Report on the

Cullman County Commission on Education

Cullman County, Alabama

October 1, 2018 through September 30, 2019

Filed: September 25, 2020

Department of Examiners of Public Accounts

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Rachel Laurie Riddle, Chief Examiner

20-542

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Rachel Laurie Riddle
Chief Examiner

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

Dear Madam:

An audit was conducted on the Cullman County Commission on Education, Cullman County, Alabama, for the period October 1, 2018 through September 30, 2019, by Examiners Joseph White and Jared Boyd. I, Joshua D. Taylor, served as Audit Manager on the engagement, and under the authority of the ***Code of Alabama 1975***, Section 41-5A-19, I hereby swear to and submit this report to you on the results of the audit.

Respectfully submitted,

Joshua D. Taylor
Examiner of Public Accounts

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Department of
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SUMMARY

Cullman County Commission on Education
October 1, 2018 through September 30, 2019

The Cullman County Commission on Education (the "Commission") is governed by a seven-member body elected by the citizens of Cullman County. The members and administrative personnel in charge of governance of the Board are listed in Exhibit 15. The Commission is the governmental agency that provides general administration and supervision for Cullman County public schools, preschool through high school, with the exception of schools administered by the Cullman City Board of Education.

This report presents the results of an audit the objectives of which were to determine whether the financial statements present fairly the financial position and results of financial operations and whether the Commission 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.

An unmodified opinion was issued on the financial statements, which means that the Commission'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, 2019.

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

Commission members and administrative personnel, as reflected on Exhibit 15, were invited to discuss the results of this report at an exit conference. Individuals in attendance were: Superintendent: Dr. Shane Barnette; Chief School Financial Officer: Ed Roberson; and Board Members: Heath Allbright, Wayne Myrex, Kenny Brockman, and Mike Graves. Also in attendance were representatives from the Department of Examiners of Public Accounts: Joshua D. Taylor, Audit Manager and Joseph White, Examiner of Public Accounts. The results of the audit were discussed via telephone with Board Members: Jason Speegle and Chris Carter.

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Independent Auditor's Report

Independent Auditor's Report

Members of the Cullman County Commission on Education,
Superintendent and Chief School Financial Officer
Cullman, 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 Cullman County Commission on Education, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Cullman County Commission on Education's basic financial statements as listed in the table of contents as Exhibits 1 through 7.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Cullman County Commission on Education, as of September 30, 2019, 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 Collective Net Pension Liability, the Schedule of the Employer's Proportionate Share of the Collective Net Other Postemployment Benefits (OPEB) Liability, the Schedules of the Employer's Contributions, and the Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual, (Exhibits 8 through 13) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cullman County Commission on Education's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 14), as required by Title 2 U. S. ***Code of Federal Regulations*** Part 200, ***Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*** (*Uniform Guidance*), is presented for the purposes of additional analysis, and is not a required part of the basic financial statements.

The 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 August 27, 2020, on our consideration of the Cullman County Commission on Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Cullman County Commission on Education's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with ***Government Auditing Standards*** in considering the Cullman County Commission on Education's internal control over financial reporting and compliance.

Rachel Laurie Riddle

Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

August 27, 2020

Basic Financial Statements

Statement of Net Position
September 30, 2019

	Governmental Activities
Assets	
Cash and Cash Equivalents	$ 16,277,147.19
Investments	279,469.98
Ad Valorem Property Taxes Receivable	6,575,316.00
Receivables (Note 4)	3,424,817.22
Inventories	569,181.50
Capital Assets (Note 5):	
Nondepreciable	9,341,816.90
Depreciable, Net	78,831,297.03
Total Assets	115,299,045.82
Deferred Outflows of Resources	
Loss on Refunding of Debt	96,829.21
Employer Pension Contribution	6,314,389.61
Proportionate Share of Collective Deferred Outflows Related to Net Pension Liability	5,922,000.00
Employer Other Postemployment Benefits (OPEB) Contribution	2,789,259.00
Proportionate Share of Collective Deferred Outflows Related to Net Other Postemployment Benefits (OPEB) Liability	2,880,393.00
Total Deferred Outflows of Resources	18,002,870.82
Liabilities	
Unearned Revenue	103,545.60
Salaries and Benefits Payable	7,907,272.02
Accrued Interest Payable	175,839.01
Long-Term Liabilities:	
Portion Due or Payable Within One Year:	
Capital Leases Contracts Payable	768,174.11
Warrants Payable	1,420,335.35
Unamortized Premium	83,812.40
Compensated Absences	231,304.92
Portion Due or Payable After One Year:	
Capital Leases Contracts Payable	4,148,384.27
Warrants Payable	17,738,357.05
Unamortized Premium	333,804.64
Net Pension Liability	73,430,000.00
Other Postemployment Benefits Liability	76,240,769.00
Total Liabilities	$ 182,581,598.37

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

	Governmental Activities
Deferred Inflows of Resources	
Unavailable Revenue - Property Taxes	$ 6,575,316.00
Proportionate Share of Collective Deferred Inflows Related to Net Pension Liability	8,431,000.00
Proportionate Share of Collective Deferred Inflows Related to Net Other Postemployment Benefits (OPEB) Liability	6,380,058.00
Total Deferred Inflows of Resources	21,386,374.00
Net Position	
Net Investment in Capital Assets	64,363,738.65
Restricted for:	
Capital Projects	1,409,335.24
Debt Service	2,034,099.12
Other Purposes	649,987.41
Unrestricted	(139,123,216.15)
Total Net Position	$ (70,666,055.73)

Statement of Activities
For the Year Ended September 30, 2019

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions
Governmental Activities			
Instruction	$ 58,118,335.56	$ 1,491,031.24	$ 44,803,005.79
Instructional Support	17,360,010.18	922,130.81	12,414,299.65
Operation and Maintenance	8,693,297.84	673,592.51	4,042,432.82
Auxiliary Services:			
Student Transportation	5,679,086.54	149,701.98	4,305,081.57
Food Service	6,631,486.23	5,672,518.82	315,799.93
General Administrative and Central Support	2,817,948.37	8,331.38	1,274,821.34
Interest and Fiscal Charges	503,191.26		
Other Expenses	3,334,566.13	1,653,165.36	391,338.11
Total Governmental Activities	$ 103,137,922.11	$ 10,570,472.10	$ 67,546,779.21

General Revenues:

Taxes:

Property Taxes for General Purposes

Property Taxes for Specific Purposes

Sales Tax

Other Taxes

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.

Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position Total Governmental Activities
$ 2,480,940.00	$ (9,343,358.53)
	(4,023,579.72)
47,695.00	(3,929,577.51)
746,445.00	(477,857.99)
	(643,167.48)
	(1,534,795.65)
	(503,191.26)
	(1,290,062.66)
$ 3,275,080.00	(21,745,590.80)
	6,719,791.75
	209,380.00
	12,660,367.72
	170,205.69
	92,010.05
	48,425.00
	3,625,336.11
	23,525,516.32
	1,779,925.52
	(72,445,981.25)
	$ (70,666,055.73)

Balance Sheet
Governmental Funds
September 30, 2019

	General Fund	Special Revenue Fund
Assets		
Cash and Cash Equivalents	$ 8,179,449.74	$ 3,891,760.75
Investments		279,469.98
Ad Valorem Property Taxes Receivable	6,575,316.00	
Receivables (Note 4)	2,076,195.00	1,348,622.22
Due from Other Funds	724,878.99	
Inventories	215,008.49	354,173.01
Total Assets	17,770,848.22	5,874,025.96
Liabilities, Deferred Inflows of Resources and Fund Balances		
Liabilities		
Due to Other Funds		724,878.99
Unearned Revenue		103,545.60
Salaries and Benefits Payable	7,591,394.40	315,877.62
Total Liabilities	7,591,394.40	1,144,302.21
Deferred Inflows of Resources		
Unavailable Revenue - Property Taxes	6,575,316.00	
Total Deferred Inflows of Resources	6,575,316.00	
Fund Balances		
Nonspendable:		
Inventories	215,008.49	354,173.01
Restricted for:		
Other Purposes		295,814.40
Debt Service		
Capital Projects		
Assigned		4,079,736.34
Unassigned	3,389,129.33	
Total Fund Balances	3,604,137.82	4,729,723.75
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 17,770,848.22	$ 5,874,025.96

