes to the Financial Statements

For the Year Ended September 30, 2017

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

Mortality rates were based on the RP-2000 White Collar Mortality Table projected to 2020 using Scale BB and adjusted 115% for males and 112% for females age 78 and older. The rates of disabled mortality were based on the RP-2000 Disabled Mortality Table projected to 2020 using Scale BB and adjusted 105% for males and 120% for females.

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

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

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

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

F. Discount Rate

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

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

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

	1% Decrease (6.75%)	Current Rate (7.75%)	1% Increase (8.75%)
Board's proportionate share of collective net pension liability	\$625,745	\$469,498	\$337,446
(Dollar amounts in thousands)			

H. Pension Plan Fiduciary Net Position

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

Notes to the Financial Statements

For the Year Ended September 30, 2017

Note 7 – Other Postemployment Benefits (OPEB)

A. Plan Description

The Board contributes to the Alabama Retired Education Employees’ Health Care Trust (the “Trust”), a cost-sharing multiple-employer defined benefit postemployment healthcare plan. The Trust provides health care benefits to state and local school system retirees and was established in 2007 under the provisions of Act Number 2007-16, Acts of Alabama, as an irrevocable trust fund. Responsibility for general administration and operations of the Trust is vested with the Public Education Employees’ Health Insurance Board (PEEHIB) members. The *Code of Alabama 1975*, Section 16-25A-4, provides the PEEHIB with the authority to amend the benefit provisions in order to provide reasonable assurance of stability in future years. The Trust issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at the Public Education Employees’ Health Insurance Plan website, <http://www.rsa-al.gov> under the Employers’ Financial Reports section.

B. Funding Policy

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

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

Notes to the Financial Statements

For the Year Ended September 30, 2017

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

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

Fiscal Year Ended September 30,	Active Health Insurance Premiums Paid By Board	Amount of Premium Attributable to Retirees	Percentage of Active Employee Premiums Attributable to Retirees	Total Amount Paid Attributable to Retirees	Percentage of Required Amount Contributed
2017	\$800.00	\$152.57	19.07%	\$14,906,637.60	100%
2016	\$780.00	\$211.21	27.08%	\$18,054,355.69	100%
2015	\$780.00	\$180.76	23.17%	\$15,576,637.52	100%

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

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

Note 8 – Construction and Other Significant Commitments

As of September 30, 2017, the Board was obligated under the following significant construction contracts:

	Total Amount Paid	Total Contract Amount
Hoar Program Management	\$ 3,687,118.94	\$ 3,743,870.22
Citronelle High School	28,597,981.90	29,300,000.00
Lott Middle School	10,007,031.33	10,013,161.33
Dauphin Island Elementary School	1,965,935.76	1,975,721.59
Chastang Middle School/Brazier Elementary School	16,634,854.05	18,089,219.69
Phillips Preparatory School	9,512,801.42	9,968,291.23
Mae Eanes Middle School	441,856.48	553,761.48
Barton Academy Restoration	3,696,249.50	3,696,249.50
Tanner Williams Elementary School	6,830,405.78	6,844,241.78
Cranford Burns Middle School	1,838,115.68	1,838,115.68
Leflore Magnet High School	186,282.50	262,062.90
Williamson High School	1,408,781.13	3,063,266.13
Indian Springs Elementary School	97,041.77	2,632,559.62
Orchard Elementary School	1,715,659.54	1,715,659.54
Ella Grant Elementary School	1,531,090.66	1,531,090.66
Hall Elementary School	1,389,371.66	1,389,371.66
St. Elmo Elementary School	1,432,213.49	1,432,213.49
Burroughs Elementary School	1,255,575.30	1,255,575.30
Robbins Elementary School	1,374,691.59	1,374,691.59
Total	<u>\$93,603,058.48</u>	<u>\$100,679,123.39</u>

Note 9 – Payables

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

	Vendors	Intergovernmental	Other Payables	Total Payables
<u>Governmental Activities:</u>				
General Fund	\$1,844,030.12	\$37,533.83	\$ 1,638.00	\$1,883,201.95
Special Revenue Fund	1,597,345.80		52,554.22	1,649,900.02
Capital Projects Fund	703,397.87			703,397.87
Total Governmental Activities	<u>\$4,144,773.79</u>	<u>\$37,533.83</u>	<u>\$54,192.22</u>	<u>\$4,236,499.84</u>

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

Note 10 – Lease Obligations

Capital Leases

The Board is obligated under certain leases accounted for as capital leases. Assets under capital lease totaled \$24,987,615.50 at September 30, 2017. If the Board completes the lease payments according to the schedule below, which is the stated intent of the Board, ownership of the leased equipment will pass to the Board. Until that time, the leased equipment will be identified separately on the balance sheet. The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of September 30, 2017:

Fiscal Year Ending	Governmental Activities
September 30, 2018	\$ 2,156,063.37
2019	1,721,736.13
2020	1,721,736.13
2021	1,721,736.12
2022	1,721,736.12
2023-2025	3,467,872.71
Total Minimum Lease Payments	12,510,880.58
Less: Amount Representing Interest	(897,372.60)
Present Value of Net Minimum Lease Payments	<u>\$11,613,507.98</u>

Note 11 – Funding Agreements

2009-A Funding Agreement

In 2009, the Public Educational Building Authority of the City of Mobile, (the “Authority”) issued the Series 2009-A Limited Obligation School Bonds for the purpose of partially refunding the Limited Obligation School Warrants, Series 2003 that were issued under the indenture in order to provide funds to allow the Authority to pay the Board the purchase price of the Educational Facilities which, in turn, were leased and occupied by the Board. Pursuant to the agreement, the Board sold Palmer Pillans Middle School, Calloway-Smith Middle School, Craighead Elementary School, Denton Middle School, Dunbar Magnet School, Gilliard Elementary School, Florence Howard Elementary School, Mertz Elementary, and Mobile County Training School (the “Educational Facilities”) to the Authority.

The Board agreed to pay principal and interest due on the warrants. At the end of the term of the agreement, the Board can purchase the educational facilities for \$100.00. The initial term of the agreement ends on September 30, 2009, with the options of making automatic annual renewals extending until the final maturity of the Series 2009-A Bonds.

Notes to the Financial Statements

For the Year Ended September 30, 2017

2009-B Funding Agreement

In 2010, the Public Educational Building Authority of the City of Mobile, (the “Authority”) issued the Series 2009-B Limited Obligation School Bonds for the purpose of refunding the remaining portion of the Limited Obligation School Warrants, Series 2003 that were issued under the indenture in order to provide funds to allow the Authority to pay the Board the purchase price of the Educational Facilities which, in turn, were leased and occupied by the Board. Pursuant to the agreement, the Board sold Palmer Pillans Middle School, Calloway-Smith Middle School, Craighead Elementary School, Denton Middle School, Dunbar Magnet School, Gilliard Elementary School, Florence Howard Elementary School, Mertz Elementary, and Mobile County Training School (the “Educational Facilities”) to the Authority.

