

**Gadsden City Board of Education**

**September 30, 2021**

**Gadsden City Board of Education**

September 30, 2021

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**Independent Auditor's Report**

Members of the Board  
Gadsden City Board of Education  
Gadsden, 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 Gadsden City Board of Education (the "Board"), a component unit of the City of Gadsden, Alabama, as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**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 Gadsden City Board of Education as of September 30, 2021, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America:

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, pension information, and postemployment benefits other than pensions (OPEB) information on Exhibits VII through XIII be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also 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. The 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 March 15, 2022, on our consideration of the Gadsden City Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Board's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

*Richard, Harris, Ingram and Bozeman, P.C.*

**RICHARD, HARRIS, INGRAM AND BOZEMAN, P.C.**

Montgomery, Alabama  
March 15, 2022

## Gadsden City Board of Education

**STATEMENT OF NET POSITION**

September 30, 2021

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 7,956,139
Ad valorem taxes receivable	8,467,222
Receivables	2,972,699
Inventories	162,942
Capital assets:	
Non-depreciable	6,777,184
Depreciable, net	<u>47,646,359</u>
Total assets	<u>73,982,545</u>
<b>Deferred Outflows of Resources</b>	
Loss on refunding of debt	115,566
Employer pension contribution	3,751,609
Proportionate share of collective deferred outflows related to net pension liability	8,215,000
Employer OPEB contribution	792,904
Proportionate share of collective deferred outflows related to net OPEB liability	<u>12,575,943</u>
Total deferred outflows of resources	<u>25,451,022</u>
<b>Liabilities</b>	
Accounts payable	155,750
Salaries and benefits payable	4,651,741
Deferred revenue	28,775
Accrued interest payable	158,269
Long-term liabilities:	
Current portion of long-term liabilities	1,776,771
Non-current portion of long-term liabilities	<u>103,932,409</u>
Total liabilities	<u>110,703,715</u>
<b>Deferred Inflows of Resources</b>	
Unavailable revenue - property taxes	8,467,222
Proportionate share of collective deferred inflows related to net pension liability	2,128,000
Proportionate share of collective deferred inflows related to net OPEB liability	<u>20,860,211</u>
Total deferred inflows of resources	<u>31,455,433</u>
<b>Net Position</b>	
Invested in capital assets, net of related debt	31,527,248
Restricted for:	
Child nutrition program	988,068
Capital projects	1,967,010
Other purposes	2,422,871
Unrestricted	<u>(79,630,778)</u>
Total net position	<u>\$ (42,725,581)</u>

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

## Gadsden City Board of Education

**STATEMENT OF ACTIVITIES**

For the Year Ended September 30, 2021

Functions	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position- Governmental Activities
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	
Instructional services	\$ 35,198,455	\$ 602,997	\$ 27,584,483	\$ 1,605,413	\$ (5,405,562)
Instructional support services	12,267,833	208,436	9,498,681		(2,560,716)
Operation and maintenance services	5,283,087	85,937	2,538,830	45,155	(2,613,165)
Student transportation	1,285,232	22,013	1,226,473		(36,746)
Food service	1,357,330	890,888	303,876		(162,566)
General administrative services	2,373,336	366	1,505,086	3,579	(864,305)
Interest and fiscal charges	882,061				(882,061)
Other expenses	4,034,015	2,412,603	1,525,834		(95,578)
Total governmental activities	<u>\$ 62,681,349</u>	<u>\$ 4,223,240</u>	<u>\$ 44,183,263</u>	<u>\$ 1,654,147</u>	<u>(12,620,699)</u>
General Revenues:					
Taxes:					
Property taxes for general purposes					8,539,382
Local sales tax					2,004,375
Alcoholic beverage tax					83,180
Other taxes					12,477
Grants and contributions not restricted for specific programs					1,008,629
Investment earnings					4,425
Miscellaneous					786,751
Total general revenues					<u>12,439,219</u>
Change in net position					(181,480)
Net position - beginning of year					<u>(42,544,101)</u>
Net position - end of year					<u>\$ (42,725,581)</u>

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

## Gadsden City Board of Education

## BALANCE SHEET - GOVERNMENTAL FUNDS

September 30, 2021

	General Fund	Special Revenue Fund	Capital Projects Fund	Total Governmental Funds
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 3,471,722	\$ 2,837,056	\$ 1,647,361	\$ 7,956,139
Ad valorem taxes receivable	8,467,222			8,467,222
Receivables	225,264	2,427,527	319,908	2,972,699
Due from other funds		5,792		5,792
Inventories		162,942		162,942
Total assets	<u>\$ 12,164,208</u>	<u>\$ 5,433,317</u>	<u>\$ 1,967,269</u>	<u>\$ 19,564,794</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 21,992	\$ 133,499	\$ 259	\$ 155,750
Salaries and benefits payable	4,157,642	288,979		4,446,621
Due to other funds		5,792		5,792
Deferred revenue		28,775		28,775
Estimated liability for compensated absences	205,120			205,120
Total liabilities	<u>4,384,754</u>	<u>457,045</u>	<u>259</u>	<u>4,842,058</u>
<b>Deferred Inflows of Resources</b>				
Unavailable revenue - property taxes	8,467,222			8,467,222
Total deferred inflows of resources	<u>8,467,222</u>	<u>0</u>	<u>0</u>	<u>8,467,222</u>
<b>Fund Balances</b>				
Nonspendable				
Inventories		162,942		162,942
Restricted				
Capital projects			1,967,010	1,967,010
Child nutrition program		988,068		988,068
Other purposes		2,422,871		2,422,871
Assigned				
Local schools		1,402,391		1,402,391
Unassigned	(687,768)			(687,768)
Total fund balances	<u>(687,768)</u>	<u>4,976,272</u>	<u>1,967,010</u>	<u>6,255,514</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 12,164,208</u>	<u>\$ 5,433,317</u>	<u>\$ 1,967,269</u>	<u>\$ 19,564,794</u>

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

## Gadsden City Board of Education

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
WITH THE STATEMENT OF NET POSITION**

September 30, 2021

<b>Total fund balance - governmental funds</b>		\$ 6,255,514
<i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i>		
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 \$ 95,839,495	
	Accumulated depreciation <u>(41,415,952)</u>	54,423,543
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.		
		115,566
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.		
		9,838,609
Deferred outflows and inflows of resources related to OPEB are applicable to future periods and, therefore, are not reported in the governmental funds.		
		(7,491,364)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
	Current portion of long-term debt \$ (1,776,771)	
	Non-current portion of long-term debt <u>(103,932,409)</u>	(105,709,180)
Interest on long-term debt is not accrued in the funds but rather is recognized as an expenditure when due.		
	Accrued interest payable	<u>(158,269)</u>
<b>Total net position - governmental activities</b>		\$ <u>(42,725,581)</u>

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



## Gadsden City Board of Education

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS**

For the Year Ended September 30, 2021

	General Fund	Special Revenue Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
State sources	\$ 31,717,905	\$ 1,442,376	\$ 1,650,568		\$ 34,810,849
Federal sources	6,360	13,938,276			13,944,636
Local sources	8,612,748	2,913,559	2,192,501		13,718,808
Other sources		25,580			25,580
Total revenues	<u>40,337,013</u>	<u>18,319,791</u>	<u>3,843,069</u>	<u>\$ 0</u>	<u>\$ 62,499,873</u>
<b>Expenditures</b>					
Instructional services	26,580,933	7,391,185			33,972,118
Instructional support services	8,205,314	3,897,327			12,102,641
Operation and maintenance services	3,433,826	1,354,075	540,751		5,328,652
Auxiliary services:					
Student transportation	1,055,363	236,313			1,291,676
Food service		994,006			994,006
General administrative services	1,661,816	723,699		1,736	2,387,251
Other expenses	654,042	3,767,384			4,421,426
Capital outlay	21,788	236,756	590,504		849,048
Debt service:					
Principal retirement	376,090		1,053,755	182,403	1,612,248
Interest and fiscal charges	236,074		474,406	195,763	906,243
Total expenditures	<u>42,225,246</u>	<u>18,600,745</u>	<u>2,659,416</u>	<u>379,902</u>	<u>63,865,309</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(1,888,233)</u>	<u>(280,954)</u>	<u>1,183,653</u>	<u>(379,902)</u>	<u>(1,365,436)</u>
<b>Other Financing Sources (Uses)</b>					
Indirect cost	271,363				271,363
Long-term debt issued				668,077	668,077
Transfers in	1,066,638	1,187,871		378,166	2,632,675
Transfers out	(1,544,804)	(187,871)	(900,000)		(2,632,675)
Payments to refunding escrow agent				(666,341)	(666,341)
Total other financing sources (uses)	<u>(206,803)</u>	<u>1,000,000</u>	<u>(900,000)</u>	<u>379,902</u>	<u>273,099</u>
<b>Net Change in Fund Balances</b>	<u>(2,095,036)</u>	<u>719,046</u>	<u>283,653</u>	<u>0</u>	<u>(1,092,337)</u>
Fund balances - beginning	1,407,268	4,257,226	1,683,357		7,347,851
Fund balances - ending	<u>\$ (687,768)</u>	<u>\$ 4,976,272</u>	<u>\$ 1,967,010</u>	<u>\$ 0</u>	<u>\$ 6,255,514</u>

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

## Gadsden City Board of Education

**RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES WITH THE STATEMENT OF ACTIVITIES**

For the Year Ended September 30, 2021

**Total net changes in fund balances - governmental funds** \$ (1,092,337)

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

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

	Capital outlays \$	856,258	
	Depreciation expense	<u>(2,057,912)</u>	(1,201,654)

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.