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

Other Governmental Funds	Total Governmental Funds
$ 4,205,936.70	$ 16,277,147.19
	279,469.98
	6,575,316.00
	3,424,817.22
	724,878.99
	569,181.50
4,205,936.70	27,850,810.88
	724,878.99
	103,545.60
	7,907,272.02
	8,735,696.61
	6,575,316.00
	6,575,316.00
	569,181.50
	295,814.40
2,209,938.13	2,209,938.13
1,995,998.57	1,995,998.57
	4,079,736.34
	3,389,129.33
4,205,936.70	12,539,798.27
$ 4,205,936.70	$ 27,850,810.88

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Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
September 30, 2019

Total Fund Balances - Governmental Funds (Exhibit 3)		$ 12,539,798.27
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	$ 155,074,331.60	
Accumulated Depreciation is	(66,901,217.67)	
		88,173,113.93
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.		96,829.21
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.		3,805,389.61
Deferred outflows and inflows of resources related to OPEB are applicable to future periods and, therefore, are not reported in the governmental funds.		(710,406.00)
Long-term liabilities, including bonds/warrants payable, Pension and OPEB obligations 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	$ 2,503,626.78	
Noncurrent Portion of Long-Term Debt	171,891,314.96	
		(174,394,941.74)
Interest on long-term debt is not accrued in the funds but rather is recognized as an expenditure when due.		
	$ 175,839.01	
Accrued Interest Payable		(175,839.01)
Total Net Position - Governmental Activities (Exhibit 1)		$ (70,666,055.73)

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, 2019

	General Fund	Special Revenue Fund
Revenues		
State	$ 60,694,110.28	$ 10,000.00
Federal	292,206.87	11,325,388.49
Local	20,198,931.24	7,308,474.58
Other	645,635.57	205,788.85
Total Revenues	81,830,883.96	18,849,651.92
Expenditures		
Current:		
Instruction	48,943,286.05	6,271,214.48
Instructional Support	14,143,300.26	2,745,386.44
Operation and Maintenance	7,613,166.99	866,722.57
Auxiliary Services:		
Student Transportation	4,622,565.73	85,280.21
Food Service		6,331,792.67
General Administrative and Central Support	2,389,669.61	493,388.53
Other	434,550.92	2,422,247.56
Capital Outlay	849,125.38	316,373.27
Debt Service:		
Principal Retirement		
Interest and Fiscal Charges		
Total Expenditures	78,995,664.94	19,532,405.73
Excess (Deficiency) of Revenues Over Expenditures	2,835,219.02	(682,753.81)
Other Financing Sources (Uses)		
Indirect Cost	263,389.38	
Long-Term Debt Issued		
Transfers In	510,641.03	1,330,052.15
Other Financing Sources	360,977.12	
Sale of Capital Assets	4,900.00	
Transfers Out	(3,410,258.68)	(339,914.54)
Total Other Financing Sources (Uses)	(2,270,351.15)	990,137.61
Net Changes in Fund Balances	564,867.87	307,383.80
Fund Balances - Beginning of Year	3,039,269.95	4,422,339.95
Fund Balances - End of Year	$ 3,604,137.82	$ 4,729,723.75

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

Other Governmental Funds	Total Governmental Funds
$ 3,275,080.00	$ 63,979,190.28
	11,617,595.36
552,829.63	28,060,235.45
	851,424.42
3,827,909.63	104,508,445.51
	55,214,500.53
	16,888,686.70
47,695.00	8,527,584.56
	4,707,845.94
	6,331,792.67
	2,883,058.14
	2,856,798.48
5,280,487.70	6,445,986.35
2,672,584.00	2,672,584.00
617,579.01	617,579.01
8,618,345.71	107,146,416.38
(4,790,436.08)	(2,637,970.87)
	263,389.38
1,222,084.85	1,222,084.85
2,080,206.53	3,920,899.71
	360,977.12
69,525.00	74,425.00
(170,726.49)	(3,920,899.71)
3,201,089.89	1,920,876.35
(1,589,346.19)	(717,094.52)
5,795,282.89	13,256,892.79
$ 4,205,936.70	$ 12,539,798.27

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, 2019

Net Changes in Fund Balances - Total Governmental Funds (Exhibit 5)		$ (717,094.52)
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 differs from capital outlays in the period.		
Capital Outlays	$ 6,445,986.35	
Depreciation Expense	(4,097,685.66)	
		2,348,300.69
Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the Statement of Activities, but rather constitute long-term liabilities in the Statement of Net Position.		(1,222,084.85)
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.		2,672,584.00
In the Statement of Activities, only the gain or loss on the sale of capital assets is reported whereas, in the governmental funds, the proceeds from the sale increase financial resources. The change in net position differs from the change in fund balances by this amount.		
Proceeds from Sale of Capital Assets	$ (74,425.00)	
Gain on Disposition of Capital Assets	48,425.00	
		(26,000.00)

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

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Accrued Interest Payable, Current Year (Increase)/Decrease	$ 33,379.91	
Compensated Absences, Current Year (Increase)/Decrease in Noncurrent Portion	(37,373.17)	
Amortization of Premiums/Loss on Refunding	81,007.84	
Pension Expense, Current Year (Increase)/Decrease	372,991.62	
OPEB Expense, Current Year (Increase)/Decrease	(1,725,786.00)	
		(1,275,779.80)
Change in Net Position of Governmental Activities (Exhibit 2)		$ 1,779,925.52

Statement of Fiduciary Net Position
September 30, 2019

		Agency Funds
Assets		
Cash and Cash Equivalents	$	6,046.50
Total Assets		6,046.50
Liabilities		
Due to External Organizations		6,046.50
Total Liabilities	$	6,046.50

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

Note 1 – Summary of Significant Accounting Policies

The financial statements of the Cullman County Commission on Education (the "Commission") 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 Commission is governed by a separately elected board composed of seven members elected by the qualified electors of the County. The Commission is responsible for the general administration and supervision of the public schools for the educational interests of the County.

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

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 Commission. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Commission'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 Commission 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 Commission'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 remaining governmental funds are aggregated and reported as non-major funds in the Other Governmental Funds' column.

The Commission reports the following major governmental funds:

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

The Commission reports the following fund types in the Other Governmental Funds' column:

Governmental Fund Types

- ***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.

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

The Commission reports the following fiduciary fund type:

Fiduciary Fund Type

- ***Agency Funds*** – This fund is used to report assets held by the Commission in a purely custodial capacity. The Commission 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 Commission 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 Commission considers revenues to be available when 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.

Under the terms of grant agreements, the Commission 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 Commission'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 cash with fiscal agents.

All the Commission's investments were in certificates of deposit and are reported at cost. 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.

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 the initial year of the levy. 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 taxes from local governments.

3. Inventories

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

4. Restricted Assets

Certain funds received from the State Department of Education for capital projects and improvements, as well as certain resources set aside for repayment of debt, included in cash and cash with fiscal agents on the financial statements, 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 proceeds 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.

5. Capital Assets

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

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

	Capitalization Threshold	Estimated Useful Life
Land Improvements	$50,000	20 years
Buildings	$50,000	25 – 50 years
Building Improvements	$50,000	5 – 30 years
Equipment and Furniture	$ 5,000	5 – 20 years
Vehicles	$ 5,000	8 – 15 years
Equipment Under Capital Lease	$ 5,000	15 – 20 years

6. Deferred Outflows of Resources

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

7. Long-Term Obligations

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

8. Compensated Absences

The Commission's vacation leave policy consists of the following: All full-time personnel (those working a minimum of six hours per day) employed on a twelve-month basis shall be entitled to annual leave with pay for a period not to exceed ten workdays. The scheduling of annual leave shall be approved by the superintendent. Unused annual leave shall not be cumulative from academic year to academic year; however, a maximum of four annual leave days may be extended beyond the end of the academic year (June 30) but must be taken within six weeks of the end of the academic year. The Commission will pay for a maximum of five days of annual leave upon resignation or retirement.

9. 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.

10. Net Position/Fund Balances

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

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

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

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

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

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

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

C. Committed fund balances consist of amounts that are subject to a purpose constraint imposed by formal action or resolution of the Commission, 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 Commission for specific purposes. The Commission authorizes the Superintendent or Chief School Financial Officer to make a determination of the assigned amounts of fund balance. Such assignments may not exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. Assigned fund balances require the same level of authority to remove the constraint.