The Board agreed to pay principal and interest due on the warrants. At the end of the term of the agreement, the Board can purchase the educational facilities for \$100.00. The initial term of the agreement ends on September 30, 2010, with the options of making automatic annual renewals extending until the final maturity of the Series 2009-B Bonds.

If the Board completes the payments according to the schedule below, which is the stated intent of the Board, ownership of the assets will pass to the Board.

The following is a schedule of future minimum payments under the funding agreements, together with the new present value of the minimum payments as of September 30, 2017.

Fiscal Year Ending	Governmental Activities
September 30, 2018	\$4,387,662.50
2019	728,406.25
Total Minimum Payments	5,116,068.75
Less: Amount Representing Interest	(116,068.75)
Present Value of Net Minimum Payments	\$5,000,000.00

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

Note 12 – Qualified Zone Academy Bonds (QZAB’s) and Qualified School Construction Bonds (OSCB’s)

Certificate of Participation – Qualified Zone Academy Bonds

A Trustee issued Certificates of Participation in Qualified Zone Academy Bonds (QZAB’s) which were to be sold to one or more commercial banks. The ratable portion of the proceeds of the sale of the Certificates of Participation allocable to the Mobile County Board of School Commissioners, \$1,000,000 issued May 22, 2003 and \$1,000,000 issued April 27, 2005, were deposited in a separate account of the Project Fund and are available for use only for the Mobile County Board of School Commissioners and its QZAB projects. As also described in the Official Proposal Forms, it is contemplated that the Alabama School Finance Cooperative and the Trustee (with written endorsement of each Board of Education) will enter into a guaranteed investment contract that will provide for the investments of moneys sufficient to pay each Board’s payment at the maturity date of the QZAB’s. The Mobile County Board of School Commissioners will make level annual installment payments of \$78,891.74 and \$73,685.00 beginning May 22, 2004 and April 27, 2006 through and including May 22, 2013 and April 27, 2015, respectively, sufficient to make the payment at the maturity dates, whereupon the Board’s obligation will be satisfied. None of the base payment represents the payment of interest. Deposits made into the escrow fund shall remain the property of the Board pledged to the payment of the base payments to the Alabama School Finance Cooperative on the base payment due dates.

Series 2011 Qualified Zone Academy Bonds

In 2011, the Alabama Public School and College Authority (the “Authority”) issued the Series 2011 Qualified Zone Academy Bonds (the “Warrant”) Capital Outlay Pool Warrant on behalf of various Boards of Education in the State. The Warrant was issued for the purpose of rehabilitating or repairing the public school facility in which the academy is established and providing equipment for use at such academy. The Board had a 38.612% participation in the warrants resulting in the Board’s share of principal, issuance costs, and net proceeds of \$19,796,745.00, \$74,068.49, and \$19,722,676.51, respectively. The Board is required to make sinking fund deposits of \$991,730.08 on May 1 in each year for fifteen years so that such deposits and any interest earned thereon shall be used to pay the principal of the warrants upon maturity and are pledged to pay the debt service requirements of the warrants. This Warrant will be payable solely out of and secured by the annual amounts of Public School Fund Capital Purchase Funds.

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

Series 2010 Taxable-Direct Subsidy Qualified School Construction Bonds

On October 1, 2010, the Mobile County Board of School Commissioners issued Capital Outlay Warrants Qualified School Construction Bonds Series 2010 (Taxable-Direct Subsidy QSCB) in the amount of \$25,415,000.00 with an interest rate of 4.95%. The Warrants were issued for the purposes of providing funding to finance the construction, rehabilitation, or repair of public school facilities. The Board is required to make sinking fund deposits of \$1,107,009.92 on October 20 in each year for seventeen years so that such deposits and any interest earned thereon shall be used to pay the principal of the bonds upon maturity and are pledged to pay the debt service requirements of the bonds. The sinking fund payments are payable from and secured by a pledge of the Board's special tax proceeds (the One-Half Cent Sales Tax) levied annually for public school purposes. The Board will receive Subsidy Payments from the United States Treasury in connection with the amount of interest payable. The Subsidy Payments are to be paid to the Board and may be used by the Board for any lawful purpose, including debt service on the Warrants.

Note 13 – Long-Term Debt

Qualified Zone Academy Bonds (OZAB's) and Qualified School Construction Bonds (OSCB's)

The Board issued Qualified Zone Academy Bonds for the purpose of acquiring certain capital improvements and the purchase and installation of equipment. The Board issued Qualified School Construction Bonds for the purposes of financing the construction, rehabilitation, or repairing public school facilities.

Funding Agreements (2009-A and 2009-B)

The Board issued the 2009-A Funding Agreement and the 2009-B Funding Agreement in order to refund the Series 2003 Warrants, to pay the cost of terminating an existing interest rate swap transaction that pertains to the Series 2003 Warrants, and to make a deposit to the debt service fund for the Series 2003 Warrants.

Series 2009 Tax Credit Warrants

On December 15, 2009, the Mobile County Board of School Commissioners issued Capital Outlay Warrants Qualified School Construction Bonds Series 2009-TC (Tax Credit Warrants) in the amount of \$23,135,000.00 with a tax credit rate of 5.68% and interest rate of 2.07%. The Board is required to make sinking fund deposits of \$1,106,315.00 on December 15 in each year for fifteen years so that such deposits and any interest earned thereon shall be used to pay the principal of the bonds upon maturity and are pledged to pay the debt service requirements of the bonds. The sinking fund deposits and interest payments are payable from and secured by a pledge of the Board's special tax proceeds (the Twelve Mill Tax) levied annually for public school purposes.

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

Series 2012 Capital Outlay School Warrants

On September 1, 2012, the Mobile County Board of School Commissioners issued Capital Outlay School Warrants Series 2012 in the amount of \$100,900,000.00. The Warrants were issued for the purpose of acquiring and constructing various capital improvements to the educational facilities of the Board.

PSCA Capital Outlay Warrants

The Board is obligated for the Series 2009-B Pool Bonds issued for the purpose of refunding the Series 1999-D Pool Bonds which were issued for the purpose of funding capital improvements. The Board's obligation is paid solely from the Board's portion of the Public School Funds received from the State of Alabama.

Series 2016-A Public School Refunding Warrants

On March 2, 2016, the Mobile County Board of School Commissioners issued Public School Refunding Warrants Series 2016-A in the amount of \$54,855,000.00. The Warrants were issued for the purpose of current refunding the Limited Obligation Bonds, Series 2006 and paying the expenses of issuing the Series 2016-A Warrants.