1,612,247

Payments to refunding escrow agent are recorded as expenditures or other financing uses in governmental funds, but reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.

666,341

Proceeds from the issuance of debt are reported as financing sources in governmental funds and thus contribute to the change in fund balance. Issuing long-term debt increases liabilities in the Statement of Net Position but does not affect the Statement of Activities.

(668,077)

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.

	Change in accrued interest payable \$	22,198	
	Amortization of bond discounts/premiums/gain or loss on refunding	1,983	
	Pension expense, current year change	(1,578,499)	
	OPEB expense, current year change	<u>2,056,318</u>	<u>502,000</u>

Change in net position of governmental activities \$ (181,480)

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

**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended September 30, 2021

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Gadsden City Board of Education (the "Board"), a component unit of the City of Gadsden, Alabama, have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government 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 Board's accounting policies are described below.

**A. Reporting Entity**

The Governmental Accounting Standards Board establishes standards for defining and reporting on the financial reporting entity. The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for agencies that make up its legal entity. It is also financially accountable for a legally separate agency if its officials appoint a voting majority of that agency's governing body and either it is able to impose its will on that agency or there is a potential for the agency to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. There are no component units that should be included as part of the financial reporting entity of the Board.

The Board is a legally separate agency of the State of Alabama. However, for financial reporting the Board is considered a component unit of the City of Gadsden, Alabama (the City) due to the following reasons:

- (1) The City issued bonds for the construction of facilities for the Board and the City is obligated for the debt.
- (2) The City appropriates funds to the Board on an annual basis.
- (3) The Board cannot levy taxes directly. Any tax revenues must be levied by the City or another taxing authority on behalf of the Board.

**B. Basis of Presentation, Basis of Accounting**

**Basis of Presentation**

*Government-wide Financial Statements:* The statement of net position and the statement of activities display information about the Board. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Although other governments may report both governmental activities and business-type activities, the Board has no business-type activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Board's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The Board does not allocate indirect expenses to the various functions. Program revenues include (a) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and (b) charges to recipients of goods or services offered by the programs. Revenues that are not classified as program revenues, including all local taxes, are presented as general revenues.

**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended September 30, 2021

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**B. Basis of Presentation, Basis of Accounting – Continued**

**Basis of Presentation – Continued**

*Fund Financial Statements:* The fund financial statements provide information about the Board's funds, including its fiduciary funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as other governmental funds.

The Board reports the following major governmental funds:

**General Fund** – This is the Board's primary operating fund. It accounts for all financial resources, except those required to be accounted for in another fund. The Board's General Fund primarily received revenues from the Education Trust Fund (ETF), appropriated by the Alabama Legislature, and from local taxes. The State Department of Education allocated amounts appropriated from the ETF to the school board on a formula basis.

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

**Capital Projects Funds** account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital project funds consist of the following:

Capital Project Local Funds, Public School Funds – Capital Outlay and Bond Issue Payments.

The Board reports the following governmental fund types in the "Other Governmental Funds" column:

**Debt Service Funds** are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest. These funds also account for the accumulation of resources for and the payment of the Board's principal and interest payments on long-term debt.

**Fiduciary Funds** are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the Board's programs. The Board reports the following fiduciary funds:

Agency Funds generally account for assets held by the Board in a purely custodial capacity. Agency funds consist of accounts payable and payroll clearing funds.

**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended September 30, 2021

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**B. Basis of Presentation, Basis of Accounting – Continued**

**Measurement Focus, Basis of Accounting**

*Government-wide and Fiduciary Fund Financial Statements:* The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Board gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

*Governmental Fund Financial Statements:* Governmental funds are reported using a current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues reported in the governmental funds (excluding state and federal reimbursements) to be available if the revenues are collected within thirty days after year-end. Revenues from state and federal funds are considered available if transactions eligible for reimbursement have taken place. Expenditures generally are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

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

**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended September 30, 2021

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**C. Assets, Liabilities, and Net Position**

**Deposits and Investments**

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity date within three months of the date acquired by the Board. Investments are stated at fair value.

The State Attorney General has issued a legal opinion that boards of education may not put public funds at risk by investing in securities not insured by the federal government.

**Receivables**

Receivables are reported as *Ad valorem taxes receivable* and *Receivables* in the government-wide financial statements and as *Ad valorem taxes receivable*, *Receivables*, and *Due from other funds*, in the fund financial statements. Receivables primarily include amounts due from grantors for grants issued for specific programs and local taxes. No allowances are made for uncollectible amounts because such amounts are considered immaterial. Sales tax receivable is based on the amounts collected within 30 days after year-end.

The Etowah County Commission levies property taxes for all jurisdictions including the school boards and municipalities within the county. Millage rates for property taxes are levied at the first regular meeting of the County Commission each year. Ad valorem property taxes are assessed for property as of October 1 of the preceding year based on the millage rates established by the County Commission. Property taxes are due and payable the following October 1 and are delinquent after December 31. Amounts receivable, net of estimated 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.

**Inventories and Prepaid Items**

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than capitalized as an asset. GAAP requires only material balances of inventories accounted for using the purchases method to be reported as an asset in the appropriate governmental fund. Prepaid items, such as insurance premiums and rent, are recorded as expenditures in governmental funds when paid.

In the government-wide financial statements, inventories and prepaid items are recorded on an accrual basis using the consumption method. Expenses reflect the amount of materials and supplies consumed and the amount of prepaid items applicable to the current period. Prepaid items, if any, on the Statement of Net Position are included in *Other Assets*.

**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended September 30, 2021

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued****C. Assets, Liabilities, and Net Position – Continued****Restricted Assets**

Certain funds received from the State Department of Education for capital projects and improvements and for operating the child nutrition program, included in cash and cash equivalents on the balance sheet, are considered as restricted assets because their use is limited.

**Capital Assets**

Purchased or constructed capital assets are reported at cost or estimated historical costs in the Statement of Net Position. Donated assets are recorded at their estimated fair value at the date of donation. The cost of maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Capital assets are recorded as expenditures at the acquisition date in the fund financial statements. The Board has no general infrastructure assets.

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

Asset Class	Capitalization Threshold	Estimated Useful Life
Land improvements - exhaustible	\$ 50,000	20 years
Buildings	\$ 50,000	50 years
Building improvements	\$ 50,000	7-30 years
Equipment and furniture	\$ 5,000	5-20 years
Vehicles	\$ 5,000	8-10 years

The capitalization threshold for Land, Construction in Progress, and Inexhaustible Land Improvements is \$1 or more. However, these capital assets are not depreciated.

**Long-Term Obligations**

In the government-wide financial statements, the unmatured principal of long-term debt, capital leases, compensated absences and net pension liability are reported in the statement of net position. Interest expense for long-term debt, including accrued interest payable, is reported in the statement of activities. For warrants (bonds) and other long-term debt issued after December 15, 2012, generally accepted accounting principles require the related debt issuance costs to be expensed in the period incurred rather than amortized over the life of the related debt.

In the fund financial statements, bond premiums and the face amount of debt issued during the year are reported as other financing sources. Debt issuance costs are not deducted from the amount reported as an other financing source but are reported as debt service expenditures. Any discount resulting from a disparity between the market rate and the stated rate of interest is reported as an other financing use. Expenditures for debt principal, interest, and related costs are reported in the fiscal year payment is made. The balance sheet does not reflect a liability for long-term debt. At the inception of a capital lease, an amount equal to the present value of the net minimum lease payments is reported as an other financing source and as an expenditure. The balance sheet does not reflect a liability for long-term debt.

**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended September 30, 2021

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**C. Assets, Liabilities, and Net Position – Continued**

**Compensated Absences**

For vacation leave and other compensated absences with similar characteristics, GASB Statement No. 16 requires the accrual of a liability as the benefits are earned by the employees, if both of these conditions are met:

- a) The employees' right to receive compensation is attributable to services already rendered.
- b) It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

An accrual for earned sick leave should be made only to the extent it is probable that the benefits will result in termination payments, rather than be taken as absences due to illness or other contingencies, such as medical appointments and funerals.