E. Unassigned fund balances include all spendable amounts not contained in the other classifications. This portion of the total fund balance in the General Fund is available to finance operating expenditures.

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

11. Minimum Fund Balance Policies

The Commission has established a minimum fund balance policy which recognizes that the establishment and maintenance of adequate fund reserves is necessary to avoid disruption in the educational programs in the schools. The Superintendent or Chief School Financial Officer will inform the Commission, before the Commission votes on a budget or budget amendment, if the approval of the budget or budget amendment will prevent the establishment or maintenance of a one-month's operating balance. A one-month's operating balance shall be determined by dividing the General Fund expenditures and fund transfers out by 12. In determining the General Fund expenditures and fund transfers out, the current or proposed budget amendment shall be used.

E. Pensions

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

F. Postemployment Benefits Other Than Pensions (OPEB)

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

Note 2 – Stewardship, Compliance, and Accountability

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 and Special Revenue Fund with the exception of salaries and benefits, which are budgeted only to the extent expected to be paid rather than on the modified accrual basis of accounting. Also, ad valorem taxes and sales taxes in the General Fund are budgeted only to the extent expected to be received rather than on the modified accrual basis of accounting. All other governmental funds adopt budgets on the modified accrual basis of accounting, with the exception of the Capital Projects Fund, which adopts project-length budgets.

On or before October 1 of each year, the Commission shall prepare and submit to the State Superintendent of Education the annual budget to be adopted by the Cullman County Commission on Education. The Superintendent or Cullman County Commission 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 Net Position

As of September 30, 2019, the government-wide financial statements reported a deficit net position of $70,666,055.73. The deficit in net position is due to the implementation of GASB Statement Number 68, relating to Pensions and GASB Statement Number 75, as amended by GASB Statement Number 85, relating to Other Postemployment Benefits.

Note 3 – Deposits and Investments

A. Deposits

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

All of the Commission's investments were in certificates of deposit. These certificates of deposit are classified as "Deposits" in order to determine insurance and collateralization. However, they are classified as "Investments" on the financial statements.

B. Cash with Fiscal Agent

Statutes authorize the Commission to invest in obligations of the U. S. Treasury, obligations of any state of the United States, general obligations of any Alabama county or city board of education secured by pledge of the three-mill school tax and other obligations as outlined in the ***Code of Alabama 1975***, Section 19-3-120 and Section 19-3-120.1.

As of September 30, 2019, the Commission's cash with fiscal agent, reported with cash and cash equivalents, was invested as follows:

Investment Type	Maturities	Fair Value
US Bank (*)	Unknown	$ 579,434.52
Cullman Savings Bank Sinking Fund State Department	Unknown	725,782.57
Cullman Savings Bank Sinking Fund	Unknown	1,148,060.45
Merchants Bank Sinking Fund	Unknown	1,061,877.68
Total		$3,515,155.22

(*) $579,434.52 of the funds held by U S Bank are invested in United States Treasury Notes/Bonds, which are considered to be Level 1 investments in the GASB 72 Fair Market Value Hierarchy. The remaining funds are held in savings accounts for future debt payments and are not invested.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Commission 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. GASB Statement 40 requires that governments provide information about the credit risk associated with their investments by disclosing the credit quality ratings of investment in debt securities as described by nationally recognized statistical rating organizations such as Standard & Poor's, Moody's Investors service, and Fitch Ratings, rating agencies, as of the date of the financial statements. The Commission has funds invested in a money market mutual fund, which has a credit risk rating of AAAm by Standard & Poor's. The Commission has no formal policy regarding credit risk.

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 Commission 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 Commission does not have a formal policy that limits the amount the Commission may invest in any one issuer.

Note 4 – Receivables

On September 30, 2019, receivables for the Commission's individual major funds are as follows:

	General Fund	Special Revenue Fund	Total
Receivables:			
Accounts Receivables	$	$ 5,722.75	$ 5,722.75
Intergovernmental		1,342,899.47	1,342,899.47
Sales Tax	2,076,195.00		2,076,195.00
Total Receivables	$2,076,195.00	$1,348,622.22	$3,424,817.22

Note 5 – Capital Assets

Capital asset activity for the year ended September 30, 2019, was as follows:

	Balance 10/01/2018	Additions/ Reclassifications (*)	Retirements/ Reclassifications (*)	Balance 09/30/2019
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	$ 5,014,005.99	$	$	$ 5,014,005.99
Construction in Progress	2,530,816.59	4,614,772.81	(2,817,778.49)	4,327,810.91
Total Capital Assets, Not Being Depreciated	7,544,822.58	4,614,772.81	(2,817,778.49)	9,341,816.90
Capital Assets, Being Depreciated:				
Land Improvements	1,740,786.86	293,645.93		2,034,432.79
Buildings	94,641,254.08			94,641,254.08
Building Improvements	14,853,260.13	2,554,204.91		17,407,465.04
Equipment and Furniture	5,843,033.52	433,463.79	(15,000.00)	6,261,497.31
Vehicles	5,623,711.60	1,367,677.40	(814,368.36)	6,177,020.64
Assets Under Capital Lease	19,210,844.84			19,210,844.84
Total Capital Assets Being Depreciated	141,912,891.03	4,648,992.03	(829,368.36)	145,732,514.70
Less Accumulated Depreciation for:				
Land Improvements	(378,702.20)	(49,057.53)		(427,759.73)
Buildings	(46,579,866.03)	(2,133,504.48)		(48,713,370.51)
Building Improvements	(3,108,275.67)	(403,259.09)		(3,511,534.76)
Equipment and Furniture	(3,710,939.42)	(362,132.04)	15,000.00	(4,058,071.46)
Vehicles	(3,957,607.23)	(278,236.01)	788,368.36	(3,447,474.88)
Equipment Under Capital Lease	(5,871,509.82)	(871,496.51)		(6,743,006.33)
Total Accumulated Depreciation	(63,606,900.37)	(4,097,685.66)	803,368.36	(66,901,217.67)
Total Capital Assets Being Depreciated, Net	78,305,990.66	(551,306.37)	(26,000.00)	78,831,297.03
Total Governmental Activities Capital Assets, Net	$ 85,850,813.24	$ 5,166,079.18	$(2,843,778.49)	$ 88,173,113.93

(*) Additions and Deletions include reclassifications of $2,817,778.49 from Construction in Progress to Land Improvements and Building Improvements.

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

	Current Year Depreciation Expense
Governmental Activities:	
Instruction	$2,228,371.15
Instructional Support	
Operation and Maintenance	189,813.87
Auxiliary Services:	76,265.76
Student Transportation	801,553.25
Food Service	307,866.93
General Administrative and Central Support	31,481.50
Other	462,333.20
Total Depreciation Expense - Governmental Activities	$4,097,685.66

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 are eligible for retirement after age 60 with 10 years or more of creditable service or with 25 years of service (regardless of age) 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, members of the TRS are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service.

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

C. Contributions

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

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

Participating employers' contractually required contribution rate for the year ended September 30, 2019 was 12.41% of annual pay for Tier 1 members and 11.35% 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 Commission were $6,314,389.61 for the year ended September 30, 2019.

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

At September 30, 2019, the Commission reported a liability of $73,430,000.00 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2017. The Commission'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, 2018, the Commission's proportion was 0.738538%, which was a decrease of 0.004709% from its proportion measured as of September 30, 2017.

For year ended September 30, 2019, the Commission recognized pension expense of $5,936,000.00. At September 30, 2019, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,585,000.00	$2,237,000.00
Changes of assumptions	4,082,000.00	
Net difference between projected and actual earnings on pension plan investments		5,543,000.00
Changes in proportion and differences between employer contributions and proportionate share of contributions	255,000.00	651,000.00
Employer contributions subsequent to the measurement date	6,314,389.61	
Total	$12,236,389.61	$8,431,000.00

The $6,314,389.61 reported as deferred outflows of resources related to pensions resulting from Commission contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2020. 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, 2020	$ 658,000.00
2021	$(1,662,000.00)
2022	$(1,498,000.00)
2023	$ (118,000.00)
2024	$ 111,000.00
Thereafter	$ 0.00

E. Actuarial Assumptions

The net pension liability was determined by an actuarial valuation as of September 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Investment Rate of Return (*)	7.70%
Projected Salary Increases	3.25% - 5.00%

(*) Net of Pension Plan Investment Expense

The actuarial assumptions used in the September 30, 2017 valuation were based on the results of an actuarial experience study for the period October 1, 2010 through September 30, 2015.