Series 2016-B Public School Refunding Warrants

On March 2, 2016, the Mobile County Board of School Commissioners issued Public School Refunding Warrants Series 2016-B in the amount of \$80,825,000.00. The Warrants were issued for the purpose of advance refunding a portion of the Limited Obligation School Bonds, Series 2009-A; a portion of the Limited Obligation School Bonds, Series 2009-B and paying the expenses of issuing the Series 2016-B Warrants.

Notes to the Financial Statements

For the Year Ended September 30, 2017

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

	Debt Outstanding 10/01/2016	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 09/30/2017	Amounts Due Within One Year
Governmental Activities:					
Bonds/Warrants and Funding Agreements Payable:					
2009-A Funding Agreement	\$ 7,075,000.00	\$	\$ (3,480,000.00)	\$ 3,595,000.00	\$ 3,595,000.00
2009-B Funding Agreement	2,070,000.00		(665,000.00)	1,405,000.00	690,000.00
2009 Tax Credit Warrants	23,135,000.00			23,135,000.00	
Certificate of Participation – Qualified Zone Academy Bonds	2,000,000.00			2,000,000.00	1,000,000.00
2010 Qualified School Construction Bonds	25,415,000.00			25,415,000.00	
2011 Qualified Zone Academy Bonds	19,796,745.00			19,796,745.00	
Capital Outlay Warrants, PSCA Funds	6,231,716.33		(1,970,450.63)	4,261,265.70	2,069,687.27
Capital Outlay School Warrants, Series 2012	93,075,000.00		(2,365,000.00)	90,710,000.00	2,440,000.00
Public School Refunding Warrants, Series 2016-A	54,855,000.00		(2,370,000.00)	52,485,000.00	2,405,000.00
Public School Refunding Warrants, Series 2016-B	80,825,000.00			80,825,000.00	
Sub-Total Bonds/Warrants and Funding Agreements Payable	314,478,461.33		(10,850,450.63)	303,628,010.70	12,199,687.27
Unamortized Amounts:					
Add: Unamortized Premium	26,243,147.79		(1,755,952.42)	24,487,195.37	1,755,952.42
Less: Unamortized Discount	(60,559.30)		60,559.30		
Total Bonds/Warrants and Funding Agreements Payable, Net	340,661,049.82		(12,545,843.75)	328,115,206.07	13,955,639.69
Other Liabilities:					
Compensated Absences	3,772,018.80		(1,144,144.59)	2,627,874.21	399,878.34
Capital Lease Contracts Payable	14,450,738.78		(2,837,230.80)	11,613,507.98	1,903,458.72
Net Pension Liability	461,843,000.00	7,655,000.00		469,498,000.00	
Total Governmental Activities Long-Term Liabilities	\$820,726,807.40	\$7,655,000.00	\$(16,527,219.14)	\$811,854,588.26	\$16,258,976.75

Payments on the PSCA Capital Outlay Warrants are made by the Capital Projects Fund with Public School Funds withheld from the Board's allocation from the Alabama Department of Education.

Payments on the 2009-A, 2009-B Funding Agreements and the Certificates of Participation are made by the Debt Service Fund with property taxes.

Payments on the Series 2009-TC and Series 2012 Capital Outlay School Warrants are made by the Debt Service Fund with property taxes.

Payments on the Series 2016-A and Series 2016-B Public School Refunding Warrants are made by the Debt Service Fund with property taxes.

Payments on the Lease-Purchase Agreements are made by the Debt Service Fund.

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

The compensated absences liability will be liquidated by the General Fund.

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

Fiscal Year Ending	2009-A Funding Agreement		2009-B Funding Agreement		Lease Contracts Payable 2012 Bus Purchase	
	Principal	Interest	Principal	Interest	Principal	Interest
September 30, 2018	\$3,595,000.00	\$62,912.50	\$690,000.00	\$39,750.00	\$396,618.55	\$37,708.70
2019			715,000.00	13,406.25		
2020						
2021						
2022						
2023-2027						
2028-2032						
2033-2037						
2038-2042						
Total	\$3,595,000.00	\$62,912.50	\$1,405,000.00	\$53,156.25	\$396,618.55	\$37,708.70

Fiscal Year Ending	Series 2012 Warrants		2011 QZAB		2010 QSCB	
	Principal	Interest	Principal	Interest	Principal	Interest
September 30, 2018	\$ 2,440,000.00	\$ 3,146,481.26	\$	\$ 991,730.08	\$	\$ 1,258,042.50
2019	2,510,000.00	3,072,231.26		991,730.08		1,258,042.50
2020	2,585,000.00	3,008,731.26		991,730.08		1,258,042.50
2021	2,640,000.00	2,953,181.26		991,730.08		1,258,042.50
2022	2,700,000.00	2,889,731.26		991,730.08		1,258,042.50
2023-2027	14,595,000.00	13,314,518.80	19,796,745.00	3,966,920.32	25,415,000.00	6,290,212.50
2028-2032	17,080,000.00	10,665,000.05				
2033-2037	20,985,000.00	6,735,153.15				
2038-2042	25,175,000.00	2,460,093.75				
Total	\$90,710,000.00	\$48,245,122.05	\$19,796,745.00	\$8,925,570.72	\$25,415,000.00	\$12,580,425.00

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

Lease Contracts Payable 2014 Bus Purchase		Lease Contracts Payable 2015 Bus Purchase		QZAB		2009 Tax Credit Warrants	
Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
\$ 746,944.43	\$ 98,567.55	\$ 759,895.74	\$116,328.40	\$1,000,000.00	\$	\$	\$ 478,894.52
762,555.57	82,956.41	774,385.91	101,838.24				478,894.52
778,492.98	67,019.00	789,152.42	87,071.73				478,894.52
794,763.49	50,748.49	804,200.47	72,023.67	1,000,000.00			478,894.52
811,374.04	34,137.94	819,535.52	56,688.62				478,894.52
822,020.04	17,180.22	2,553,568.82	75,103.63			23,135,000.00	1,079,479.19
\$4,716,150.55	\$350,609.61	\$6,500,738.88	\$509,054.29	\$2,000,000.00	\$	\$23,135,000.00	\$3,473,951.79

Capital Outlay 2009-B PSCA		Series 2016-A Warrants		Series 2016-B Warrants		Total Principal and Interest Requirements to Maturity
Principal	Interest	Principal	Interest	Principal	Interest	
\$2,069,687.27	\$213,063.28	\$ 2,405,000.00	\$ 2,382,400.00	\$	\$ 4,041,250.00	\$ 25,970,274.78
2,191,578.43	109,577.90	2,830,000.00	2,315,900.00	3,130,000.00	3,963,000.00	25,301,097.07
		2,930,000.00	2,229,500.00	3,970,000.00	3,785,500.00	22,959,134.49
		3,045,000.00	2,124,650.00	4,170,000.00	3,582,000.00	22,965,234.48
		3,200,000.00	1,983,750.00	4,380,000.00	3,368,250.00	22,972,134.48
		18,870,000.00	7,261,250.00	25,375,000.00	13,244,375.00	175,811,373.52
		19,205,000.00	1,985,375.00	32,335,000.00	6,064,625.00	87,335,000.05
				7,465,000.00	186,625.00	35,371,778.15
						27,635,093.75
\$4,261,265.70	\$322,641.18	\$52,485,000.00	\$20,282,825.00	\$80,825,000.00	\$38,235,625.00	\$446,321,120.77

Notes to the Financial Statements

For the Year Ended September 30, 2017

Deferred Loss on Refunding, Discounts and Premiums

The Board has deferred amounts associated with several of its debt issues. All are being amortized using the straight-line method.