Professional and support employees earn nonvesting sick leave at the rate of one day per month worked. Employees may accumulate an unlimited number of sick leave days. Employees may use their accrued sick leave as membership service in determining the total years of creditable service in the teachers' retirement system, with no additional cost to the Board. Because employees do not receive compensation for unused sick leave at termination, no liability is recorded on the financial statements.

Professional and support personnel are provided 5 days of personal leave per year with pay. The State provides funding, at the substitute rate, for up to 2 days of personal leave per employee per year. Professional employees are paid, at the Board's substitute rate, for unused personal leave. Professional and support personnel may convert unused, reimbursed personal leave to sick leave at the end of the scholastic year. Because unused personal leave cannot be carried over to succeeding years, no liability for unpaid leave is accrued in the financial statements.

Twelve month employees earn vacation days at a rate of one day per month beginning August 1 of the contract year and extending through May 31. An additional one-half day per month for this ten month period will be earned after serving five years as a twelve month employee. With approval, non-instructional employees may carry unused vacation into the next school year. Unused vacation leave of \$205,120 at September 30, 2021, is included in accrued liabilities on these financial statements.



**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended September 30, 2021

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**C. Assets, Liabilities, and Net Position – Continued**

**Pensions**

The Teachers' Retirement System of Alabama's (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 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 the 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.

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

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

**Net Position/Fund Equity**

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

- **Invested in Capital Assets, Net of Related Debt** – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. Any significant unspent proceeds at year-end related to capital assets are reported as restricted funds.
- **Restricted** – Constraints imposed by external creditors, grantors, contributors, laws or regulations of other governments, or law through constitutional provision or enabling legislation.
- **Unrestricted** – Resources that are not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of the Board.

Under the Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, fund balance for governmental funds should be reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The classifications are as follows:

**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended September 30, 2021

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**C. Assets, Liabilities, and Net Position – Continued**

**Net Position/Fund Equity – Continued**

- **Nonspendable** – Nonspendable fund balance includes amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact. The Special Revenue Fund reports inventories as nonspendable.
- **Restricted** – Restricted fund balance should be reported as restricted when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of the other governments, or imposed by law through constitutional provisions enabling legislation. Special Revenue Funds other than school activity funds and Capital Projects Funds are reported as restricted.
- **Committed** – Committed fund balances are amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board's highest level of decision-making authority. The Board does not currently report any committed funds.
- **Assigned** – Assigned fund balances are amounts that are constrained by the school system's intent to be used for specific purposes, but are neither restricted nor committed. The Board reports local school activity as assigned.
- **Unassigned** – Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund.

The Board's policy is to maintain a minimum reserve fund equal to one month's operating expenses as set by **Code of Alabama 1975**, Sections 16-13A-9.

**D. Deferred Outflows/Inflows of Resources**

**Deferred outflows of resources** are reported in addition to assets in the Statement of Net Position. These represent the net position that applies to future periods and will be recognized as an outflow of resources (expense or expenditure) in those future periods. Deferred outflows of resources increase net position, similar to assets.

**Deferred inflows of resources** are reported in addition to liabilities in the government-wide and fund financial statements. These represent the net position that applies to future periods and will be recognized as an inflow of resources (revenue) in those future periods. Deferred inflows of resources decrease net position/fund balances, similar to liabilities.

**E. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**F. Economic Dependency**

The Board receives a substantial amount of its support from federal and state government. A significant reduction in the level of support, if this were to occur, may have an effect on the Board's programs and activities.

**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended September 30, 2021

**NOTE 2. RECONCILIATION OF FINANCIAL STATEMENTS**

The financial statements include summary reconciliations of the fund financial statements to the government-wide statements after each of the fund statements. The governmental fund balance sheet is followed by reconciliation between *total fund balance – governmental funds* and *total net position – governmental activities* as reported in the government-wide statement of net position (Exhibit IV). The governmental funds statement of revenues, expenditures, and changes in fund balances is followed by reconciliation between *total net change in fund balances – governmental funds* and *change in net position of governmental activities* as reported in the government-wide statement of activities (Exhibit VI).

**NOTE 3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgets**

Annual budgets are adopted for all governmental funds. All annual appropriations lapse at fiscal year-end. State law requires Alabama school boards to prepare and submit to the State Superintendent of Education the annual budget adopted by the local board of education. In accordance with the regulations of the State Board of Education, the due date for submission of the budget for the 2021 fiscal year was September 15, 2020. The Board approved its original 2020-2021 budget on September 9, 2020.

The 2020–2021 budget was amended on February 2, 2021 and again on July 13, 2021, to budget additional state and local revenues and additional expenditures that were unknown at the time the original budget was prepared. Federal carryover funds as well as additional federal grants awarded were also required to be budgeted under an amendment.

The city superintendent of education or the Board cannot approve any budget for operations of the school system for any fiscal year that shows expenditures in excess of income estimated to be available plus any balances on hand. The superintendent with the approval of the board has the authority to make changes within the approved budget provided that a deficit is not incurred by such changes. The superintendent may approve amendments to program budgets without board approval.

**NOTE 4. DEPOSITS AND INVESTMENTS**

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Board will not be able to cover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Board's deposits at the year-end were entirely covered by the Federal Depository Insurance Corporation (FDIC), the Securities Investor Protection Corporation (SIPC) 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 FDIC. If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

All of the Board's investments were in certificates of deposit. These certificates of deposit are classified as "Deposits" in order to determine insurance and collateralization.

**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended September 30, 2021

**NOTE 4. DEPOSITS AND INVESTMENTS - Continued**

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

**Restricted Cash**

At September 30, 2021, the Board reported in cash and cash equivalents the following restricted cash:

Held by fiscal agents:	
Capital Projects Funds	\$ 460,996
Total restricted cash	<u>\$ 460,996</u>

**NOTE 5. RECEIVABLES AND PAYABLES**

Receivables and payables (accounts payable and accrued liabilities) balances reported on the statement of net position and the balance sheet are aggregations of different components. Details of these balances are as follows:

**STATEMENT OF NET POSITION**

<u>Ad valorem taxes receivable:</u>	
Etowah County Revenue Commissioner	\$ <u>8,467,222</u>
 <u>Receivables:</u>	
State Sources	\$ 39,973
Federal Sources:	
State Department of Education:	
IDEA	24,466
Child Nutrition	731,297
Title I Grants	148,101
Title II Teacher Training	43,694
Twenty First Century	53,988
COVID-19 ESSER Funds	1,286,316
State Personnel Development Grants	67,239
Other grants	72,426
Local Sources:	
Medicaid	53,112
RDS Collateral Trust	40,044
Tax revenues	403,509
Other	8,534
Total	<u>\$ 2,972,699</u>
 <u>Accounts payable and accrued liabilities:</u>	
Salaries and benefits payable	\$ 4,446,621
Accrued compensated absences	205,120
Salaries and benefits payable	4,651,741
Accounts payable	155,750
Accrued interest payable	158,269
Total	<u>\$ 4,965,760</u>

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2021

NOTE 5. RECEIVABLES AND PAYABLES - Continued

## BALANCE SHEET

	General Fund	Special Revenue Fund	Capital Projects Fund	Total
<u>Ad valorem taxes receivable:</u>				
Etowah County Revenue Commissioner	\$ 8,467,222			\$ 8,467,222
<u>Receivables:</u>				
State sources	\$ 39,973			\$ 39,973
Federal sources:				
State Department of Education:				
IDEA		\$ 24,466		24,466
Child Nutrition		731,297		731,297
Title I Grants		148,101		148,101
Title II Teacher Training		43,694		43,694
Twenty First Century		53,988		53,988
COVID-19 ESSER Funds		1,286,316		1,286,316
State Personnel Development Grants		67,239		67,239
Other grants		72,426		72,426
Local sources:				
Medicaid	53,112			53,112
RDS Collateral Trust	40,044			40,044
Tax revenues	83,601		\$ 319,908	403,509
Other	8,534			8,534
Total	<u>\$ 225,264</u>	<u>\$ 2,427,527</u>	<u>\$ 319,908</u>	<u>\$ 2,972,699</u>
<u>Accounts payable and accrued liabilities:</u>				
Salaries and benefits payable	\$ 4,157,642	\$ 288,979		\$ 4,446,621
Accrued compensated absences	205,120			205,120
Accounts payable	21,992	133,499	\$ 259	155,750
Total	<u>\$ 4,384,754</u>	<u>\$ 422,478</u>	<u>\$ 259</u>	<u>\$ 4,807,491</u>