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

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

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

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

F. Discount Rate

The discount rate used to measure the total pension liability was 7.70%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following table presents the Commission's proportionate share of the collective net pension liability calculated using the discount rate of 7.70%, as well as what the Commission's proportionate share of the collective net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.70%) or 1-percentage point higher (8.70%) than the current rate:

	1% Decrease (6.70%)	Current Rate (7.70%)	1% Increase (8.70%)
Commission's Proportionate Share of Collective Net Pension Liability	$102,215	$73,430	$49,082
(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, 2018. The supporting actuarial information is included in the GASB Statement Number 67 Report for the TRS prepared as of September 30, 2018. The auditor's report dated August 16, 2019 on the total pension liability, total deferred outflows of resources, total deferred inflows of resources and total pension expense for the sum of all participating entities as of September 30, 2018, along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

Note 7 – Other Postemployment Benefits (OPEB)

A. Plan Description

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

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

B. Benefits Provided

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

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

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

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

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

C. Contributions

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

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

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

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

At September 30, 2019, the Commission reported a liability of $76,240,769.00 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of September 30, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2017. The Commission's proportion of the collective net OPEB liability was based on a projection of the Commission's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At September 30, 2018, the Commission's proportion was 0.927647%, which was an increase of 0.020892% from its proportion measured as of September 30, 2017.

For the year ended September 30, 2019, the Commission recognized OPEB expense of $4,526,559.00, with no special funding situations. At September 30, 2019, the Commission reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$1,435,380.00	$
Changes of assumptions		3,713,629.00
Net difference between projected and actual earnings on OPEB plan investments		408,498.00
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,445,013.00	2,257,931.00
Employer contributions subsequent to the measurement date	2,789,259.00	
Total	$5,669,652.00	$6,380,058.00

The $2,789,259.00 reported as deferred outflows of resources related to OPEB resulting from the Commission's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2020.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending:	
September 30, 2020	$(1,072,402)
2021	$(1,072,402)
2022	$(1,072,402)
2023	$ (980,694)
2024	$ 516,921
Thereafter	$ 181,314

E. Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of September 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Projected Salary Increases (1)	3.25% - 5.00%
Long-Term Investment Rate of Return (2)	7.25%
Municipal Bond Index Rate at the Measurement Date	4.18%
Municipal Bond Index Rate at the Prior Measurement Date	3.57%
Projected Year for Fiduciary Net Position (FNP) to be Depleted	2029
Single Equivalent Interest Rate at the Measurement Date	4.44%
Single Equivalent Interest Rate at the Prior Measurement Date	4.63%
Healthcare Cost Trend Rate:	
Pre-Medicare Eligible	7.00%
Medicare Eligible	5.00%, beginning in 2019
Ultimate Trend Rate:	
Pre-Medicare Eligible	4.75% in 2026
Medicare Eligible	4.75% in 2024

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

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

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

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the September 30, 2017 valuation were based on a review of recent plan experience done concurrently with the September 30, 2017 valuation.

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

The long-term expected rate of return on the OPEB plan investments is determined based on the allocation of assets by asset class and by the mean and variance of real returns.

The target asset allocation and best estimates of expected geometric real rates of return for each major asset class is summarized below:

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

(*) Geometric mean, includes 2.5% inflation

F. Discount Rate

The discount rate (also known as the Single Equivalent Interest Rate (the "SEIR"), as described by GASB Statement Number 74 used to measure the total OPEB liability at September 30, 2018, was 4.44%. The discount rate used to measure the total OPEB liability at the prior measurement date was 4.63%. Premiums paid to the Public Education Employees' Health Insurance Board for active employees shall include an amount to partially fund the cost of coverage for retired employees. The projection of cash flows used to determine the discount rate assumed that plan contributions will be made at the current contribution rates. Each year, the State specifies the monthly employer rate that participating school systems must contribute for each active employee. Approximately 20.307% of the employer contributions were used to assist in funding retiree benefit payments in 2018 and it is assumed that the amount will increase by 2.75% per year and continue into the future. The discount rate determination will use a municipal bond rate to the extent the trust is projected to run out of money before all benefits are paid. The rate used for this purpose is the monthly average of the Bond Buyers General Obligation 20-year Municipal Bond Index Rate. Therefore, the projected future benefit payments for all current plan members were projected through 2029. The long-term rate of return is used until the assets are expected to be depleted in 2029, after which the municipal bond rate is used.

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

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

	1% Decrease (6.00% Decreasing to 3.75% for Pre-Medicare, and 4.00% Decreasing to 3.75% for Medicare Eligible)	Current Healthcare Trend Rate (7.00% Decreasing to 4.75% for Pre-Medicare, and 5.00% Decreasing to 4.75% for Medicare Eligible)	1% Increase (8.00% Decreasing to 5.75% for Pre-Medicare, and 6.00% Decreasing to 5.75% for Medicare Eligible)
Commission's Proportionate Share of Collective Net OPEB Liability	$62,671,648	$76,240,769	$93,516,153

The following table presents the Commission's proportionate share of the collective net OPEB liability of the Trust calculated using the discount rate of 4.44% as well as what the collective net OPEB liability would be if calculated using one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (3.44%)	Current Rate (4.44%)	1% Increase (5.44%)
Commission's Proportionate Share of the Collective Net OPEB Liability	$91,075,365	$76,240,769	$64,274,535

H. OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is located in the Trust's financial statements for the fiscal year ended September 30, 2018. The supporting actuarial information is included in the GASB Statement Number 74 Report for PEEHIP prepared as of September 30, 2018. Additional financial and actuarial information is available at www.rsa-al.gov.

Note 8 – Lease Obligations

Capital Leases

The Commission is obligated under certain leases accounted for as capital leases. Assets under capital leases totaled $19,210,844.84 at September 30, 2019. If the Commission completes the lease payments according to the schedule below, which is the stated intent of the Commission, ownership of the leased equipment will pass to the Commission. 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, 2019.

Fiscal Year Ending	Governmental Activities
September 30, 2020	$ 891,273.89
2021	891,098.88
2022	890,918.88
2023	890,732.87
2024	481,638.84
2025-2027	1,350,219.37
Total Minimum Lease Payments	5,395,882.73
Less: Amount Representing Interest	(479,324.35)
Present Value of Net Minimum Lease Payments	$4,916,558.38

Note 9 – Long-Term Debt

Qualified Zone Academy Bonds (QZAB's)

A Trustee issued Certificates of Participation in 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 Cullman County Commission on Education was deposited in a separate account and available only to Cullman County Commission on Education and its QZAB projects. The Alabama School Finance Cooperative and the Trustee (with written endorsement of each Board of Education) entered 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 Cullman County Commission on Education will make level annual installment payments sufficient to make the payment at the maturity dates, whereupon the Commission'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 Commission pledged to the payment of the base payments to the Alabama School Finance Cooperative on the base payment due dates.

In September 2015, the Commission issued $1,360,000.00 QZAB Series 2015 Warrants pursuant to the provision of the laws of Alabama, including particularly Article 14 of Chapter 13 of Title 16 of the ***Code of Alabama 1975***, for the purpose of providing various capital improvements at the designated Qualified Zone Academy locations. Payments are made with the proceeds of a 1 cent sales tax. In the event of default for any reason specified in the agreement, the Lessor may (1) enforce appropriate action to collect amounts due or to become due by acceleration or to cause the lessee to perform its obligations and be liable for all costs and expenses incurred by Lessor, (2) enter Lessee's premises and take possession of the Equipment, without court order or any process of law, and remove the same and re-lease or otherwise dispose of the Equipment for the Lessee's account, in which the Lessee waives any and all damages resulting therefrom and shall be liable for all costs and expenses incurred by Lessor, (3) terminate the agreement and repossess the equipment, in which event the Lessee shall be liable for any amounts payable through the date of such termination and all costs and expenses incurred by the Lessor, (4) pursue and exercise any other remedy available at law or in equity, in which event the Lessee shall be liable shall be liable for any and all costs and expenses incurred by Lessor.