- ◆ The Series 2009-A Funding Agreement has a discount and deferred loss on refunding which are being amortized over 25 years.
- ◆ The Series 2009-B Funding Agreement has a discount and deferred loss on refunding which are being amortized over 25 years.
- ◆ The 2009-B Refunding PSCA Funding Agreement has a premium and deferred loss on refunding which are being amortized over 10 years.
- ◆ The Series 2006 Funding Agreement has a discount and deferred loss on refunding which are being amortized over 25 years.
- ◆ The 2010 Qualified School Construction Bonds has a premium which is being amortized over 17 years.
- ◆ The Series 2012 Warrants has a discount which is being amortized over 30 years.
- ◆ The Series 2016-A Public School Refunding Warrants has a premium and deferred loss on refunding which are being amortized over 15 years.
- ◆ The Series 2016-B Public School Refunding Warrants has a premium and deferred loss on refunding which are being amortized over 17 years.

	Loss on Refunding of Debt	Discount	Premium
Total Deferred Loss on Refunding, Discount and Premium	\$22,669,302.84	\$4,360,894.50	\$27,809,236.59
Amount Amortized Prior Years	8,041,323.59	4,300,335.20	1,566,088.80
Balance Deferred Loss on Refunding, Discount and Premium	14,627,979.25	60,559.30	26,243,147.79
Current Amount Amortized	955,939.43	60,559.30	1,755,952.42
Balance Deferred Loss on Refunding, Discount and Premium	<u>\$13,672,039.82</u>	<u>\$</u>	<u>\$24,487,195.37</u>

Notes to the Financial Statements

For the Year Ended September 30, 2017

Pledged Revenues

In 2009, the Board entered into a funding agreement with the Public Education Building Authority of the City of Mobile in which the Authority issued Limited Obligation School Bonds, Series 2009-A, in the amount of \$99,060,000.00 for the purpose of refunding previously issued bonds, to pay the cost of terminating an existing interest rate swap transaction of the Board, and to make a deposit to the debt service fund for the Series 2003 Warrants. The Authority simultaneously entered into a sale-leaseback agreement with the Board. The Board pledged to pay the funding agreement from proceeds of ad valorem taxes. The Series 2009-A Limited Obligation School Bonds were partially refunded in the amount of \$75,940,000.00 in fiscal year 2016. The remaining future revenues of \$3,657,912.50 are pledged to repay the principal and interest on the Series 2009-A Funding Agreement at September 30, 2017. Funds in the amount of \$3,662,375.00 were used to pay principal and interest on the funding agreement during the 2017 fiscal year. The remaining portion of the Series 2009-A Funding Agreement will mature in fiscal year 2018.

On November 1, 2009, the Board entered into a funding agreement with the Public Education Building Authority of the City of Mobile in which the Authority issued Limited Obligation School Bonds, Series 2009-B in the amount of \$19,020,000.00 for the redemption of \$18,575,000.00 principal amount of the County's Funding Agreement, Series 2003. The Authority simultaneously entered into a sale-leaseback agreement with the Board. The Board pledged to repay the funding agreement from proceeds of ad valorem taxes. The Series 2009-B Limited Obligation School Bonds were partially refunded in the amount of \$13,890,000.00 in fiscal year 2016. The remaining future revenues of \$1,458,156.25 are pledged to repay the principal and interest on the Series 2009-B Funding Agreement at September 30, 2017. Funds in the amount of \$729,325.00 were used to pay principal and interest on the funding agreement during the 2017 fiscal year. The remaining portion of the Series 2009-B Funding Agreement will mature in fiscal year 2019.

On December 15, 2009, the Board issued \$23,135,000.00 of Capital Outlay Warrants, Series 2009-TC (the "Tax Credit Warrants"). The Board intends to use the proceeds from the sale of the Tax Credit Warrants to finance the construction, rehabilitation or repair of public school facilities. The Tax Credit Warrants are limited obligations of the Board. The Board pledges to repay the bonds from proceeds of ad valorem taxes. Future revenues of \$26,608,951.79 are pledged to repay the principal and interest on the Series 2009-TC Warrants at September 30, 2017. Funds in the amount of \$478,894.52 were used to pay interest on the funding agreement during the 2017 fiscal year. The Series 2009-TC Warrant will mature in fiscal year 2026.

Notes to the Financial Statements

For the Year Ended September 30, 2017

On October 21, 2009, the Alabama Public School and College Authority issued Capital Improvement Pool Refunding Bonds, Series 2009-B, to refund the previously issued Series 1999-D Bonds, which were outstanding in the aggregate principal amount of \$151,170,000. Proceeds of the 1999-D Bonds were used to make loans to local boards of education in the State of Alabama in order to finance capital improvements approved by the Authority and the State Superintendent of Education. The proceeds of the 2009-B Bonds are used to refund the Series 1999-D Bonds and to pay costs of issuance on the 2009-B Bonds. The Board had a 12.312% participation in the Bonds (aggregate issue amount of \$174,960,000). The Board pledged to repay the principal, sinking fund deposits and interest payable on the loan from the proceeds of the capital outlay funds allocated to the local board from the Public School Fund. Future revenues of \$4,583,906.88 are pledged to repay the sinking fund deposits and interest payable through August 2019. Funds in the amount of \$2,282,036.45 were used to pay principal and interest on the bonds during the 2017 fiscal year.

On October 1, 2010, the Mobile County Board of School Commissioners issued Capital Outlay Warrants Qualified School Construction Bonds Series 2010 (Taxable-Direct Subsidy QSCB) in the amount of \$25,415,000.00 with an interest rate of 4.95%. The sinking fund payments are payable from and secured by a pledge of the Board's special tax proceeds (the One-Half Cent Sales Tax) levied annually for public school purposes. The Board will receive Subsidy Payments from the United States Treasury in connection with the amount of interest payable. The Subsidy Payments are to be paid to the Board and may be used by the Board for any lawful purpose, including debt service on the Warrants. Future revenues of \$37,995,425.00 are pledged to repay the sinking fund deposits and interest payable through September 2027. Funds in the amount of \$1,258,042.50 were used to pay interest on the bonds during the 2017 fiscal year.