**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended September 30, 2021

**NOTE 6. CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2021 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land and land improvements	\$ 6,186,680			\$ 6,186,680
Construction in progress		\$ 590,504		590,504
Total capital assets not depreciated	<u>6,186,680</u>	<u>590,504</u>	\$ 0	<u>6,777,184</u>
Capital assets being depreciated:				
Buildings	61,090,090			61,090,090
Building improvements	25,726,290	258,544		25,984,834
Equipment and furniture	1,822,847			1,822,847
Vehicles	157,330	7,210		164,540
Total capital assets being depreciated	<u>88,796,557</u>	<u>265,754</u>	0	<u>89,062,311</u>
Less accumulated depreciation for:				
Buildings	27,572,893	1,015,537		28,588,430
Building improvements	10,549,397	916,553		11,465,950
Equipment and furniture	1,135,081	115,023		1,250,104
Vehicles	100,669	10,799		111,468
Total accumulated depreciation	<u>39,358,040</u>	<u>2,057,912</u>	0	<u>41,415,952</u>
Total capital assets being depreciated, net	<u>49,438,517</u>	<u>(1,792,158)</u>	0	<u>47,646,359</u>
Total governmental activities capital assets, net	<u>\$ 55,625,197</u>	<u>\$ (1,201,654)</u>	\$ 0	<u>\$ 54,423,543</u>

Depreciation expense was charged to governmental functions as follows:

Instructional services	\$ 1,425,779
Instructional support services	250,164
Operation and maintenance services	34,066
Food services	302,724
General administrative services	45,179
Total governmental activities depreciation expense	<u>\$ 2,057,912</u>

**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended September 30, 2021

**NOTE 7. DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES**

In fiscal year 2021 the Board reported deferred outflows of resources and deferred inflows of resources as follows:

	<u>September 30, 2021</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Loss on refunding of debt	\$ 115,566	
Employer pension contribution	3,751,609	
Proportionate share of collective deferred outflows related to net pension liability	8,215,000	
Employer OPEB contribution	792,904	
Proportionate share of collective deferred outflows related to net OPEB liability	12,575,943	
Proportionate share of collective deferred inflows related to net pension liability		\$ 2,128,000
Proportionate share of collective deferred inflows related to net OPEB liability		20,860,211
Unavailable revenue - property taxes		8,467,222
<b>Total</b>	<b>\$ <u>25,451,022</u></b>	<b>\$ <u>31,455,433</u></b>

Deferred outflows of resources of \$115,566 were related to the loss (difference between the reacquisition price of the new debt and the carrying amount of the old debt) on refunding the 2005-A bonds with the 2014-A bonds. This deferred outflow will be carried on the Statement of Net Position and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the new debt.

Deferred inflows of resources of \$8,467,222 were related to the accrual of property taxes. Because these 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.

In accordance with GASB 68 and 71, the Board reported \$3,751,609 employer pension contributions and employer's share of collective deferred outflows of \$8,215,000 and inflows of \$2,128,000 related to net pension liability. The Board also reported \$792,904 employer OPEB contributions and employer's share of collective deferred outflows of \$12,575,943 and inflows of \$20,860,211 in accordance with GASB 75. The net effect of these inflows and outflows related to the pension and OPEB liability is reflected in unrestricted net position on the Statement of Net Position.

**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended September 30, 2021

**NOTE 8. DEFINED BENEFIT PENSION PLAN**

**Plan Description**

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

**Benefits Provided**

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

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

**Contributions**

Covered members of the TRS contributed 5% 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. Tier 2 covered members of the TRS contribute 6% of earnable compensation to the TRS as required by statute.

Participating employers' contractually required contribution rate for the year ended September 30, 2020 was 12.43% of annual pay for Tier 1 members and 11.34% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the Board were \$3,751,609 for the year ended September 30, 2021.



**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended September 30, 2021

**NOTE 8. DEFINED BENEFIT PENSION PLAN – Continued****Pension Liabilities, Pension Expense, and Deferred Outflows & Inflows of Resources Related to Pensions**

At September 30, 2021 the Board reported a liability of \$53,141,000 for its proportionate share of the collective net pension liability which is reported as a long-term obligation. The collective net pension liability was measured as of September 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2019. The Board's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2020 the Board's proportion was .429608%, which was a decrease of .009536% from its proportion measured as of September 30, 2019.

For the year ended September 30, 2021, the Board recognized pension expense of \$5,329,261. At September 30, 2021 the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,630,000	\$ 922,000
Changes in assumptions	553,000	
Net difference between projected and actual earnings on pension plan investments	3,947,000	
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,085,000	1,206,000
Employer contributions subsequent to the measurement date	3,751,609	
Total	<u>\$ 11,966,609</u>	<u>\$ 2,128,000</u>

The amount of \$3,751,609 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended September 30:</b>	(in thousands)
2022	\$ 1,085
2023	\$ 1,992
2024	\$ 2,178
2025	\$ 832
2026	\$ 0
Thereafter	\$ 0

**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended September 30, 2021

**NOTE 8. DEFINED BENEFIT PENSION PLAN – Continued****Actuarial Assumptions**

The total pension liability as of September 30, 2020 was determined by an actuarial valuation as of September 30, 2019, 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 actuarial valuation as of September 30, 2019, were based on the results of an investigation of the economic and demographic experience for the TRS based upon participant data as of September 30, 2015. The Board of Control accepted and approved these changes in September 2016 which became effective at the beginning of fiscal year 2016.

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

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

	Target Allocation	Long-Term Expected Rate of Return*
Fixed income	17.00%	4.40%
U.S. large stocks	32.00%	8.00%
U.S. mid stocks	9.00%	10.00%
U.S. small stocks	4.00%	11.00%
International developed market stocks	12.00%	9.50%
International emerging market stocks	3.00%	11.00%
Alternatives	10.00%	10.10%
Real estate	10.00%	7.50%
Cash equivalents	3.00%	1.50%
<b>Total</b>	<b><u>100.00%</u></b>	

\*Includes assumed rate of inflation of 2.50%

**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended September 30, 2021

**NOTE 8. DEFINED BENEFIT PENSION PLAN – Continued**

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

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

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

(Dollar amounts in thousands)	<b>1% Decrease (6.70%)</b>	<b>Current Discount Rate (7.70%)</b>	<b>1% Increase (8.70%)</b>
Board's proportionate share of the collective net pension liability	\$70,901	\$53,141	\$38,114

**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, 2020. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2020. The auditor's report on the Schedule of Employer Allocations and Pension Amounts by Employer and accompanying notes detail by employer and in aggregate information needed to comply with GASB 68. The additional financial and actuarial information is available at [www.rsa-al.gov/index.php/employers/financial-reports/gasb-68-reports/](http://www.rsa-al.gov/index.php/employers/financial-reports/gasb-68-reports/).

**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended September 30, 2021

**NOTE 9. OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

**Plan Description**

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

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

**Benefits Provided**

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

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

The PEEHIP offers four optional plans (Hospital Indemnity, Cancer, Dental, and Vision) that may be selected in addition to or in lieu of the basic hospital medical plan or HMO. The Hospital Indemnity Plan provides a per-day benefit for hospital confinement, maternity, intensive care, cancer, and convalescent care. The Cancer Plan covers cancer disease only and benefits are provided regardless of other insurance. Coverage includes 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.

**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended September 30, 2021

**NOTE 9. OTHER POST-EMPLOYMENT BENEFITS (OPEB) - Continued**

**Benefits Provided - Continued**

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, 2020, Medicare eligible members and Medicare eligible dependents who are covered on a retiree contract were enrolled in the Humana Group Medicare Advantage plan for PEEHIP. The plan is fully insured, and members are able to have all of their Medicare Part A (hospital insurance), Part B (medical insurance), and Part D (prescription drug coverage) in one convenient plan. Retirees can continue to see their same providers with no interruption and see any doctor who accepts Medicare on a national basis. Members have the same benefits in and out-of-network and there is no additional retiree cost share if a retiree uses an out-of-network provider and no balance billing from the provider.

**Contributions**

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

For employees who retired after September 30, 2005, but before January 1, 2012, the employer contribution to the health insurance premium set forth by the Board for each retiree class is reduced 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 Board for changes in Medicare premium costs required to be paid by a retiree. In no case does the employer contribution of the health insurance premium exceed 100% of the total health insurance premium cost for the retiree.

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

**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended September 30, 2021

**NOTE 9. OTHER POST-EMPLOYMENT BENEFITS (OPEB) - Continued****OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

At September 30, 2021, the Board reported a liability of \$29,556,319 for its proportionate share of net OPEB liability. The net OPEB liability was measured as of September 30, 2020 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2019. The Board's proportion of the net OPEB liability was based on the Board's share of contributions to the OPEB plan relative to the total employer contributions of all participating PEEHIP employers. At September 30, 2020, the Board's proportion was 0.455423%, which was a decrease of 0.056625% from its proportion measured as of September 30, 2019.