On August 5, 2016, the Commission issued Public School Warrants, Series 2016, for $6,925,000.00 in order to partially refund its 2008 Energy Lease and refund its Special School Tax Warrants, Series 2015.

In May 2014, the Commission, as part of a pooled bond issuance with other school systems within the State of Alabama, issued Capital Improvement Pool Warrants, Series 2014-A, in anticipation of their Public School Fund allocations, which are received from the Alabama State Department of Education. The proceeds of these warrants were used to refund on an advance basis Series 2005 Capital Improvement Pool Bonds.

In July 2012, the Commission issued $5,535,000.00 of Special Tax School Warrants, Series 2012, to acquire public school equipment and machinery heretofore leased by the Commission and to provide various miscellaneous capital improvements. Payments are made with the proceeds of a 1 cent sales tax.

In March 2012, the Commission, as part of a pooled bond issuance with other school systems within the State of Alabama, issued Capital Improvement Pool Warrants, Series 2012-A, in anticipation of their Public School Fund allocations, which are received from the Alabama State Department of Education. The proceeds of these warrants were used to refund on a current basis Series 2003 Capital Improvement Pool Bonds.

During fiscal year 2010, the Commission, as part of a pooled bond issuance with other school systems within the State of Alabama, issued Capital Outlay Pool Warrants, Series 2009-B, which was used to refund and retire on a current basis the Capital Improvement Pool Bonds Series 1999-D.

During fiscal year 2016, the Commission refinanced the contract with Chevron Energy Solutions Company for an energy retrofit, HVAC, lighting and plumbing at all older elementary schools and Vinemont High School. The Commission entered into a long-term capital lease to finance this contract. The contract is divided into two phases, the first which was finalized during the 2008 fiscal year. The second phase was finalized during the 2009 fiscal year. Payments are to be made from the savings realized from the energy conserving measures and the more efficient equipment. The savings are guaranteed by Chevron Energy Solutions for a minimum of four years. The leases are to be paid over a period of 20 years. The length of the original agreement was not extended when refinanced. In the event of default for any reason specified in the lease agreement, the Lessor may (1) enforce appropriate action to collect amounts due or to become due, or to cause Commission to perform its other obligations in which event the Commission shall be liable for all costs and expenses incurred by Lessor, (2) enter Commission's premises and take possession of the equipment and remove the same and re-lease or otherwise dispose of the equipment for the Commission's account, in which event the Commission waives all damages and shall be liable for all costs and expenses incurred by the Lessor, (3) terminate the agreement and repossess the equipment in which event the Commission shall be liable for any amounts payable through the date of termination, (4) pursue and exercise any other remedy available at law or in equity.

In October 2016, the Commission issued QZAB Revenue Warrants, Series 2016-A in the amount of $1,713,297.00 and QZAB Revenue Warrants, Series 2016-B in the amount of $3,821,703.00 for the purpose of various capital improvements at designated Qualified Zone Academy locations. In the event of default, the Lender may (1) declare the principal and interest accrued thereon to be due and payable immediately, by notice to the other Financing Participants, and upon such declaration the debt service shall become immediately due and payable, (2) exercise all rights and remedies available under applicable law with respect to the pledged property, (3) apply all money on deposit in the financing agreement funds to satisfy the indebtedness in accordance with the agreement and applicable law.

The following is a summary of long-term debt transactions for the Commission for the year ended September 30, 2019:

	Debt Outstanding 10/01/2018	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 09/30/2019	Amounts Due Within One Year
Governmental Activities:					
Warrants Payable:					
Public School Warrants, Series 2016	$ 6,725,000.00	$	$ (325,000.00)	$ 6,400,000.00	$ 565,000.00
QZAB, Series 2015	1,360,000.00			1,360,000.00	
QZAB, Series 2016-A	1,713,297.00			1,713,297.00	
QZAB, Series 2016-B	3,821,703.00			3,821,703.00	
Special Tax School Warrants, Series 2012	3,380,000.00		(285,000.00)	3,095,000.00	290,000.00
Capital Outlay Pool Warrants:					
Series 2009-B	876,631.36		(876,631.36)		
Series 2012A	1,648,125.64		(335,181.39)	1,455,748.15	351,941.46
Series 2014A	1,659,639.77		(203,891.62)	1,312,944.25	213,393.89
Unamortized Premium (2009B)	40.417.52		(40,417.52)		
Unamortized Premium (2012)	5,041.44		(476.36)	4,565.08	476.36
Unamortized Premium (2012A)	279,017.62		(50,730.48)	228,287.14	50,730.48
Unamortized Premium (2014A)	217,370.38		(32,605.56)	184,764.82	32,605.56
Total Warrants Payable	21,726,243.73		(2,149,934.29)	19,576,309.44	1,504,147.75
Other Liabilities:					
Pensions	73,050,000.00	380,000.00		73,430,000.00	
Capital Leases	4,341,353.16	1,222,084.85	(646,879.63)	4,916,558.38	768,174.11
Compensated Absences	193,931.75	37,373.17		231,304.92	231,304.92
OPEB	67,348,582.00	8,892,187.00		76,240,769.00	
Total Governmental Activities	$166,660,110.64	$10,531,645.02	$(2,796,813.92)	$174,394,941.74	$2,503,626.78

Payments on the Capital Outlay Pool Warrants are made from Public School Funds withheld from the Commission's allocation from the Alabama Department of Education. Payments on the QZAB Warrants, Special Tax School Warrants, Series 2012, and the Public School Warrants, Series 2016, are made from proceeds of the one cent sales tax. The obligations under capital leases are paid by the fleet renewal funds, the school reform funds and local school funds. The compensated absences liability will be liquidated by the General Fund.

The Commission's outstanding capital lease, originally issued at $3,600,000.00, is secured by fifty-one 2014 school buses. The outstanding capital lease contains a provision that in the event of default, the bank may (1) proceed, by appropriate court action or actions, to enforce performance by the Commission of the covenants of the agreement or recover damages for the breach of the agreement, (2) terminate the agreement without further notice to the Commission, (3) foreclose the security interest and take possession of any or all equipment without notice to the Commission, and after ten days' notice by publication in some newspaper published in Cullman County the Bank may sell or otherwise dispose of the equipment for the account of the Commission, (4) declare the entire unpaid payments to be due and payable, (5) exercise any other right, remedy, election or recourse which may be available under the Alabama Uniform Commercial Code or any other applicable law.

The Commission's outstanding capital lease, originally issued at $1,493,622.08, is secured by twenty 2015 school buses. The outstanding capital lease contains a provision that in the event of default, the bank may (1) proceed, by appropriate court action or actions, to enforce performance by the Commission of the covenants of the agreement or recover damages for the breach of the agreement, (2) terminate the agreement without further notice to the Commission, (3) foreclose the security interest and take possession of any or all equipment without notice to the Commission, and after ten days' notice by publication in some newspaper published in Cullman County the Bank may sell or otherwise dispose of the equipment for the account of the Commission, (4) declare the entire unpaid payments to be due and payable, (5) exercise any other right, remedy, election or recourse which may be available under the Alabama Uniform Commercial Code or any other applicable law.

The Commission's outstanding capital lease, originally issued at $1,517,354.40, is secured by twenty 2018 school buses. The outstanding capital lease contains a provision that in the event of default, the bank may (1) require Commission to pay all amounts then currently due with accrued interest, (2) require Commission to promptly return all equipment or enter the Commission's premises where equipment is located and repossess equipment without demand or notice and may sell, lease or otherwise dispose of the equipment for the account of the Commission, (3) terminate, cancel or rescind the agreement, (4) exercise any other right, remedy or privilege that may be available under applicable law or by appropriate court action at law or in equity, (5) require Commission to pay all out-of-pocket costs and expenses incurred by the bank.

The Commission's outstanding capital lease, originally issued at $1,222,084.85, is secured by fifteen 2020 school buses. The outstanding capital lease contains a provision that in the event of default, the bank may (1) require Commission to pay all amounts then currently dues with accrued interest, (2) require Commission to promptly return all equipment or enter the Commission's premises where equipment is located and repossess equipment without demand or notice and may sell, lease or otherwise dispose of the equipment for the account of the Commission, (3) terminate, cancel or rescind the agreement, (4) exercise any other right, remedy or privilege that may be available under applicable law or by appropriate court action at law or in equity, (5) require Commission to pay all out-of-pocket costs and expenses incurred by the bank.