In 2011, the Alabama Public School and College Authority issued the Series 2011 Qualified Zone Academy Bonds Capital Outlay Pool Warrant on behalf of various Boards of Education in the State. The Board had a 38.612% participation in the warrants resulting in the Board's share of principal, issuance costs, and net proceeds of \$19,796,745.00, \$74,068.49, and \$19,722,676.51, respectively. The Board is required to make sinking fund deposits of \$991,730.08 on May 1 in each year for fifteen years so that such deposits and any interest earned thereon shall be used to pay the principal of the warrants upon maturity and are pledged to pay the debt service requirements of the warrants. This Warrant will be payable solely out of and secured by the annual amounts of Public School Fund Capital Purchase Funds. Future revenues of \$28,722,315.75 are pledged to repay the sinking fund deposits and interest payable through May 2026. Funds in the amount of \$991,730.08 were used to pay interest on the bonds during the 2017 fiscal year.

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

On September 1, 2012, the Mobile County Board of School Commissioners issued Capital Outlay School Warrants Series 2012 in the amount of \$100,900,000.00. The warrants were issued for the purpose of acquiring and constructing various capital improvements to the educational facilities of the Board. The Board pledged to repay the warrants from proceeds of ad valorem taxes. Future revenues of \$138,955,122.05 are pledged to repay the principal and interest on the Series 2012 Warrants at September 30, 2017. The Series 2012 Warrants will mature in fiscal year 2042. Funds in the amount of \$5,583,556.26 were used to pay principal and interest on the warrants during the 2017 fiscal year.

On March 2, 2016, the Mobile County Board of School Commissioners issued Public School Refunding Warrants Series 2016-A in the amount of \$54,855,000.00. The warrants were issued for the purposes of current refunding the Limited Obligation Bonds, Series 2006-A and paying the costs of issuance of the Series 2016-A Warrants. The Board pledged to repay the warrants from proceeds of ad valorem taxes. Future revenues of \$72,767,825.00 are pledged to repay the principal and interest on the Series 2016-A Warrants at September 30, 2017. The Series 2016-A Warrants will mature in fiscal year 2031. Funds in the amount of \$4,800,150.00 were used to pay principal and interest on the warrants during the 2017 fiscal year.

On March 2, 2016, the Mobile County Board of School Commissioners issued Public School Refunding Warrants Series 2016-B in the amount of \$80,825,000.00. The warrants were issued for the purposes of advance refunding a portion of the Limited Obligation School Bonds, Series 2009-A; a portion of the Limited Obligation School Bonds, Series 2009-B and paying the costs of issuance of the Series 2016-B Warrants. The Board pledged to repay the warrants from proceeds of ad valorem taxes. Future revenues of \$119,060,625.00 are pledged to repay the principal and interest on the Series 2016-B Warrants at September 30, 2017. The Series 2016-B Warrants will mature in fiscal year 2033. Funds in the amount of \$4,041,250.00 were used to pay interest on the warrants during the 2017 fiscal year.

Notes to the Financial Statements

For the Year Ended September 30, 2017

Note 14 – Risk Management

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

Settled claims resulting from these risks have not exceeded the Board's coverage in the current fiscal year.

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

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

Note 15 – Interfund Transactions

Interfund Receivables and Payables

The interfund receivables and payables at September 30, 2017, were as follows:

	Interfund Receivables			Totals
	General Fund	Special Revenue Fund	Capital Projects Fund	
Interfund Payables:				
General Fund	\$	\$871,309.86	\$1,665.64	\$ 872,975.50
Special Revenue Fund	3,129,393.27			3,129,393.27
Capital Projects Fund	325,803.04			325,803.04
Totals	\$3,455,196.31	\$871,309.86	\$1,665.64	\$4,328,171.81

Interfund Transfers

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

	Transfers Out			Total
	General Fund	Special Revenue Fund	Capital Projects Fund	
Transfers In:				
General Fund	\$	\$2,129,370.23	\$18,308,049.11	\$20,437,419.34
Special Revenue Fund	6,107,075.42			6,107,075.42
Debt Service Fund	15,600,602.61		7,044,514.81	22,645,117.42
Totals	\$21,707,678.03	\$2,129,370.23	\$25,352,563.92	\$49,189,612.18

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

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

Note 16 – Subsequent Events

On November 15, 2017, the Board approved the issuance of \$8,200,000.00 Special Tax School Warrant, Series 2017, with a per annum interest rate of 2.09% or, following a determination of taxability, 3.17% per annum, for the purpose of (1) acquire school buses, and (2) paying issuance expenses.

The parents of a Davidson High School freshman who suffered a broken arm in an apparent assault in the school's football locker room, have filed a \$12 million lawsuit against the Mobile County Board of School Commissioners. Mobile County Public School System has layers of coverage for employee liability; Alabama Trust for Board of Education (ATBE) will handle the Board's side of the claim and Division of Risk Management (DORM) will handle the employee liability.

Required Supplementary Information

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

	2017	2016	2015
Employer's proportion of the net pension liability	4.336764%	4.412924%	4.433443%
Employer's proportionate share of the net pension liability	\$ 469,498	\$ 461,843	\$ 402,759
Employer's covered-employee payroll during the measurement period (*)	\$ 275,888	\$ 279,249	\$ 281,258
Employer's proportionate share of the collective net pension liability as a percentage of its covered-employee payroll	170.18%	165.39%	143.20%
Plan fiduciary net position as a percentage of the total collective pension liability	67.93%	67.51%	71.01%

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

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

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

	2017	2016	2015
Contractually required contribution	\$ 33,767	\$ 32,604	\$ 32,561
Contributions in relation to the contractually required contribution	<u>\$ 33,767</u>	<u>\$ 32,604</u>	<u>\$ 32,561</u>
Contribution deficiency (excess)	\$	\$	\$
Employer's covered-employee payroll	\$ 285,494	\$ 275,888	\$ 279,248
Contributions as a percentage of covered-employee payroll	11.83%	11.82%	11.66%