For the year ended September 30, 2021, the Board recognized an OPEB expense reduction of \$(1,263,038), with no special funding situations. At September 30, 2021, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 749,527	\$ 10,626,205
Changes of assumptions	10,323,791	5,488,338
Net difference between projected and actual earnings on OPEB plan investments		1,246
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,502,625	4,744,422
Employer contributions subsequent to the measurement date	792,904	
Total	<u>\$ 13,368,847</u>	<u>\$ 20,860,211</u>

The \$792,904 reported as deferred outflows of resources related to OPEB resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2022.

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

**Year ended September 30:**

2022	\$ (2,787,857)
2023	\$ (2,742,834)
2024	\$ (1,882,482)
2025	\$ (2,054,786)
2026	\$ 567,582
Thereafter	\$ 616,109

**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended September 30, 2021

**NOTE 9. OTHER POST-EMPLOYMENT BENEFITS (OPEB) - Continued**

**Actuarial Assumptions**

The total OPEB liability was determined by an actuarial valuation as of September 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary Increases*	3.25% - 5.00%
Long-Term Investment Rate of Return**	7.25%
Municipal Bond IndexRate at the Measurement Date	2.25%
Municipal Bond IndexRate at the Prior Measurement Date	3.00%
Projected Year for Fiduciary Net Position (FNP) to be Depleted	2040
Single Equivalent Interest Rate at the Measurement Date	3.05%
Single Equivalent Interest Rate at the Prior Measurement Date	5.50%
Healthcare Cost Trend Rate	
Pre-Medicare Eligible	6.75%
Medicare Eligible	***
Ultimate Trend Rate	
Pre-Medicare Eligible	4.75% in 2027
Medicare Eligible	4.75% in 2024

\*Includes 3.00% wage inflation

\*\*Compounded annually, net of investment expense, and includes inflation

\*\*\*Initial Medicare claims are set based on scheduled increases through plan year 2022

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.) were based on the September 30, 2019 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 fundamental change in the market that alters expected returns in future years.

**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended September 30, 2021

**NOTE 9. OTHER POST-EMPLOYMENT BENEFITS (OPEB) - Continued**

**Actuarial Assumptions - Continued**

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%
<b>Total</b>	<b>100.00%</b>	

\* Geometric mean, includes 2.5% inflation

**Discount Rate**

The discount rate (also known as the Single Equivalent Interest Rate (SEIR), as described by GASB 74) used to measure the total OPEB liability at September 30, 2020 was 3.05%. The discount rate used to measure the total OPEB liability at the prior measurement date was 5.50%. 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, 14.802% of the employer contributions were used to assist in funding the retiree benefit payments in 2020. It is assumed that the 14.802% will increase at the same rate as expected benefit payments for the closed group until reaching an employer rate of 20.000%, at which point this amount will increase by 1.00% in subsequent years. 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. Therefore, the projected future benefit payments for all current plan members were projected through 2118. The long term rate of return is used until the assets are expected to be depleted in 2040, after which the municipal bond rate is used.



**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended September 30, 2021

**NOTE 9. OTHER POST-EMPLOYMENT BENEFITS (OPEB) - Continued**

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

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

	1% Decrease (5.75% decreasing to 3.75% for pre- Medicare, Known decreasing to 3.75% for Medicare eligible)	Current Healthcare Trend Rate (6.75% decreasing to 4.75% for pre- Medicare, Known decreasing to 4.75% for Medicare Eligible)	1% Increase (7.75% decreasing to 5.75% for pre- Medicare, Known decreasing to 5.75% for Medicare Eligible)
Net OPEB Liability	\$ 23,364,366	\$ 29,556,319	\$ 37,616,137

The following table presents the Board's proportionate share of net OPEB liability of the Trust calculated using the discount rate of 3.05%, as well as what the net OPEB liability would be if calculated using one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (2.05%)	Current Discount Rate (3.05%)	1% Increase (4.05%)
Net OPEB Liability	\$36,252,358	\$29,556,319	\$24,238,213

**OPEB Plan Fiduciary Net Position**

Detailed information about the OPEB plan's fiduciary net position is the Trust's financial statements for the fiscal year ended September 30, 2020. The supporting actuarial information is included in the GASB Statement No. 74 Report for PEEHIP prepared as of September 30, 2020. Additional financial and actuarial information is available at [www.rsa-al.gov](http://www.rsa-al.gov).

**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended September 30, 2021

**NOTE 10. LONG-TERM OBLIGATIONS****Long-Term Obligation Activity**

Long-term liability balances and activity for the year ended September 30, 2021 were as follows:

	<u>Beginning Balance</u>	<u>Additions/ (Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:				
General Obligation Bonds:				
Series 2014-A Warrants	\$ 3,312,938	\$ (598,007)	\$ 2,714,931	\$ 629,140
Unamortized premium	405,757	(86,948)	318,809	86,948
Series 2013-D Warrants	1,006,780	(661,301)	345,479	64,972
Unamortized premium	5,815	(5,815)		
Series 2020-C Warrants		652,540	652,540	10,452
Series 2014-B Warrants	8,501,973	(479,018)	8,022,955	505,496
Series 2017-A Warrants	2,138,380	(80,600)	2,057,780	84,940
Unamortized premium	150,618	(8,774)	141,844	8,774
Total bonds/warrants	<u>15,522,261</u>	<u>(1,267,923)</u>	<u>14,254,338</u>	<u>1,390,722</u>
Direct Borrowings:				
Compass Bank	9,133,612	(376,089)	8,757,523	386,049
Net pension liability	48,556,000	4,585,000	53,141,000	
Net OPEB liability	<u>19,318,382</u>	<u>10,237,937</u>	<u>29,556,319</u>	
Governmental activities long-term debt	<u>\$ 92,530,255</u>	<u>\$ 13,178,925</u>	<u>\$ 105,709,180</u>	<u>\$ 1,776,771</u>

**Warrants Payable**

On August 1, 2005, the State Department of Education issued Capital Improvement Pool Bonds in the amount of \$10,782,551 which were used by the Board for the purpose of constructing and equipping a new high school as part of the consolidation of the Board's three existing high schools. Interest rates for the bond vary and are payable semi-annually. Principal varies and is due annually on August 1. On May 28, 2014, the Alabama Public School and College Authority, on behalf of the various Boards of Education in the pool, issued \$80,065,000 in Capital Improvement Pool Refunding Bonds, Series 2014-A ("Series 2014-A") with interest rates ranging from 2.00% to 5.00% to refund 2005-A bonds. The proceeds from the 2014-A bonds will be placed in an escrow account to fund the 2005-A bonds until called and paid in full in February 2025.

The Board had an 8.018% participation in the Series 2014-A which resulted in the Board's obligation for \$6,419,544 of the total principal of \$80,065,000. The Board's portion of net proceeds deposited in an irrevocable trust with an escrow agent was \$7,334,805. The remaining balance removed for the Series 2005-A was \$7,479,776. The issuance of the Series 2014-A generated a premium of \$956,428 which will be amortized over the life of the bond (11 years).

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$346,702. This difference is reported as a deferred outflow on the Statement of Net Position and will be amortized over the remaining life of the refunded debt which approximates the life of the new debt issued. As a result of the refunding, the Board increased its total debt service requirements by \$138,189, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$16,107.

**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended September 30, 2021

**NOTE 10. LONG-TERM OBLIGATIONS – Continued**

**Long-Term Obligation Activity – Continued**

**Warrants Payable – Continued**

On December 1, 2003, the City of Gadsden issued General Obligation Warrants in the original amount of \$29,560,000 for the purpose of acquiring land and constructing and equipping a new high school as part of the consolidation of the Board's three existing high schools. The City and the Board have executed a funding agreement whereby the Board will make monthly payments of \$75,000 to the City to fulfill its commitment to pay \$900,000 of the annual debt service of the Warrants with the City paying the balance. The City of Gadsden refunded the Series 2003 Warrants with Series 2014-B Warrants. The outstanding balance of the 2014-B Warrants reflected as long-term debt in the accompanying Statement of Net Position represents the pro rata portion of the total debt which will be paid by the Board under the funding agreement. Interest rates for the bond vary from 2.0% to 3.7% and is payable semiannually.