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

Fiscal Year Ending	Bonds/Warrants Payable Principal	Bonds/Warrants Payable Interest	Capital Leases Principal	Capital Leases Interest	Total Principal and Interest to Maturity
September 30, 2020	$ 1,420,335.35	$ 411,601.15	$ 768,174.11	$123,099.78	$ 2,723,210.39
2021	1,463,802.68	365,522.85	788,254.43	102,844.45	2,720,424.41
2022	1,509,569.56	321,393.43	808,865.60	82,053.28	2,721,881.87
2023	1,251,943.34	272,805.66	830,021.84	60,711.03	2,415,481.87
2024	1,299,104.53	230,746.17	440,291.21	41,347.63	2,011,489.54
2025-2029	12,213,936.94	564,018.42	1,280,951.19	69,268.18	14,128,174.73
Totals	$19,158,692.40	$2,166,087.68	$4,916,558.38	$479,324.35	$26,720,662.81

Deferred Inflows/Outflows on Refunding and Premiums

The Commission has deferred loss on refunding and a premium in connection with the issuance of its Series 2009-B PSCA Capital Outlay Warrants, which are being amortized using the straight-line method over a period of ten years. The Commission has a premium in connection with the issuance of its Series 2012 Special Tax School Warrants, which is being amortized using the straight-line method over a period of seventeen years. The Commission has deferred loss on refunding and a premium in connection with the issuance of its Series 2012-A PSCA Capital Outlay Warrants, which are being amortized using the straight-line method over a period of twelve years. The Commission has deferred loss on refunding and a premium in connection with the issuance of its Series 2014-A Capital Improvement Pool Refunding Warrants, which are being amortized using the straight-line method over a period of eleven years.

	Deferred Loss on Refunding	Premium
Total Cost	$457,307.80	$1,379,581.15
Amount Amortized Prior Years	317,256.51	(837,734.19)
Balance	140,051.29	541,846.96
Current Amount Amortized	(43,222.08)	(124,229.92)
Total	$ 96,829.21	$ 417,617.04

Pledged Revenues

The Commission issued a QZAB 2015 Warrant to provide funds for various capital improvements at the designated Qualified Zone Academy locations. The Commission pledged to repay the QZAB warrant from the proceeds of a 1 cent sales tax that was authorized pursuant to Act Number 66, Acts of Alabama 1963. Future revenues in the amount of $1,360,000.00 are pledged to repay the principal on this warrant at September 30, 2019.

The Commission issued QZAB 2016-A and QZAB 2016-B Warrants to provide funds for various capital improvements at the designated Qualified Zone Academy locations. The Commission pledge to repay the QZAB warrants from the proceeds of a 1 cent sales tax that was authorized pursuant to Act Number 66, Acts of Alabama 1963. Future revenues in the amounts of $1,713,297.00 and $3,821,703.00, respectively, are pledged to repay the principal on these warrants at September 30, 2019.

The Commission issued Series 2012 Special Tax School Warrants to provide funds for the acquisition of public school equipment and machinery heretofore leased by the Commission and to provide various miscellaneous capital improvements. The Commission pledged to repay the Series 2012 warrants from the proceeds of a 1 cent sales tax that was authorized pursuant to Act Number 66, Acts of Alabama 1963. Future revenues of $3,556,015.00 are pledged to repay the principal and interest on the warrants at September 30, 2019. Pledged funds in the amount of $368,950.00 were used to pay principal and interest on the warrants during the fiscal year ended September 30, 2019. The Series 2012 warrants will mature in fiscal year 2029.

The Commission issued Series 2012-A and Series 2014-A Capital Outlay Pool Warrants in anticipation of their Public School Fund allocations. The Commission's future revenue from the Public School Fund is pledged to secure the payment of principal and interest on the bonds/warrants. The proceeds from these issuances were used for the acquisition, construction and renovation of school facilities. The Series 2012-A and 2014-A warrants will mature in fiscal years 2024 and 2026, respectively. Future Public School Fund revenues in the amount of $3,114,065.08 are pledged to repay the principal and interest on the warrants at September 30, 2019. Pledged funds in the amount of $687,889.92 were used to pay principal and interest on the bonds/warrants during the fiscal year ended September 30, 2019.

The Commission issued Public School Warrants, Series 2016 which are pledged to be repaid from the proceeds of a 1 cent sales tax that was authorized pursuant to Act Number 66, Acts of Alabama 1963. Future revenues in the amount of $7,759,700 are pledged to repay the principal and interest on the warrants at September 30, 2019. Pledged funds in the amount of $542,625.00 were used to pay principal and interest on the warrants during fiscal year ended September 30, 2019. The Series 2016 Public School Warrants will mature in 2029.

Note 10 – Risk Management

The Commission 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 Commission 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 Commission 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 is purchased through a private carrier. Errors and omissions insurance is purchased from the Alabama Trust for Boards of Education (ATBE), a public entity risk pool. The ATBE collects the premiums and purchases excess insurance for any amount of coverage requested by pool participants in excess of the coverage provided by the pool. Employee health insurance is provided through the Public Education Employees' Health Insurance Fund (PEEHIF), administered by the Public Education Employees' Health Insurance Board (PEEHIB). The Fund was established to provide a uniform plan of health insurance for current and retired employees of state educational institutions and is self-sustaining. Monthly premiums for employee and dependent coverage are determined annually by the plan's actuary and are based on anticipated claims in the upcoming year, considering any remaining fund balance on hand available for claims. The Commission contributes a specified amount monthly to the PEEHIF for each employee of state educational institutions. The Commission's contribution is applied against the employees' premiums for the coverage selected and the employee pays any remaining premium.

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

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

Note 11 – Interfund Transactions

Interfund Receivables and Payables

The interfund receivables and payables at September 30, 2019, were as follows:

	Interfund Receivables	
	General Fund	Totals
Interfund Payables:		
Special Revenue Fund	$724,878.99	$724,878.99
Totals	$724,878.99	$724,878.99

Interfund Transfers

The amounts of interfund transfers during the fiscal year ended September 30, 2019, were as follows:

	Transfers Out			
	General Fund	Special Revenue Fund	Other Governmental Funds	Totals
Transfers In:				
General Fund	$	$339,914.54	$170,726.49	$ 510,641.03
Special Revenue Fund	1,330,052.15			1,330,052.15
Other Governmental Funds	2,080,206.53			2,080,206.53
Totals	$3,410,258.68	$339,914.54	$170,726.49	$3,920,899.71

Note 12 – Subsequent Event

Recently, the United States has encountered a COVID-19 pandemic which is adversely affecting the nation. On March 13, 2020, the President of the United States declared a state of emergency in response to the COVID-19 pandemic. Subsequently, on the same day, the Governor of Alabama declared a state of emergency. As a result, the operations of federal, state, and local governments including educational institutions have been modified to ensure the safety of its citizenry as well as its employees. It is highly anticipated that revenues from all sources, including taxes and federal grants that are received by the Commission will be severely impacted by this pandemic. Additionally, it is anticipated that there will be a significant increase in costs associated with the aftermath of COVID-19. Because so much is unknown at this time, it will be extremely difficult for the Commission to prepare budgets for the upcoming fiscal year to anticipate the impact of the pandemic. The Commission anticipates that its financial operations will be adversely impacted by this pandemic; however, the duration and severity of its effects is indeterminable at this time.

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Required Supplementary Information

Schedule of the Employer's Proportionate Share of the Collective Net Pension Liability
For the Year Ended September 30, 2019
(Dollar amounts in thousands)

		2019		2018
Employer's proportion of the collective net pension liability		0.738538%		0.743247%
Employer's proportionate share of the collective net pension liability	$	73,430	$	73,050
Employer's covered payroll during the measurement period (*)	$	49,180	$	48,985
Employer's proportionate share of the collective net pension liability as a percentage of its covered payroll		149.31%		149.13%
Plan fiduciary net position as a percentage of the total collective pension liability		72.29%		71.50%

(*) Employer's covered payroll during the measurement period is the total covered payroll. (See GASB Statement Number 82.) For fiscal year 2019, the measurement period is October 1, 2017 through September 30, 2018.