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

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>
<u>Revenues</u>			
State	\$ 299,179,645.60	\$ 301,527,498.01	\$ 301,290,795.90
Federal	22,000.00	22,000.00	45,424.64
Local	113,241,439.26	122,117,474.26	109,222,103.72
Other			541,207.24
Total Revenues	<u>412,443,084.86</u>	<u>423,666,972.27</u>	<u>411,099,531.50</u>
<u>Expenditures</u>			
Current:			
Instruction	250,224,078.72	252,995,606.82	244,699,576.99
Instructional Support	68,302,556.95	69,743,919.62	67,885,149.00
Operation and Maintenance	49,527,543.01	50,428,107.68	50,025,331.64
Auxiliary Services:			
Student Transportation	31,212,846.46	31,246,930.00	29,387,201.09
Food Services			945.55
General Administrative and Central Support	21,896,469.46	22,744,744.21	20,927,623.76
Other	2,770,277.00	2,888,708.67	4,141,598.43
Capital Outlay	535,000.00	210,000.00	22,382.20
Total Expenditures	<u>424,468,771.60</u>	<u>430,258,017.00</u>	<u>417,089,808.66</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(12,025,686.74)</u>	<u>(6,591,044.73)</u>	<u>(5,990,277.16)</u>
<u>Other Financing Sources (Uses)</u>			
Indirect Cost	5,559,251.37	5,667,860.86	5,438,800.02
Transfers In	19,035,369.35	19,035,370.00	20,437,419.34
Other Financing Sources			37,386.93
Sale of Capital Assets			63,684.02
Transfers Out	(30,806,275.35)	(25,753,098.20)	(21,707,678.03)
Other Fund Uses	(172,000.00)	(172,000.00)	
Total Other Financing Sources (Uses)	<u>(6,383,654.63)</u>	<u>(1,221,867.34)</u>	<u>4,269,612.28</u>
Net Changes in Fund Balances	<u>(18,409,341.37)</u>	<u>(7,812,912.07)</u>	<u>(1,720,664.88)</u>
Fund Balances - Beginning of Year	<u>26,225,000.00</u>	<u>20,375,256.48</u>	<u>20,388,282.20</u>
Fund Balances - End of Year	<u>\$ 7,815,658.63</u>	<u>\$ 12,562,344.41</u>	<u>\$ 18,667,617.32</u>

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	\$	\$ 301,290,795.90
		45,424.64
(1)	152,454.53	109,374,558.25
		541,207.24
	<u>152,454.53</u>	<u>411,251,986.03</u>
(2)	(163,354.21)	244,862,931.20
(2)	(105,990.65)	67,991,139.65
(2)	18,370.24	50,006,961.40
(2)	(64,534.22)	29,451,735.31
		945.55
(2)	(438.63)	20,928,062.39
(2)	(9,105.95)	4,150,704.38
		22,382.20
	<u>(325,053.42)</u>	<u>417,414,862.08</u>
	<u>(172,598.89)</u>	<u>(6,162,876.05)</u>
		5,438,800.02
		20,437,419.34
		37,386.93
		63,684.02
		(21,707,678.03)
		<u>4,269,612.28</u>
	(172,598.89)	(1,893,263.77)
(3)	<u>(32,640,665.43)</u>	<u>(12,252,383.23)</u>
	<u>\$ (32,813,264.32)</u>	<u>\$ (14,145,647.00)</u>

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

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

The Board budgets on the modified accrual basis of accounting except as shown below:

- (1) The Board budgets for motor vehicle ad valorem tax revenue as it is received, rather than on the modified accrual basis.
- (2) The Board budgets salaries and benefits as they are actually paid, rather than on the modified accrual basis.

Net Decrease in Fund Balance - Budget to GAAP

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

\$ 152,454.53

(325,053.42)

\$ (172,598.89)

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

	Budgeted Amounts		Actual Amounts Budgetary Basis
	Original	Final	
Revenues			
Federal	\$ 81,077,782.55	\$ 83,204,119.94	\$ 79,901,057.51
Local	14,257,268.12	14,257,268.12	17,158,544.65
Other	1,215,063.00	1,215,063.00	1,433,480.30
Total Revenues	<u>96,550,113.67</u>	<u>98,676,451.06</u>	<u>98,493,082.46</u>
Expenditures			
Current:			
Instruction	28,152,865.51	28,365,137.76	28,930,401.13
Instructional Support	16,751,845.81	18,636,711.10	16,281,602.18
Operation and Maintenance	124,002.31	125,855.31	196,983.08
Auxiliary Services:			
Student Transportation	2,187,815.00	2,305,260.20	1,501,292.22
Food Services	45,072,159.03	43,971,370.70	42,942,875.51
General Administrative and Central Support	3,559,201.95	3,447,503.68	2,755,001.39
Other	11,770,775.21	11,875,923.45	11,389,412.66
Capital Outlay	791,000.00	216,710.68	600,452.73
Total Expenditures	<u>108,409,664.82</u>	<u>108,944,472.88</u>	<u>104,598,020.90</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(11,859,551.15)</u>	<u>(10,268,021.82)</u>	<u>(6,104,938.44)</u>
Other Financing Sources (Uses)			
Transfers In	17,385,641.85	12,332,464.05	6,107,075.42
Other Financing Sources			71.26
Sale of Capital Assets	37,500.00	37,500.00	23,904.78
Transfers Out	(4,246,165.60)	(4,246,165.60)	(2,129,370.23)
Total Other Financing Sources (Uses)	<u>13,176,976.25</u>	<u>8,123,798.45</u>	<u>4,001,681.23</u>
Net Changes in Fund Balances	1,317,425.10	(2,144,223.37)	(2,103,257.21)
Fund Balances - Beginning of Year	<u>16,306,198.18</u>	<u>17,485,150.17</u>	<u>18,096,578.33</u>
Fund Balances - End of Year	<u>\$ 17,623,623.28</u>	<u>\$ 15,340,926.80</u>	<u>\$ 15,993,321.12</u>

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	\$	\$ 79,901,057.51
		17,158,544.65
		1,433,480.30
		<u>98,493,082.46</u>
		28,930,401.13
		16,281,602.18
		196,983.08
		1,501,292.22
(1)	(40,580.58)	42,983,456.09
		2,755,001.39
		11,389,412.66
		600,452.73
	(40,580.58)	<u>104,638,601.48</u>
	(40,580.58)	(6,145,519.02)
		6,107,075.42
		71.26
		23,904.78
		<u>(2,129,370.23)</u>
		4,001,681.23
	(40,580.58)	(2,143,837.79)
(2)	(1,445,586.58)	<u>16,650,991.75</u>
	\$ (1,486,167.16)	<u>\$ 14,507,153.96</u>

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

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

The Board budgets on the modified accrual basis of accounting except as shown below:

- (1) The Board budgets salaries and benefits as they are actually paid, rather than on the modified accrual basis.

