

Gadsden City Board of Education

September 30, 2022

Gadsden City Board of Education

September 30, 2022

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Richard, Harris, Ingram and Bozeman, P.C.
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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

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, 2022, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

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 Board as of September 30, 2022, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Board and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principle

As described in Note 6 and 10 to the financial statements, in 2022, the Board adopted new accounting guidance, GASB Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Board's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Board's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Board's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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.

Supplementary 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, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The 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 February 20, 2023, 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
February 20, 2023

Gadsden City Board of Education

STATEMENT OF NET POSITION

September 30, 2022

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 7,079,368
Ad valorem taxes receivable	8,307,774
Receivables	3,655,140
Inventories	207,394
Capital assets:	
Non-depreciable	14,881,754
Depreciable, net	47,043,998
Total assets	<u>81,175,428</u>
Deferred Outflows of Resources	
Loss on refunding of debt	84,049
Employer pension contribution	4,015,847
Proportionate share of collective deferred outflows related to net pension liability	6,935,000
Employer OPEB contribution	1,063,824
Proportionate share of collective deferred outflows related to net OPEB liability	10,130,736
Total deferred outflows of resources	<u>22,229,456</u>
Liabilities	
Accounts payable	182,343
Salaries and benefits payable	4,615,355
Deferred revenue	33,225
Accrued interest payable	153,394
Long-term liabilities:	
Current portion of long-term liabilities	2,032,691
Non-current portion of long-term liabilities	84,445,040
Total liabilities	<u>91,462,048</u>
Deferred Inflows of Resources	
Unavailable revenue - property taxes	8,307,774
Proportionate share of collective deferred inflows related to net pension liability	12,676,000
Proportionate share of collective deferred inflows related to net OPEB liability	21,716,033
Total deferred inflows of resources	<u>42,699,807</u>
Net Position	
Invested in capital assets, net of related debt	39,667,078
Restricted for:	
Child nutrition program	1,022,407
Capital projects	2,114,775
Other purposes	1,395,905
Unrestricted	<u>(74,957,136)</u>
Total net position	<u>\$ (30,756,971)</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, 2022

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	\$ 33,206,015	\$ 711,853	\$ 29,776,006	\$ 6,791,222	\$ 4,073,066
Instructional support services	12,040,607	319,700	10,191,130		(1,529,777)
Operation and maintenance services	5,159,351	88,417	3,176,147	32,866	(1,861,921)
Student transportation	1,481,005	47,687	1,233,230		(200,088)
Food service	4,200,272	4,057,648	976,197		833,573
General administrative services	2,143,963	444	1,822,526	3,475	(317,518)
Interest and fiscal charges	771,421				(771,421)
Other expenses	2,059,717	377,922	1,708,610		26,815
Total governmental activities	<u>\$ 61,062,351</u>	<u>\$ 5,603,671</u>	<u>\$ 48,883,846</u>	<u>\$ 6,827,563</u>	<u>252,729</u>
General Revenues:					
Taxes:					
Property taxes for general purposes					8,324,141
Local sales tax					2,060,440
Alcoholic beverage tax					66,208
Other taxes					9,426
Grants and contributions not restricted for specific programs					320,674
Investment earnings					1,419
Gain on disposition of capital assets					10,900
Miscellaneous					922,673
Total general revenues					<u>11,715,881</u>
Change in net position					11,968,610
Net position - beginning of year					(42,725,581)
Net position - end of year					<u>\$ (30,756,971)</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, 2022

	General Fund	Special Revenue Fund	Capital Projects Fund	Total Governmental Funds
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 3,312,837	\$ 1,988,118	\$ 1,778,413	\$ 7,079,368
Ad valorem taxes receivable	8,307,774			8,307,774
Receivables	1,013,686	2,305,092	336,362	3,655,140
Due from other funds		5,792		5,792
Inventories		207,394		207,394
Total assets	<u>\$ 12,634,297</u>	<u>\$ 4,506,396</u>	<u>\$ 2,114,775</u>	<u>\$ 19,255,468</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 36,996	\$ 145,347		\$ 182,343
Salaries and benefits payable	4,113,780	250,098		4,363,878
Due to other funds		5,792		5,792
Deferred revenue		33,225		33,225
Estimated liability for compensated absences	251,477			251,477
Total liabilities	<u>4,402,253</u>	<u>434,462</u>	<u>\$ 0</u>	<u>4,836,715</u>
Deferred inflows of Resources				
Unavailable revenue - property taxes	8,307,774			8,307,774
Total deferred inflows of resources	<u>8,307,774</u>	<u>0</u>	<u>0</u>	<u>8,307,774</u>
Fund Balances				
Nonspendable				
Inventories		207,394		207,394
Restricted				
Capital projects			2,114,775	2,114,775
Child nutrition program		1,022,407		1,022,407
Other purposes		1,395,905		1,395,905
Assigned				
Local schools		1,446,228		1,446,228
Unassigned	(75,730)			(75,730)
Total fund balances	<u>(75,730)</u>	<u>4,071,934</u>	<u>2,114,775</u>	<u>6,110,979</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 12,634,297</u>	<u>\$ 4,506,396</u>	<u>\$ 2,114,775</u>	<u>\$ 19,255,468</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, 2022