On October 15, 2013, the Alabama Public School and College Authority issued \$23,985,000 in Capital Improvement Pool Bonds, Series 2013-D ("Series 2013-D") with interest rates ranging from 3.00% - 5.00%. In November 2020, the Alabama Public School and College Authority issued \$147,280,000 in Taxable Capital Improvement Pool Refunding Bonds, Series 2020-C ("Series 2020-C") with interest rates ranging from .253% to 2.44% to partially refund a portion of the Series 2013-D pool bonds. The Board had a .45361015% participation in the refunding which resulted in the Board's new 2013-D obligation for \$408,473 of the total un-refunded principal. The refunding generated \$668,077 in principal for the new 2020-C pool bonds. Principal varies and is due annually on September 1 for the 2013-D and December 1 for the 2020-C bonds. The refunded Series 2013-D bonds were used to make loans to various local boards of education in the State in order to finance capital improvements approved by the Authority and the State Superintendent of Education. No capital outlay funds and/or taxes will be pledged as security for the Series 2020-C bonds and holders of the Series 2020-C bonds will have no recourse against such capital outlay funds and/or taxes. The proceeds from the 2020-C bonds will be placed in an escrow account to fund the 2013-D bonds until called and paid in full in 2026. The refunding generated a loss of \$68,035 which will be expensed in the current year along with the remaining 2013-D unamortized premium.

On October 24, 2017, the Alabama Public School and College Authority issued \$18,455,000 in Capital Improvement Pool Bonds, Series 2017-A ("Series 2017-A") with interest rates ranging from 3.00% to 5.00%. The Board had a 12.40% participation in the Series 2017-A which resulted in the Board's obligation for \$2,288,420 of the total principal. The issuance of the Series 2017-A generated a premium of \$176,206 which will be amortized over the life of the bond (20 years). Interest rates for the bond vary from 3.125% - 5.000% and are due semiannually. Principal varies and is due annually on December 1. The principal and interest are payable from and secured by a pledge of the Board's allocable share of Public School Capital Outlay Funds.

Gadsden City Board of Education

**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended September 30, 2021

**NOTE 10. LONG-TERM OBLIGATIONS – Continued**

**Long-Term Obligation Activity – Continued**

**Warrants Payable – Continued**

Maturities on General Obligation Warrants are as follows:

Fiscal Year Ending	2014-A Warrants		2014-B Warrants		2017-A Warrants	
	Principal	Interest	Principal	Interest	Principal	Interest
2022	\$ 629,140	\$ 120,018	\$ 505,496	\$ 394,503	\$ 84,940	\$ 74,693
2023	660,995	87,765	527,162	372,839	89,280	70,338
2024	694,298	53,882	553,639	346,361	93,000	66,710
2025	730,498	18,262	582,525	317,475	96,720	62,898
2026			613,817	286,183	101,680	57,937
2027			645,110	254,890	106,640	52,729
2028			676,403	223,597	112,220	47,258
2029			712,510	187,490	118,420	41,492
2030			746,209	153,791	122,760	37,074
2031			782,316	117,684	126,480	33,086
2032			818,423	81,577	130,820	28,594
2033			859,345	40,656	135,160	24,605
2034					138,880	20,494
2035					143,220	16,263
2036					147,560	11,901
2037					152,520	7,304
2038					157,480	2,461
Totals	\$ 2,714,931	\$ 279,927	\$ 8,022,955	\$ 2,777,046	\$ 2,057,780	\$ 655,837

Fiscal Year Ending	2013-D Warrants		2020-C Warrants	
	Principal	Interest	Principal	Interest
2022	\$ 64,972	\$ 10,996	\$ 10,452	\$ 11,739
2023	66,949	9,047	10,452	11,703
2024	68,926	7,038	10,452	11,645
2025	71,186	4,884	10,734	11,564
2026	73,446	2,571	10,734	11,466
2027			81,356	11,342
2028			82,486	10,238
2029			83,898	8,842
2030			85,310	7,336
2031			87,288	5,720
2032			88,700	3,936
2033			90,678	2,034
Totals	\$ 345,479	\$ 34,536	\$ 652,540	\$ 107,565

**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended September 30, 2021

**NOTE 10. LONG-TERM OBLIGATIONS – Continued****Long-Term Obligation Activity – Continued****Warrants Payable – Continued**

Interest costs incurred and expensed for the year were \$882,061 in the government-wide financial statements and \$906,243 in the fund financial statements. In current and prior years, bond debt has been liquidated with debt service and capital projects funds.

**Note Payable**

The Board is indebted to Compass Bank on a note in the amount of \$9,500,000 secured by equipment and an energy services contract between Schneider Electric Buildings America, Inc. The loan bears a 2.61% interest rate and requires interest to be paid semiannually. Principal varies and is due annually until maturity on October 4, 2038. This note contains a provision that if an instance of default occurs, the Holder may declare the note due and payable. Maturities for the note are as follows:

<u>Payment Dates</u>	<u>Interest</u>	<u>Principal</u>	<u>Total Debt Service</u>
2022	\$ 226,652	\$ 386,049	\$ 612,701
2023	216,301	396,271	612,572
2024	206,225	406,765	612,990
2025	194,770	417,536	612,306
2026	177,889	428,593	606,482
2027-2038	1,228,007	6,722,309	7,950,316
Totals	\$ 2,249,844	\$ 8,757,523	\$ 11,007,367

**NOTE 11. OPERATING LEASES**

The Board is obligated under a three year lease with Xerox for the use of copiers. The lease is noncancellable and requires yearly payments of \$180,000 until the lease term is complete on June 1, 2021.

**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended September 30, 2021

**NOTE 12. INTERFUND ACTIVITY**

Interfund balances (reported as "Due from other funds" and "Due to other funds" in the Balance Sheet) at September 30, 2021, consist of the following:

Interfund receivable to Special Revenue Fund from other special Revenue funds	\$ 5,792
<i>Total interfund balances</i>	<u>\$ 5,792</u>

Interfund transfers for the fiscal year ended September 30, 2021, consist of the following:

<i>Transfers to General Fund from:</i>	
General Fund – operating transfers for operating expenses	\$ 544,804
Capital Projects Fund for capital expenditures	521,834
<i>Total transfers to General Fund</i>	<u>1,066,638</u>

<i>Transfers to Special Revenue Fund from:</i>	
General Fund for Child Nutrition operating expenses	1,000,000
Special Revenue Fund for local school operating expenses	187,871
<i>Total transfers to Special Revenue Fund</i>	<u>1,187,871</u>

<i>Transfers to other governmental funds from:</i>	
Capital Projects Fund to Debt Service Fund for debt service	378,166
<i>Total interfund transfers</i>	<u>\$ 2,632,675</u>

**NOTE 13. RISK MANAGEMENT**

The Board is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board has insurance for its buildings and contents through the State Insurance Fund (SIF), Alabama Department of Finance, Division of Risk Management, which operates as a common risk management and insurance program for state-owned properties and boards of education. The Board pays an annual premium based on the amount of coverage. The SIF is self-insured up to \$3.5 million per occurrence and purchases commercial insurance for claims in excess of \$3.5 million. Errors and omissions insurance is purchased from the Alabama Trust for Boards of Education (ATBE), a self-funded risk management trust. 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. The Board purchases commercial insurance for fidelity bonds. Settled claims in the past three years have not exceeded the commercial insurance coverage. Also, there have been no significant reductions in insurance coverage from the prior year.

Employee health insurance is provided through the Public Education Employees' Health Insurance Fund (PEEHIF) administered by the Public Education Employees' Health Insurance Board. PEEHIF was established to provide a uniform plan of health insurance for current and retired employees of state educational institutions and is self-sustaining. Monthly premiums for employee and dependent coverage are set annually by the plan's actuary and are based on anticipated claims in the upcoming year, considering any remaining fund balance on hand available for claims. The Board contributes the specified amount monthly to the PEEHIF for each employee. The Board contribution is applied against the employees' premiums for the coverage selected and the employee pays any remaining premium.

**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended September 30, 2021

**NOTE 13. RISK MANAGEMENT - Continued**

The State Board of Adjustments is a state agency with which people can file claims against the Board to collect reimbursement for damages when all other means have been exhausted. The Board does not have insurance coverage for job-related injuries. Claims for employee job-related injuries may be filed with the State Board of Adjustment. The Board of Adjustment determines if a claim is valid and determines the proper amount of compensation. Payments are made from state appropriated funds at no cost to the Board.

**NOTE 14. CONTINGENT LIABILITIES**

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

The Board has evaluated subsequent events through March 15, 2022, and noted none affecting the current financial statements. This date approximates the date the financial statements were available to be issued.

In December 2019, a novel strain of coronavirus was reported in Wuhan, China. The World Health Organization declared the outbreak a "Public Health Emergency of International Concern." The extent of the impact of COVID-19 on the Board's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on the Board's employees and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the Board's financial condition or results of operations is uncertain.