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

2017	2016	2015
0.743624%	0.749222%	0.740886%
$ 80,505	$ 78,411	$ 67,306
$ 47,212	$ 47,383	$ 48,809
170.52%	165.48%	137.90%
67.93%	67.51%	71.01%

Schedule of the Employer's Contributions - Pension
For the Year Ended September 30, 2019
(Dollar amounts in thousands)

	2019	2018
Contractually required contribution	$ 6,314	$ 5,934
Contributions in relation to the contractually required contribution	$ 6,314	$ 5,934
Contribution deficiency (excess)	$	$
Employer's covered payroll	$ 51,583	$ 49,180
Contributions as a percentage of covered payroll	12.24%	12.07%

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

2017	2016	2015
$ 5,816	$ 5,591	$ 5,522
$ 5,816	$ 5,591	$ 5,522
$	$	$
$ 48,985	$ 47,212	$ 47,383
11.87%	11.84%	11.65%

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Schedule of the Employer's Proportionate Share of the Collective Net Other Postemployment Benefits (OPEB) Liability
Alabama Retired Education Employees' Health Care Trust
For the Year Ended September 30, 2019
(Dollar amounts in thousands)

	2019	2018
Employer's proportion of the collective net OPEB liability	0.927647%	0.906755%
Employer's proportionate share of the collective net OPEB liability (asset)	$ 76,241	$ 67,349
Employer's covered-employee payroll during the measurement period (*)	$ 49,180	$ 48,985
Employer's proportionate share of the collective net OPEB liability (asset) as a percentage of its covered-employee payroll	155.02%	137.49%
Plan fiduciary net position as a percentage of the total collective OPEB liability	14.81%	15.37%

(*) Employer's covered-employee payroll during the measurement period is the total covered payroll. For fiscal year 2019, the measurement period is October 1, 2017 through September 30, 2018.

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

Schedule of the Employer's Contributions - Other Postemployment Benefits (OPEB) Alabama Retired Education Employees' Health Care Trust For the Year Ended September 30, 2019 (Dollar amounts in thousands)

	2019	2018
Contractually required contribution	$ 2,880	$ 2,266
Contributions in relation to the contractually required contribution	$ 2,880	$ 2,266
Contribution deficiency (excess)	$	$
Employer's covered-employee payroll	$ 51,583	$ 49,180
Contributions as a percentage of covered-employee payroll	5.58%	4.61%

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

Changes in Actuarial Assumptions

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

Recent Plan Changes

Effective January 1, 2017, Medicare eligible medical and prescription drug benefits are provided through the United Healthcare Medicare Advantage Plan with Prescription Drug Coverage (MAPD).

The Plan is changed periodically to reflect the Affordable Care Act (ACA) maximum annual out-of-pocket amounts.

Method and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated as of September 30, 2016, three years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	25 years, closed
Asset Valuation Method	Market Value of Assets
Inflation	2.875%
Healthcare Cost Trend Rate:	
Pre-Medicare Eligible	7.75%
Medicare Eligible	5.00%
Ultimate Trend Rate:	
Pre-Medicare Eligible	5.00%
Medicare Eligible	5.00%
Year of Ultimate Trend Rate	2022 for Pre-Medicare Eligible 2018 for Medicare Eligible
Investment Rate of Return	5.00%, including inflation

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended September 30, 2019

	Budgeted Amounts		Actual Amounts
	Original	Final	Budgetary Basis
Revenues			
State	$ 57,929,102.00	$ 58,465,778.15	$ 60,694,110.28
Federal	4,000.00	4,000.00	292,206.87
Local	17,901,420.00	17,901,420.00	20,252,748.05
Other	303,983.00	303,983.00	645,635.57
Total Revenues	76,138,505.00	76,675,181.15	81,884,700.77
Expenditures			
Current:			
Instruction	45,788,128.59	45,839,237.59	48,839,159.09
Instructional Support	13,501,776.75	13,504,294.79	14,187,943.36
Operation and Maintenance	7,288,012.42	7,288,012.42	7,594,469.12
Auxiliary Services:			
Student Transportation	4,790,791.75	4,790,791.75	4,969,987.06
General Administrative and Central Support	2,504,868.52	2,504,868.52	2,389,669.61
Other	490,658.35	490,658.35	433,149.45
Capital Outlay	2,273,000.00	2,246,877.11	849,125.38
Total Expenditures	76,637,236.38	76,664,740.53	79,263,503.07
Excess (Deficiency) of Revenues Over Expenditures	(498,731.38)	10,440.62	2,621,197.70
Other Financing Sources (Uses)			
Indirect Cost	448,165.42	458,643.49	263,389.38
Long-Term Debt Issued	1,000,000.00	1,000,000.00	
Transfers In	484,000.00	495,117.20	510,641.03
Other Financing Sources			360,977.12
Sale of Capital Assets			4,900.00
Transfers Out	(1,000,082.20)	(1,000,082.20)	(3,410,258.68)
Total Other Financing Sources (Uses)	932,083.22	953,678.49	(2,270,351.15)
Net Change in Fund Balances	433,351.84	964,119.11	350,846.55
Fund Balances - Beginning of Year	10,409,172.00	11,753,318.39	8,768,335.63
Fund Balances - End of Year	$ 10,842,523.84	$ 12,717,437.50	$ 9,119,182.18

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	$	$ 60,694,110.28
		292,206.87
(1)	(53,816.81)	20,198,931.24
		645,635.57
	(53,816.81)	81,830,883.96
(2)	104,126.96	48,943,286.05
(2)	(44,643.10)	14,143,300.26
(2)	18,697.87	7,613,166.99
(2)	(347,421.33)	4,622,565.73
(2)		2,389,669.61
(2)	1,401.47	434,550.92
		849,125.38
	(267,838.13)	78,995,664.94
	214,021.32	2,835,219.02
		263,389.38
		510,641.03
		360,977.12
		4,900.00
		(3,410,258.68)
		(2,270,351.15)
	214,021.32	564,867.87
(3)	(5,729,065.68)	3,039,269.95
	$ (5,515,044.36)	$ 3,604,137.82

Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual - General Fund For the Year Ended September 30, 2019

Explanation of Differences Between Actual Amounts on Budgetary Basis and Actual Amounts GAAP Basis:

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

(1) The Commission budgets for sales tax revenues as it is received, rather than on the modified accrual basis (GAAP).

(2) The Commission recognizes salaries and benefits only to the extent actually paid rather than when actually earned by employees.

Net Increase 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 Commission'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.

$	(53,816.81)
	(267,838.13)
$	214,021.32

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Special Revenue Fund
For the Year Ended September 30, 2019

	Budgeted Amounts		Actual Amounts
	Original	Final	Budgetary Basis
Revenues			
State	$ 10,000.00	$ 10,000.00	$ 10,000.00
Federal	10,630,922.00	11,214,954.00	11,325,388.49
Local	5,420,464.50	5,420,464.50	7,308,474.58
Other	266,300.00	266,300.00	205,788.85
Total Revenues	16,327,686.50	16,911,718.50	18,849,651.92
Expenditures			
Current:			
Instruction	5,818,792.24	6,072,678.09	6,271,214.48
Instructional Support	2,152,375.06	2,489,407.49	2,745,386.44
Operation and Maintenance	608,693.00	640,693.00	866,722.57
Auxiliary Services:			
Student Transportation	104,955.00	104,955.00	85,280.21
Food Service	5,354,673.00	5,354,673.00	6,279,263.02
General Administrative and Central Support	516,444.70	491,858.42	493,388.53
Other	1,643,189.00	1,658,189.00	2,421,304.93
Capital Outlay	270,250.00	240,150.00	316,373.27
Total Expenditures	16,469,372.00	17,052,604.00	19,478,933.45
Excess (Deficiency) of Revenues Over Expenditures	(141,685.50)	(140,885.50)	(629,281.53)
Other Financing Sources (Uses)			
Transfers In	1,220,776.00	1,150,776.00	1,330,052.15
Transfers Out	(647,211.00)	(645,811.00)	(339,914.54)
Total Other Financing Sources (Uses)	573,565.00	504,965.00	990,137.61
Net Change in Fund Balances	431,879.50	364,079.50	360,856.08
Fund Balances - Beginning of Year	2,404,909.53	4,691,617.04	4,684,745.29
Fund Balances - End of Year	$ 2,836,789.03	$ 5,055,696.54	$ 5,045,601.37

	Budget to GAAP Differences	Actual Amounts GAAP Basis
	$	$ 10,000.00
		11,325,388.49
		7,308,474.58
		205,788.85
		18,849,651.92
		6,271,214.48
		2,745,386.44
		866,722.57
		85,280.21
(1)	52,529.65	6,331,792.67
		493,388.53
	942.63	2,422,247.56
		316,373.27
	53,472.28	19,532,405.73
	(53,472.28)	(682,753.81)
		1,330,052.15
		(339,914.54)
		990,137.61
	(53,472.28)	307,383.80
(2)	(262,405.34)	4,422,339.95
	$ (315,877.62)	$ 4,729,723.75

Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual - Special Revenue Fund For the Year Ended September 30, 2019

Explanation of Differences Between Actual Amounts on Budgetary Basis and Actual Amounts GAAP Basis:

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

(1) The Commission recognizes salaries and benefits only to the extent actually paid rather than when actually earned by employees.