Total fund balance - governmental funds \$ 6,110,979

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

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

The cost of capital assets	\$ 105,421,905	
Accumulated depreciation	<u>(43,496,153)</u>	61,925,752

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.

84,049

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

(1,725,153)

Deferred outflows and inflows of resources related to OPEB are applicable to future periods and, therefore, are not reported in the governmental funds.

(10,521,473)

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	\$ (2,032,691)	
Non-current portion of long-term debt	<u>(84,445,040)</u>	(86,477,731)

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

Accrued interest payable	<u>(153,394)</u>
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Total net position - governmental activities **\$ (30,756,971)**

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, 2022

	General Fund	Special Revenue Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
State sources	\$ 33,296,234	\$ 1,395,676	\$ 6,824,088		\$ 41,515,998
Federal sources	2,340	17,990,907			17,993,247
Local sources	8,353,036	2,857,432	2,253,100		13,463,568
Other sources		47,249			47,249
Total revenues	<u>41,651,610</u>	<u>22,291,264</u>	<u>9,077,188</u>	<u>\$ 0</u>	<u>73,020,062</u>
Expenditures					
Instructional services	26,619,915	7,510,621			34,130,536
Instructional support services	8,878,866	4,268,500			13,147,366
Operation and maintenance services	3,242,197	1,377,926	785,109		5,405,232
Auxiliary services:					
Student transportation	950,178	561,257			1,511,435
Food service		4,475,383			4,475,383
General administrative services	1,601,301	997,819	250		2,599,370
Other expenses	781,069	1,415,560			2,196,629
Capital outlay		2,588,536	6,262,481		8,851,017
Debt service:					
Principal retirement	386,049		1,216,407	192,044	1,794,500
Interest and fiscal charges	226,017		490,976	123,506	840,499
Total expenditures	<u>42,685,592</u>	<u>23,195,602</u>	<u>8,755,223</u>	<u>315,550</u>	<u>74,951,967</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(1,033,982)</u>	<u>(904,338)</u>	<u>321,965</u>	<u>(315,550)</u>	<u>(1,931,905)</u>
Other Financing Sources (Uses)					
Indirect cost	555,387				555,387
Long-term debt issued	506,183		714,900		1,221,083
Transfers in	2,138,404	178,135		315,550	2,632,089
Sale of capital assets			10,900		10,900
Transfers out	(1,553,954)	(178,135)	(900,000)		(2,632,089)
Total other financing sources (uses)	<u>1,646,020</u>	<u>0</u>	<u>(174,200)</u>	<u>315,550</u>	<u>1,787,370</u>
Net Change in Fund Balances	612,038	(904,338)	147,765	0	(144,535)
Fund balances - beginning	(687,768)	4,976,272	1,967,010		6,255,514
Fund balances - ending	<u>\$ (75,730)</u>	<u>\$ 4,071,934</u>	<u>\$ 2,114,775</u>	<u>\$ 0</u>	<u>\$ 6,110,979</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, 2022

Total net changes in fund balances - governmental funds \$ (144,535)

*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 \$	9,589,110	
Depreciation expense	<u>(2,086,900)</u>	7,502,210

Some capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the statement of activities, but rather constitute long-term liabilities in the statement of net position.

(506,183)

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.

1,794,500

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.

(714,900)

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

Proceeds from the sale of capital assets \$	(10,900)	
Gain on disposition of capital assets	<u>10,900</u>	0

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 \$	4,875	
Amortization of bond discounts/premiums/gain or loss on refunding	64,203	
Pension expense, current year change	1,024,238	
OPEB expense, current year change	<u>2,944,202</u>	<u>4,037,518</u>

Change in net position of governmental activities \$ 11,968,610

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2022

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, 2022

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, Child Nutrition Program, and Education Stabilization funds 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, 2022

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.

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.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2022

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Assets, Liabilities, and Net Position

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*.

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.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2022

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

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.

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.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2022

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Assets, Liabilities, and Net Position – Continued

Compensated Absences - Continued

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 \$251,477 at September 30, 2022, is included in accrued liabilities on these financial statements.