## Gadsden City Board of Education

**BUDGETARY COMPARISON SCHEDULE**  
**General Fund**

For the Year Ended September 30, 2021

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget
	Original	Final		
<b>Revenues:</b>				
State sources	\$ 31,174,021	\$ 31,580,367	\$ 31,717,905	\$ 137,538
Federal sources	4,000	5,661	6,360	699
Local sources	8,123,330	8,123,330	8,612,748	489,418
Total revenues	<u>39,301,351</u>	<u>39,709,358</u>	<u>40,337,013</u>	<u>627,655</u>
<b>Expenditures:</b>				
Instructional services	25,902,438	26,197,196	26,357,455	(160,259)
Instructional support services	7,282,808	7,790,808	7,765,983	24,825
Operation and maintenance services	3,090,673	3,090,673	3,286,323	(195,650)
Auxiliary services:				
Student transportation	1,042,364	1,042,364	1,043,230	(866)
General administrative services	1,413,873	1,418,397	1,497,930	(79,533)
Other expenses	652,310	668,910	656,855	12,055
Capital outlay			21,788	(21,788)
Debt service:				
Principal retirement	376,090	376,090	376,090	0
Interest and fiscal charges	236,736	236,736	236,074	662
Total expenditures	<u>39,997,292</u>	<u>40,821,174</u>	<u>41,241,728</u>	<u>(420,554)</u>
Excess (deficiency) of revenues over expenditures	<u>(695,941)</u>	<u>(1,111,816)</u>	<u>(904,715)</u>	<u>207,101</u>
<b>Other Financing Sources (Uses):</b>				
Indirect cost	264,653	270,009	271,363	1,354
Transfers in	521,834	521,834	1,066,638	544,804
Transfers out	(607,868)	(1,000,000)	(1,544,804)	(544,804)
Total other financing sources (uses)	<u>178,619</u>	<u>(208,157)</u>	<u>(206,803)</u>	<u>1,354</u>
Net change in fund balances	(517,322)	(1,319,973)	(1,111,518)	208,455
Fund balances - beginning	<u>5,300,000</u>	<u>4,786,511</u>	<u>4,786,511</u>	<u>0</u>
Fund balances - ending	<u>\$ 4,782,678</u>	<u>\$ 3,466,538</u>	<u>\$ 3,674,993</u>	<u>\$ 208,455</u>



## Gadsden City Board of Education

**BUDGETARY COMPARISON SCHEDULE**  
**Special Revenue Fund**

For the Year Ended September 30, 2021

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget
	Original	Final		
<b>Revenues:</b>				
State sources		\$ 1,413,336	\$ 1,442,376	\$ 29,040
Federal sources	\$ 11,555,586	12,133,573	13,938,276	1,804,703
Local sources	2,596,021	2,144,629	2,913,559	768,930
Other	115,500	13,871	25,580	11,709
Total revenues	<u>14,267,107</u>	<u>15,705,409</u>	<u>18,319,791</u>	<u>2,614,382</u>
<b>Expenditures:</b>				
Instructional services	5,505,128	5,862,201	7,404,677	(1,542,476)
Instructional support services	3,636,016	4,274,806	3,852,316	422,490
Operation and maintenance services	1,055,755	1,480,793	1,354,075	126,718
Auxiliary services:				
Student transportation	203,820	218,050	236,313	(18,263)
Food service	3,721,226	3,427,105	955,052	2,472,053
General administrative services	765,860	785,499	720,175	65,324
Other expenses	2,020,905	2,159,088	3,767,384	(1,608,296)
Capital outlay	90,000	833,336	236,756	596,580
Total expenditures	<u>16,998,710</u>	<u>19,040,878</u>	<u>18,526,748</u>	<u>514,130</u>
Excess (deficiency) of revenues over expenditures	<u>(2,731,603)</u>	<u>(3,335,469)</u>	<u>(206,957)</u>	<u>3,128,512</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in	737,394	1,129,526	1,187,871	58,345
Transfers out	<u>(129,526)</u>	<u>(129,526)</u>	<u>(187,871)</u>	<u>(58,345)</u>
Total other financing sources	<u>607,868</u>	<u>1,000,000</u>	<u>1,000,000</u>	<u>0</u>
Net change in fund balances	(2,123,735)	(2,335,469)	793,043	3,128,512
Fund balances - beginning	<u>3,813,000</u>	<u>4,472,207</u>	<u>4,472,207</u>	<u>0</u>
Fund balances - ending	<u>\$ 1,689,265</u>	<u>\$ 2,136,738</u>	<u>\$ 5,265,250</u>	<u>\$ 3,128,512</u>

Gadsden City Board of Education

**NOTES TO THE  
BUDGETARY COMPARISON SCHEDULES**

For the Year Ended September 30, 2021

<b>Note A - Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures</b>	<b>General Fund</b>	<b>Special Revenue Fund</b>
<b>Sources/inflows of resources</b>		
Actual amounts (budgetary basis) available for appropriation shown as total revenues on the budgetary comparison schedule	\$ <u>40,337,013</u>	\$ <u>18,319,791</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	\$ <u>40,337,013</u>	\$ <u>18,319,791</u>
<b>Uses/outflows of resources</b>		
Actual amounts (budgetary basis) available for expenditures shown as total expenditures on the budgetary comparison schedule	\$ 41,241,728	\$ 18,526,748
Differences - budget to GAAP		
Salaries of teachers and other personnel with contracts of less than 12 months are paid over a 12 month period. Expenditures for salaries (and related fringe benefits) are budgeted based on the amount that will be paid from budgeted revenues. However, salaries (and related benefits earned but not paid) are reported as expenditures on the financial statements.	983,518	73,997
Total expenditures are reported on the statement of revenues, expenditures and changes in fund balances - governmental funds.	\$ <u>42,225,246</u>	\$ <u>18,600,745</u>

## Gadsden City Board of Education

**SCHEDULE OF THE BOARD'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY****TEACHERS' RETIREMENT SYSTEM OF ALABAMA**

For the Year Ended September 30,

	2020	2019	2018	2017	2016	2015	2014
Board's proportion of net pension liability	0.429608%	0.439144%	0.422019%	0.426308%	0.435488%	0.432293%	0.429637%
Board's proportionate share of the net pension liability	\$ 53,141,000	\$ 48,556,000	\$ 41,960,000	\$ 41,900,000	\$ 47,146,000	\$ 45,242,000	\$ 39,031,000
Board's covered-employee payroll*	\$ 30,389,984	\$ 26,464,012	\$ 28,154,831	\$ 28,148,262	\$ 27,653,852	\$ 27,323,000	\$ 27,253,213
Board's proportionate share of the net pension liability as a percentage of its covered-employee payroll	174.86%	183.48%	149.03%	148.85%	170.49%	165.58%	143.22%
Plan fiduciary net position as a percentage of the total pension liability	67.72%	69.85%	72.29%	71.50%	67.93%	67.51%	71.01%

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

\* Employer's covered-employee payroll during the measurement period is the total payroll paid to covered employees (not just pensionable payroll). For fiscal year 2021, the measurement period is October 1, 2019 through September 30, 2020.

## Gadsden City Board of Education

**SCHEDULE OF BOARD CONTRIBUTIONS****TEACHERS' RETIREMENT SYSTEM OF ALABAMA**

For the Year Ended September 30,

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 3,751,609	\$ 3,706,107	\$ 3,508,017	\$ 3,382,521	\$ 3,333,322	\$ 3,267,495	\$ 3,190,069
Contributions in relation to the contractually required contribution	<u>3,751,609</u>	<u>3,706,107</u>	<u>3,508,017</u>	<u>3,382,521</u>	<u>3,333,322</u>	<u>3,267,495</u>	<u>3,190,069</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Board's covered-employee payroll*	\$ 31,016,212	\$ 30,389,984	\$ 26,464,012	\$ 28,154,831	\$ 28,148,262	\$ 27,653,852	\$ 27,323,000
Contributions as a percentage of covered-employee payroll	12.10%	12.20%	13.26%	12.01%	11.84%	11.82%	11.68%

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

\* Employer's covered-employee payroll during the measurement period is the total payroll paid to covered employees (not just pensionable payroll). For fiscal year 2021, the measurement period is October 1, 2020 through September 30, 2021.

The amount of contractually required contributions is equal to the amount that would be recognized as additions from the employer's contributions in the pension plan's schedule of changes in the fiduciary net position during the period that coincides with the employer's fiscal year. For participation in the TRS, this would not include amounts paid to the TRS for the Pre-retirement Death Benefit, Term Life Insurance or Administrative Expenses. It does include the amounts paid to TRS for the Employer's portion of the Normal Cost and Accrued Liability.