Net Decrease in Fund Balance - Budget to GAAP

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

\$ (40,580.58)

\$ (40,580.58)

This Page Intentionally Blank

Supplementary Information

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

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number
<u>U. S. Department of Education</u>	
<u>Direct Programs</u>	
Impact Aid	84.041
Indian Education - Grants to Local Educational Agencies	84.060
Total Direct Programs	
<u>U. S. Department of Education</u>	
<u>Passed Through Alabama Department of Education</u>	
Title I Grants to Local Educational Agencies	84.010
Career and Technical Education - Basic Grants to States	84.048
Migrant Education - State Grant Program	84.011
Special Education - State Personnel Development	84.323
Twenty-First Century Community Learning Centers	84.287
Education for Homeless Children and Youth	84.196
Special Education Cluster:	
Special Education - Grants to States	84.027
Special Education - Grants to States	84.027
Sub-Total Special Education - Grants to States	
Special Education - Preschool Grants	84.173
Sub-Total Special Education Cluster	
Education Research, Development and Dissemination	84.305
Advanced Placement Program	84.330
Supporting Effective Instruction State Grants (M)	84.367
English Language Acquisition State Grants	84.365
Total U. S. Department of Education	
Sub-Total Forward	

Pass-Through Grantor's Identifying Number	Total Federal Expenditures
N.A.	\$ 25,208.64
N.A.	162,672.57
	<u>187,881.21</u>
N.A.	23,647,551.12
N.A.	1,025,340.95
N.A.	303,110.00
N.A.	16,935.25
N.A.	711,151.51
N.A.	65,000.00
N.A.	13,257,474.51
X40014701	<u>2,519,138.04</u>
	15,776,612.55
N.A.	<u>312,782.00</u>
	16,089,394.55
X600504	24,413.33
N.A.	24,387.00
N.A.	3,174,329.55
N.A.	214,169.80
	<u>45,483,664.27</u>
	\$ 45,483,664.27

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

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number
---	------------------------------------

Sub-Total Brought Forward

**U. S. Department of Agriculture
Passed Through Alabama Department of Education**

Child Nutrition Cluster:	
National School Lunch Program:	
Cash Assistance	10.555
Non-Cash Assistance (Commodities)	10.555
National School Lunch Program Sub-Total	
School Breakfast Program - Cash Assistance	10.553
Summer Food Service Program for Children	10.559
Sub-Total Child Nutrition Cluster (M)	
Child and Adult Care Food Program	10.558
State Administrative Expenses for Child Nutrition	10.560
Fresh Fruit and Vegetable Program	10.582
Total U. S. Department of Agriculture	

**Social Security Administration
Passed Through Alabama Department of Education**

Social Security - Disability Insurance	96.001
--	--------

**National Oceanic and Atmospheric Administration
Passed Through University of Southern Mississippi**

Sea Grant Support	11.417
-------------------	--------

Other Federal Assistance

U. S. Department of Defense

Direct Program

Navy ROTC	N.A.
Army ROTC	N.A.
Total U. S. Department of Defense	

Total Expenditures of Federal Awards

(M) = Major Program

N.A. = Not Available or Not Applicable

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

Pass-Through Grantor's Identifying Number	Total Federal Expenditures
	\$ 45,483,664.27
N.A.	21,996,193.38
N.A.	2,669,567.03
	<u>24,665,760.41</u>
N.A.	8,230,354.52
N.A.	36,238.14
	<u>32,932,353.07</u>
N.A.	24,042.14
N.A.	78,110.00
N.A.	409,267.45
	<u>33,443,772.66</u>
N.A.	20,216.00
N.A.	35,886.98
N.A.	87,662.20
N.A.	797,170.04
	<u>884,832.24</u>
	<u><u>\$ 79,868,372.15</u></u>

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

Note 1 – Basis of Presentation

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

Note 2 – Summary of Significant Accounting Policies

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

Additional Information

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

Board Members		Term Expires
Reginald A. Crenshaw, Ph.D.	President	November 2020
William C. Foster, Ed.D.	Vice-President	November 2022
Robert E. Battles	Member	November 2020
Don Stringfellow	Member	November 2018
L. Douglas Harwell, Jr.	Member	November 2018

Administrative Personnel

Martha L. Peek	Superintendent	June 2018
Lori Zirlott (**)	Chief School Financial Officer	
Dinish Simpson (*)	Former Chief School Financial Officer	

(*) Chief School Financial Officer through June 30, 2017

(**) Chief School Financial Officer Beginning July 1, 2017

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

Independent Auditor's Report

Members of the Mobile County Board of School Commissioners,
Superintendent and Chief School Financial Officer
Mobile, Alabama

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mobile County Board of School Commissioners as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Mobile County Board of School Commissioners' basic financial statements and have issued our report thereon dated May 21, 2018.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

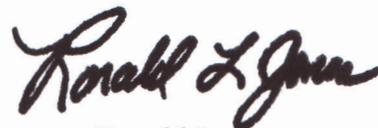
As part of obtaining reasonable assurance about whether the Mobile County Board of School Commissioners' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which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

Mobile County Board of School Commissioners' Response to Findings

The Mobile County Board of School Commissioners' response to the findings identified in our audit is described in the accompanying Auditee Response. The Mobile County Board of School Commissioners' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

Montgomery, Alabama

May 21, 2018

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

Independent Auditor's Report

Members of the Mobile County Board of School Commissioners,
Superintendent and Chief School Financial Officer
Mobile, Alabama

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Mobile County Board of School Commissioner'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 requirements of Title 2 U. S. ***Code of Federal Regulations*** Part 200, ***Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)***. Those standards and the ***Uniform Guidance*** require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Mobile County Board of School Commissioner'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 the Mobile County Board of School Commissioner's compliance.

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

Opinion on Each Major Federal Program

In our opinion, the Mobile County Board of School Commissioners 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, 2017.

Report on Internal Control Over Compliance

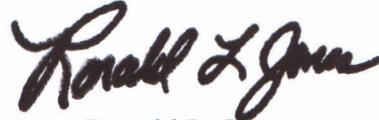
Management of the Mobile County Board of School Commissioners is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Mobile County Board of School Commissioners' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the *Uniform Guidance*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Mobile County Board of School Commissioners' 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

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



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

Montgomery, Alabama

May 21, 2018

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

Section I – Summary of Examiner's Results

Financial Statements

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

Federal Awards

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

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.553,10.555 and 10.559 84.367	Child Nutrition Cluster Supporting Effective Instruction State Grant

Dollar threshold used to distinguish between Type A and Type B programs: \$2,396,051.16
Auditee qualified as low-risk auditee? X Yes _____ No

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

Section II – Financial Statement Findings (GAGAS)

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

Section III – Federal Awards Findings and Questioned Costs

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

Schedule of Charges
October 1, 2016 through September 30, 2017

Person/Official Charged	Date	Fund/Account	Amount Charged
<u>Jointly Charged To</u> Alvin Dailey, Principal Arleen Phillips, Secretary	10/01/2016 - 09/30/2017	Local School Fund	\$ 4,791.00

Total Joint Charges

\$ 4,791.00

Amount Relieved By Chief Examiner	Amount Paid	Amount Unpaid	Description of Charges
\$	\$	\$ 4,791.00	The Mobile County Board of School Commissioners Local School Accounting Department requires ticket sales reports for athletic events to be properly completed and reconciled to the deposits being made for ticket sales. At LeFlore High School, unexplained differences, i.e. shortages, were noted between the amount of money collected for ticket sales and the amount of money given to the school bookkeeper to be deposited into the school's bank account. These shortages, totaling \$4,791.00, were documented on the ticket sales reports.
<u>\$</u>	<u>\$</u>	<u>\$ 4,791.00</u>	

This Page Intentionally Blank

Order of the Chief Examiner



State of Alabama
Department of
Examiners of Public Accounts

Telephone (334) 242-9200
FAX (334) 242-1775

Rachel Laurie Riddle
Chief Examiner

Mailing Address:
P.O. Box 302251
Montgomery, AL 36130-2251

Location:
Gordon Persons Building
50 North Ripley Street, Room 3201
Montgomery, AL 36104-3833

ORDER OF THE CHIEF

RE: Mobile County Board of School Commissioners
October 1, 2016 through September 30, 2017

This matter coming to be heard the 12th day of June 2018, pursuant to the provisions of the *Code of Alabama 1975*, Section 41-5A-20, as added by Act Number 2018-129, Acts of Alabama, and the employees having failed to appear at the hearings before the Chief Examiner, the Chief Examiner is of the opinion that the employees have failed to show just cause why the charges should not be paid. Therefore, relief from these charges is accordingly denied.