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 Annual Comprehensive 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.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2022

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Assets, Liabilities, and Net Position – Continued

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:

- **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.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2022

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

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

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

On or before October 1 of each year, the Board shall prepare and submit to the State Superintendent of education the annual budget to be adopted by the Board of education. The city superintendent of education or 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.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2022

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 Depositary 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.

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, 2022, 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>

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2022

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 POSITIONAd valorem taxes receivable:

Etowah County Revenue Commissioner	\$ 8,307,774
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Receivables:

State Sources	\$ 103,072
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Federal Sources:State Department of Education:

IDEA	97,324
Child Nutrition	403,573
Title I Grants	377,913
COVID-19 ESF	1,328,674
State Personnel Development Grants	70,836
Other grants	26,799

Local Sources:

Medicaid	49,556
Etowah County Revenue Commissioner	749,310
Tax revenues	448,110
Total	\$ 3,655,140

Accounts payable and accrued liabilities:

Salaries and benefits payable	\$ 4,363,878
Accrued compensated absences	251,477
Salaries and benefits payable	4,615,355
Accounts payable	182,343
Accrued interest payable	153,394
Total	\$ 4,951,092

Gadsden City Board of Education

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2022

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	\$ 8,307,774			\$ 8,307,774
<u>Receivables:</u>				
State sources	\$ 103,072			\$ 103,072
Federal sources:				
State Department of Education:				
IDEA		\$ 97,324		97,324
Child Nutrition		403,573		403,573
Title I Grants		377,913		377,913
COVID-19 ESF		1,328,647		1,328,647
State Personnel Development Grants		70,836		70,836
Other grants		26,799		26,799
Local sources:				
Medicaid	49,556			49,556
Etowah County Revenue Commissioner	749,310			749,310
Tax revenues	111,748		\$ 336,362	448,110
Total	\$ 1,013,686	\$ 2,305,092	\$ 336,362	\$ 3,655,140
<u>Accounts payable and accrued liabilities:</u>				
Salaries and benefits payable	\$ 4,113,780	\$ 250,098		\$ 4,363,878
Accrued compensated absences	251,477			251,477
Accounts payable	36,996	145,347		182,343
Total	\$ 4,402,253	\$ 395,445	\$ 0	\$ 4,797,698

Gadsden City Board of Education

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2022

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2022 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land and land improvements	\$ 6,186,680	\$ 6,605,952		\$ 12,792,632
Construction in progress	590,504	1,498,618		2,089,122
Total capital assets not depreciated	6,777,184	8,104,570	\$ 0	14,881,754
Capital assets being depreciated:				
Buildings	61,090,090			61,090,090
Building improvements	25,984,834	746,447		26,731,281
Equipment and furniture	1,822,847	231,910	6,700	2,048,057
Vehicles	164,540			164,540
Right-to-use lease - copiers		506,183		506,183
Total capital assets being depreciated	89,062,311	1,484,540	0	90,540,151
Less accumulated depreciation for:				
Buildings	28,588,430	1,015,537		29,603,967
Building improvements	11,465,951	932,908		12,398,859
Equipment and furniture	1,250,104	113,061	6,700	1,356,465
Vehicles	111,468	16,958		128,426
Right-to-use lease – copiers		8,436		8,436
Total accumulated depreciation	41,415,953	2,086,900	6,700	43,496,153
Total capital assets being depreciated, net	47,646,358	(602,360)	0	47,043,998
Total governmental activities capital assets, net	\$ 54,423,542	\$ 7,502,210	\$ 0	\$ 61,925,752

Depreciation expense was charged to governmental functions as follows:

Instructional services	\$ 1,435,463
Instructional support services	257,918
Operation and maintenance services	47,602
Food services	300,574
General administrative services	45,343
Total governmental activities depreciation expense	\$ 2,086,900

The right-to-use lease presented above was recorded with the implementation of GASB No. 87, *Leases*. A lease meeting the criteria of this Statement requires the lessee to recognize a lease liability and an intangible right to use asset.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2022

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

In fiscal year 2022 the Board reported deferred outflows of resources and deferred inflows of resources as follows:

	September 30, 2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Loss on refunding of debt	\$ 84,049	
Employer pension contribution	4,015,847	
Proportionate share of collective deferred outflows related to net pension liability	6,935,000	
Employer OPEB contribution	1,063,824	
Proportionate share of collective deferred outflows related to net OPEB liability	10,130,736	
Proportionate share of collective deferred inflows related to net pension liability		\$ 12,676,000
Proportionate share of collective deferred inflows related to net OPEB liability		21,716,033
Unavailable revenue - property taxes		8,307,774
Total	\$ 22,229,456	\$ 42,699,807

Deferred outflows of resources of \$84,049 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 \$8,307,774 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 \$4,015,847 employer pension contributions and employer's share of collective deferred outflows of \$6,935,000 and inflows of \$12,676,000 related to net pension liability. The Board also reported \$1,063,824 employer OPEB contributions and employer's share of collective deferred outflows of \$10,130,736 and inflows of \$21,716,033 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, 2022

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.