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 Commission'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.

$	(53,472.28)
$	(53,472.28)

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Supplementary Information

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2019

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number
U. S. Department of Agriculture	
Passed Through Alabama Department of Education	
Child Nutrition Cluster:	
School Breakfast Program - Cash Assistance	10.553
National School Lunch Program:	
Cash Assistance	10.555
Non-Cash Assistance (Commodities)	10.555
Sub-Total National School Lunch Program	
Sub-Total Child Nutrition Cluster (M)	
Child and Adult Care Food Program:	
Cash Assistance	10.558
State Administrative Expenses for Child Nutrition	10.560
Total U. S. Department of Agriculture	
U. S. Department of Education	
Passed Through Alabama Department of Education	
Title I Grants to Local Educational Agencies	84.010
Special Education Cluster:	
Special Education - Grants to States	84.027
Special Education - Preschool Grants	84.173
Sub-Total Special Education Cluster	
Career and Technical Education - Basic Grants to States	84.048
Rural Education	84.358
English Language Acquisition State Grants	84.365
Supporting Effective Instruction State Grants	84.367
Student Support and Academic Enrichment Program	84.424
Passed Through Alabama Department of Early Childhood Education	
Preschool Development Grant	84.419
Total U. S. Department of Education	
Social Security Administration	
Passed Through Alabama Department of Education	
Social Security - Disability Insurance	96.001
Appalachian Regional Commission	
Direct Program	
Appalachian Area Development	23.002
Sub-Total Forward	

Pass-Through Grantor's Number	Total Federal Expenditures
N/A	$ 574,883.55
N/A	2,455,472.56
N/A	344,388.82
	2,799,861.38
	3,374,744.93
N/A	2,176,754.54
N/A	20,107.87
	5,571,607.34
N/A	2,688,171.75
N/A	2,120,724.00
N/A	58,371.00
	2,179,095.00
N/A	178,070.67
N/A	260,288.92
N/A	22,079.16
N/A	397,072.62
N/A	195,491.00
N/A	557.84
	5,920,826.96
N/A	3,780.00
N/A	125,000.00
	$ 11,621,214.30

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2019

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number
Sub-Total Brought Forward	
U. S. Department of Health and Human Services	
Passed Through Alabama Department of Education	
Child Care and Development Block Grant	93.575
General Services Administration	
Passed Through Alabama Department of Economic and Community Affairs	
Donation of Federal Surplus Personal Property (N)	39.003
Other Federal Assistance	
U. S. Department of Defense	
Direct Program	
Army ROTC	N/A
Total Expenditures of Federal Awards	

(M) = Major Program
(N) = Non-Cash Assistance
N/A = Not Available or Not Applicable

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

Pass-Through Grantor's Number	Total Federal Expenditures
	$ 11,621,214.30
N/A	15,000.00
N/A	78,320.85
N/A	69,665.20
	$ 11,784,200.35

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended September 30, 2019

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of the Cullman County Commission on Education (the "Commission") under programs of the federal government for the year ended September 30, 2019. 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 Commission, it is not intended to and does not present the financial position or changes in net position of the Commission.

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 Commission has elected not to use the 10-percent de minimis indirect cost rate as allowed in the *Uniform Guidance*.

Additional Information

Commission Members and Administrative Personnel

October 1, 2018 through September 30, 2019

Commission Members		**Term Expires**
Hon. Heath Allbright	President	2021
Hon. Wayne Myrex	Vice-President	2021
Hon. Gene Sullins	Member	2021
Hon. Kenny Brockman	Member	2019
Hon. Jason Speegle	Member	2019
Hon. Chris Carter	Member	2019
Hon. Mike Graves	Member	2019
Administrative Personnel		
Dr. Shane Barnette	Superintendent	07/2021
Mr. Ed Roberson	Chief School Financial Officer	Indefinite

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

Independent Auditor's Report

Members of the Cullman County Commission on Education,
Superintendent and Chief School Financial Officer
Cullman, 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 Cullman County Commission on Education, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Cullman County Commission on Education's basic financial statements, and have issued our report thereon dated August 27, 2020.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Rachel Laurie Riddle

Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

August 27, 2020

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 Cullman County Commission on Education,
Superintendent and Chief School Financial Officer
Cullman, Alabama

Report on Compliance for Each Major Federal Program

We have audited the Cullman County Commission on Education's compliance with the types of compliance requirements described in the ***OMB Compliance Supplement*** that could have a direct and material effect on each of the Cullman County Commission on Education's major federal programs for the year ended September 30, 2019. The Cullman County Commission on Education's major federal program is identified in the Summary of Examiner's Results Section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

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

Opinion on Each Major Federal Program

In our opinion, the Cullman County Commission on Education complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2019.

Report on Internal Control Over Compliance

Management of the Cullman County Commission on Education is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Cullman County Commission on Education's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the *Uniform Guidance*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Cullman County Commission on Education's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or 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 of internal control over compliance and the results of that testing based on the requirements of the *Uniform Guidance*. Accordingly, this report is not suitable for any other purpose.

Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

August 27, 2020

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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 federal 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 federal 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 federal programs:

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

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

Section II – Financial Statement Findings (GAGAS)

No matters were reportable.

Section III – Federal Awards Findings and Questioned Costs

No matters were reportable.

Summary Schedule of Prior Audit Findings

DR. SHANE BARNETTE
SUPERINTENDENT

402 Arnold Street NE
Cullman, AL 35055

Summary Schedule of Prior Audit Findings

For the Year Ended September 30, 2019

As required by the *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, 2 CFR 200.511, the Cullman County Commission on Education has prepared and hereby submits the following Summary Schedule of Prior Audit Findings as of September 30, 2019.

Finding Ref. No.	Status of Prior Audit Finding
2018-001	The Financial Procedures for Local Schools developed by the State of Alabama Department of Education and policies and procedures adopted by the Commission on Education provide guidelines for the proper accounting for receipts and deposits for local schools. These guidelines require specific procedures to be followed regarding teacher receipts, ticket and concession receipts for athletic events, and receipts for items sold in the school store. Procedures for teacher receipts require teachers to issue receipts to students for funds collected. Subsequently, a master receipt is required to be provided to the teacher by the school bookkeeper. Procedures for ticket and concession receipts for athletic events and school store receipts include check-up sheets to be used to document collections for each event as well as inventory counts for tickets and items sold in concessions or the school store. Additionally, the guidelines require money to be secured at all times and deposits to be made timely and intact. Money received at Hanceville High School was not properly documented, receipted or deposited timely and intact. The following issues were noted: ♦ Receipts were not properly issued by teachers to students for money received and master receipts were not provided to the teachers by the school bookkeeper. ♦ Ticket and concession money for all athletic events were not properly documented. Additionally, master receipts were not provided to the gate attendant by the school bookkeeper.

♦ Documentation for sales for three separate days' collections from the school store could not be provided by the person responsible for the school store. Additionally, a master receipt was not provided by the school bookkeeper for these three days.

♦ Two deposits totaling $3,653.06 collected on March 23, 2018 were not deposited until August 20, 2018. Additionally, money collected for an athletic event on November 24, 2017 was not deposited until January 29, 2018.

♦ Undeposited cash was discovered on two separate occasions by school personnel in the office of the school bookkeeper.

Procedures were not in place to ensure personnel at Hanceville High School were following policies outlined by the Commission on Education. As a result, the Commission failed to ensure all funds were properly receipted and deposited in a timely manner.

Corrective Action was taken

Completion date: June 2019