Entered this the 12th day of June, 2018.

Rachel Laurie Riddle
Chief Examiner

Auditee Response



Mobile County PUBLIC SCHOOLS

1 Magnum Pass | Mobile, Alabama 36618 | 251-221-4000 | www.mcpss.com

BOARD OF SCHOOL COMMISSIONERS
William C. Foster, Ed.D., President - District 5
L. Douglas Harwell, Jr., Vice President - District 1
Don Stringfellow - District 2
Reginald A. Crenshaw, Ph.D. - District 3
Robert E. Battles, Sr. - District 4

SUPERINTENDENT Martha L. Peek

Corrective Action Plan

For the Year Ended September 30, 2017

As required by the Office of Management and Budget (OMB) Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section .315 (c), the **Mobile County Board of School Commissioners** has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2017.

**Finding
Ref.
No.**

Corrective Action Plan Details

2017-001

Finding: *The Mobile County Board of School Commissioners Local School Accounting Department requires ticket sales reports for athletic events to be properly completed and reconciled to the deposits being made for ticket sales. At Leflore High School, unexplained differences, i.e. shortages, were noted between the amounts collected for ticket sales and the amounts given to the school bookkeeper to be deposited into the school's bank account. These shortages, totaling \$4,791.00, were documented on the ticket sales reports and are reflected as Charges Against Employees on Exhibit #17.*

Corrective Action: *The "Local School Accounting Procedures" require that All funds collected for the sale of tickets must be supported by a, "Report of Sale of Tickets" form. This form should be signed by the person or persons in charge of the ticket sales. Any exceptions or problems should be noted on this form. Pre-numbered Tickets are required. The Basic Procedures also state: 1. Must have at least one ticket seller and one ticket taker. 2. Tickets are assigned using the Report of Sale of Tickets. 3. The ticket is taken or torn in half. 4. Receipts are verified and ticket numbers are checked by more than one person. 5. The ticket report and stubs are kept until after the year-end audit. Continued training with emphasis on procedures and disciplinary consequences of violations will be provided to local school personnel.*

Completion Date: *Ongoing*

Contact Person: *Lori A. Zirlott, Chief School Financial Officer
Michael Hudson, Internal Auditor*

The mission of Mobile County Public Schools is to graduate prepared and productive citizens.



Mobile County PUBLIC SCHOOLS

BOARD OF SCHOOL COMMISSIONERS
William C. Foster, Ed.D., President - District 5
L. Douglas Harwell, Jr., Vice President - District 1
Don Stringfellow - District 2
Reginald A. Crenshaw, Ph.D. - District 3
Robert E. Battles, Sr. - District 4

1 Magnum Pass | Mobile, Alabama 36618 | 251-221-4000 | www.mcps.com

SUPERINTENDENT Martha L. Peek

2016-001

Finding: *The Mobile County Board of School Commissioners Local School Accounting Department requires ticket sales reports for athletic events to be properly completed and reconciled to the deposits being made for ticket sales. Also, school personnel working at athletic events should be paid through the Board's payroll system at an hourly rate based on the approved salary schedule. School personnel working at basketball events were paid cash from the monies collected at each event at Leflore High School which resulted in the ticket sales reports not being filled out correctly nor being reconciled to the deposits made for ticket sales.*

Corrective Action: *The "Local School Accounting Procedures" require that All funds collected for the sale of tickets must be supported by a, "Report of Sale of Tickets" form. This form should be signed by the person or persons in charge of the ticket sales. Any exceptions or problems should be noted on this form. Pre-numbered Tickets are required. The Basic Procedures also state: 1. Must have at least one ticket seller and one ticket taker. 2. Tickets are assigned using the Report of Sale of Tickets. 3. The ticket is taken or torn in half. 4. Receipts are verified and ticket numbers are checked by more than one person. 5. The ticket report and stubs are kept until after the year-end audit. Continued training with emphasis on procedures and disciplinary consequences of violations will be provided to local school personnel.*

Completion Date: *Ongoing*

Contact Person: *Lori A. Zirlott, Chief School Financial Officer
Michael Hudson, Internal Auditor*

2007-002

Finding: *The Mobile County Board of School Commissioners Local School Accounting Department requires certain receipting procedures to be followed by all local school personnel. All funds collected and receipted by teachers should be turned into the school's office on a daily basis and the funds should be deposited daily by office personnel. Teachers did not always turn in funds collected from students to the office in a timely manner at Fonde Elementary and Leflore High School and office personnel did not make daily deposits at Fonde Elementary School.*

Corrective Action: *The "Local School Accounting Procedures" requires Teachers/Sponsors to turn all collected funds in on a daily basis. If funds are turned in late a "Late Teacher Receipt Form" is to be utilized. The "Local School Accounting Procedures" allows teachers to use a multiple receipt listing form to*

The mission of Mobile County Public Schools is to graduate prepared and productive citizens.



Mobile County PUBLIC SCHOOLS

1 Magnum Pass | Mobile, Alabama 36618 | 251-221-4000 | www.mcpss.com

BOARD OF SCHOOL COMMISSIONERS
William C. Foster, Ed.D., President - District 5
L. Douglas Harwell, Jr., Vice President - District 1
Don Stringfellow - District 2
Reginald A. Crenshaw, Ph.D. - District 3
Robert E. Battles, Sr. - District 4

SUPERINTENDENT Martha L. Peek

document funds received by multiple students on a single teacher receipt when the amount received from each student is less than \$25.00. The "Local School Accounting Procedures" requires a daily bank deposit to be made if receipts are \$25.00 or more. Continued training and emphasis on procedures will be provided to local school personnel.

Completion Date: *Ongoing*

Contact Person: *Lori A. Zirlott, Chief School Financial Officer*
Michael Hudson, Internal Auditor


Martha L. Peek, Superintendent

The mission of Mobile County Public Schools is to graduate prepared and productive citizens.