## Gadsden City Board of Education

## SCHEDULE OF THE BOARD'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY

## ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST

For the Year Ended September 30,

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Board's proportion of net OPEB liability	0.455423%	0.512048%	0.493587%	0.483214%
Board's proportionate share of the net OPEB liability	\$ 29,556,319	\$ 19,318,382	\$ 40,566,565	\$ 35,890,376
Board's covered-employee payroll	\$ 30,389,984	\$ 26,464,012	\$ 28,154,831	\$ 28,148,262
Board's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	97.26%	73.00%	144.08%	127.50%
Plan fiduciary net position as a percentage of the total OPEB liability	19.80%	28.14%	14.81%	15.37%

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

## Gadsden City Board of Education

**SCHEDULE OF BOARD CONTRIBUTIONS****ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST**

For the Fiscal Year Ended September 30,

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contribution	\$ 792,904	\$ 901,425	\$ 1,460,286	\$ 1,218,639
Contributions in relation to the contractually required contribution	<u>792,904</u>	<u>901,425</u>	<u>1,460,286</u>	<u>1,218,639</u>
Contribution deficiency (excess)	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
Board's covered-employee payroll	\$ 31,016,212	\$ 30,389,984	\$ 26,464,012	\$ 28,154,831
Contributions as a percentage of covered-employee payroll	2.56%	2.97%	5.52%	4.33%

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

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

For the Year Ended September 30, 2021

**Changes in Actuarial Assumptions**

In 2019, the anticipated rates of participation, spouse coverage, and tobacco use were adjusted to more closely reflect actual experience.

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.

**Recent Plan Changes**

Beginning in plan year 2021, the MAPD plan premium rates excluded the ACA Health Insurer Fee which was repealed on December 20, 2019.

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

The Health Plan is changed each year to reflect the 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 OPEB Contributions were calculated as of September 30, 2017, which is 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	24 years, closed
Asset Valuation Method	Market Value of Assets
Inflation	2.75%
Healthcare Cost Trend Rate:	
Pre-Medicare Eligible	7.00%
Medicare Eligible*	5.00%
Ultimate Trend Rate:	
Pre-Medicare Eligible	4.75%
Medicare Eligible	4.75%
Year of Ultimate Trend Rate	2026 for Pre-Medicare Eligible 2024 for Medicare Eligible
Investment Rate of Return	5.00%, including inflation

\*Initial Medicare claims are set based on scheduled increases through plan year 2019.

Gadsden City Board of Education

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Year Ended September 30, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor Number	Total Federal Expenditures
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>			
<b>Direct Programs:</b>			
Impact Aid	84.041		\$ 5,060
Total Direct Programs - U.S. Department of Education			<u>5,060</u>
<b>Passed through Alabama State Department of Education:</b>			
<i>Special Education Cluster:</i>			
Special Education Grants to States	84.027	144	1,202,883
Special Education Preschool Grants	84.173	144	63,743
<i>Subtotal Special Education Cluster</i>			<u>1,266,626</u>
Title I Grants to Local Educational Agencies	84.010	144	3,065,558
Career and Technical Education - Basic Grants to States	84.048	144	124,016
Education for Homeless Children and Youth	84.196	144	26,000
Twenty-First Century Community Learning Centers	84.287	144	576,111
Special Education - State Personnel Development	84.323	144	122,409
English Language Acquisition State Grants	84.365	144	67,636
Supporting Effective Instruction State Grant	84.367	144	342,447
Student Support and Academic Enrichment Program	84.424	144	215,989
<i>COVID-19 Education Stabilization Fund:</i>			
Governors Emergency Education Relief (GEER) Fund	84.425C	144	241,080
Elementary and Secondary School Emergency Relief (ESSER) Fund	84.425D	144	2,399,037
American Rescue Plan - Elementary and Secondary Education Relief (ARP ESSER)	84.425U	144	1,050,988
<i>Subtotal COVID-19 Education Stabilization Fund</i>			<u>3,691,105</u>
<b>Total U.S. Department of Education passed through Alabama State Department of Education</b>			<u>9,497,897</u>
<b>Total U.S. Department of Education</b>			<u>9,502,957</u>
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>			
<b>Passed through Alabama State Department of Education:</b>			
<i>Child Nutrition Cluster:</i>			
School Breakfast Program	10.553	144	139,414
National School Lunch Program	10.555	144	544,398
Food Distribution Program (N)	10.555	144	118,829
Summer Food Service Program for Children	10.559	144	2,309,575
<i>Subtotal Child Nutrition Cluster</i>			<u>3,112,216</u>
Child and Adult Care Food Program	10.558	144	144,568
State Administrative Expenses for Child Nutrition	10.560	144	13,871
<b>Total U.S. Department of Agriculture</b>			<u>3,270,655</u>
<b><u>U. S. DEPARTMENT OF DEFENSE</u></b>			
<b>Direct Programs:</b>			
ROTC Language and Culture Training Grants	12.357		<u>78,680</u>
<b><u>SOCIAL SECURITY ADMINISTRATION</u></b>			
<b>Passed through Alabama State Department of Education:</b>			
Social Security Disability Insurance	96.001	144	<u>1,300</u>
<b><u>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>			
<b>Passed through Alabama State Department of Education:</b>			
Child Care and Development Block Grant	93.575	144	<u>32,250</u>
<b><u>U. S. DEPARTMENT OF THE TREASURY</u></b>			
<b>Passed through Alabama State Department of Education:</b>			
COVID-19 Coronavirus Relief Fund	21.019	144	<u>1,058,794</u>
Total Expenditures of Federal Awards			<u>\$ 13,944,636</u>

(N) Non-cash assistance

The accompanying notes are an integral part of this schedule.



**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Year Ended September 30, 2021

**NOTE 1. BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Gadsden City Board of Education (the "Board") under programs of the federal government for the year ended September 30, 2021. 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 Board, it is not intended to and does not present the financial position or changes in net position of the Board.

**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.

**NOTE 3. INDIRECT COST RATE**

The Board uses the simplified method to allocate costs as either direct or indirect to allocable individual federal awards and has not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

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MEMBER AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS

MEMBER ALABAMA SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S 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**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gadsden City Board of Education (the "Board"), a component unit of the City of Gadsden, Alabama as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements and have issued our report thereon dated March 15, 2022.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Board'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 Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as 2021-001 that we consider to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Board'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 that are required to be reported under *Government Auditing Standards*.

### **Board's Response to Findings**

The Board's response to findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Board's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

*Richard, Harris, Ingram and Bozeman, P.C.*

**RICHARD, HARRIS, INGRAM AND BOZEMAN, P.C.**

Montgomery, Alabama  
March 15, 2022

**Richard, Harris, Ingram and Bozeman, P.C.**  
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

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

We have audited the Gadsden City Board of Education's (the "Board") 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 Board's major federal programs for the year ended September 30, 2021. The Board's major federal programs are identified in the summary of auditor'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 Board'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 Board'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 Board's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the Board complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2021.

## Report on Internal Control over Compliance

Management of the Board 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 Board'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 Board's internal control over compliance.

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

Our consideration of internal control over compliance 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.

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.

*Richard, Harris, Ingram and Bozeman, P.C.*

**RICHARD, HARRIS, INGRAM AND BOZEMAN, P.C.**

Montgomery, Alabama  
March 15, 2022

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the Year Ended September 30, 2021

**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unmodified  
 Internal Control over financial reporting:  
 Material weakness(es) identified? \_\_\_ Yes X No  
 Significant deficiency(s) identified  
 not considered to be material weaknesses? X Yes \_\_\_ None reported  
 Noncompliance material to financial statements noted? \_\_\_ Yes X No

**Federal Awards**

Internal control over major programs:  
 Material weakness(es) identified? \_\_\_ Yes X No  
 Significant deficiency(s) identified  
 not considered to be material weaknesses? \_\_\_ Yes X None reported

Type of auditor's report issued on compliance  
 for major programs: Unmodified

Any audit findings disclosed that are required to be reported  
 in accordance with 2 CFR 200.516(a)? \_\_\_ Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.425D, 84.425C	COVID-19 Elementary and Secondary School Emergency
84.425U	Relief Fund
21.049	COVID-19 Coronavirus Relief Fund
84.048	Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? \_\_\_ Yes X No

**Section II - Financial Statement Findings**

**Reference Number:** 2021-001  
**Type of Finding:** Internal Control  
**Internal Control Impact:** Significant Deficiency  
**Compliance Impact:** None

An improper separation of duties exists in the accounting functions at the local schools. This condition is caused by inadequate staffing available to permit proper separation of all accounting functions at the school level. We recommend duties be separated wherever possible. Management plans to hire or include additional personnel in the financial management and accounting functions where possible when funds are available to do so. This significant deficiency generated no questioned costs and is not related to any federal programs.

This finding was first reported to the Board in the fiscal year 2004 audit as finding 04-2 and has been reported each fiscal year thereafter.

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

None noted.

Gadsden City Board of Education

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**ALABAMA STATE LAW**

For the Year Ended September 30, 2021

None noted.