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 formula method. 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 up to 80% of their average final compensation. 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 Tier 1 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. Effective October 1, 2021, the covered Tier 2 members contribution rate increased from 6.0% to 6.2% of earnable compensation to the TRS as required by statute.

Participating employers' contractually required contribution rate for the fiscal year ended September 30, 2021 was 12.36% of annual pay for Tier 1 members and 11.22% 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 \$4,015,847 for the year ended September 30, 2022.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2022

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

At September 30, 2022 the Board reported a liability of \$40,553,000 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, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2020. 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, 2021 the Board's proportion was 0.430483%, which was an increase of 0.000875% from its proportion measured as of September 30, 2020.

For the year ended September 30, 2022, the Board recognized pension expense of \$3,006,274. At September 30, 2022 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	\$ 1,878,000	\$ 2,363,000
Changes in assumptions	4,257,000	
Net difference between projected and actual earnings on pension plan investments		9,572,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	800,000	741,000
Employer contributions subsequent to the measurement date	4,015,847	
Total	\$ 10,950,847	\$ 12,676,000

The amount of \$4,015,847 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, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	(in thousands)
2023	\$ (663)
2024	\$ (477)
2025	\$ (1,826)
2026	\$ (2,775)
2027	\$ 0
Thereafter	\$ 0

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2022

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

The total pension liability as of September 30, 2021 was determined by an actuarial valuation as of September 30, 2020, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Investment rate of return *	7.45%
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, 2020, 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, 2020. The Board of Control accepted and approved these changes in September 2021 which became effective at the beginning of fiscal year 2021.

Mortality rates were based on the PUB-2010 Teacher tables with the following adjustments, projected generationally using scale MP-2020 adjusted by 66-2/3% beginning with year 2109:

<u>Group</u>	<u>Membership Table</u>	<u>Set Forward(+)/ Setback (-)</u>	<u>Adjustment to Rates</u>
Service Retirees	Teacher Retiree – Below Median	Male: +2, Female: +2	Male: 108% ages < 63, 96% ages > 67; Female: 112% ages < 69, 98% > age 74 Phasing down 69-74
Beneficiaries	Contingent Survivor Below Median	Male: +2, Female: none	None
Disabled Retirees	Teacher Disability	Male: +8, Female: +3	None

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:

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2022

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

	Target Allocation	Long-Term Expected Rate of Return*
Fixed income	15.00%	2.80%
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%	9.00%
Real estate	10.00%	6.50%
Cash equivalents	5.00%	2.50%
Total	<u>100.00%</u>	

*Includes assumed rate of inflation of 2.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.45%. 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 7.45%, 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 (6.45%) or one percentage point higher (8.45%) than the current rate:

(Dollar amounts in thousands)	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Board's proportionate share of the collective net pension liability	\$59,690	\$40,553	\$24,435

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2022

NOTE 8. DEFINED BENEFIT PENSION PLAN – Continued

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Annual Comprehensive Financial Report for the fiscal year ended September 30, 2021. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2021. 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/.

NOTE 9. OTHER POSTEMPLOYMENT 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 Annual Comprehensive 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.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2022

NOTE 9. OTHER POSTEMPLOYMENT BENEFITS (OPEB) - Continued

Benefits Provided - Continued

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

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

Effective January 1, 2017, Medicare eligible members and Medicare eligible dependents covered on a retiree contract were enrolled in the United Healthcare (UHC) Group Medicare Advantage plan for PEEHIP retirees. Effective January 1, 2020, Humana replaced the UHC contract. The MAPDP plan is fully insured by Humana and members are able to have all of their Medicare Part A, Part B, and Part D (prescription drug coverage) in one convenient plan. With the MAPDP plan for PEEHIP, retirees can continue to see their same providers with no interruption and see any doctor who accepts Medicare on a national basis. Retirees have the same benefits in and out-of-network and there is no additional retiree cost share if a retiree uses an out-of-network provider and no balance billing from the provider.

Contributions

The *Code of Alabama 1975, Section 16-25A-8* and *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.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2022

NOTE 9. OTHER POSTEMPLOYMENT BENEFITS (OPEB) - Continued**Contributions - Continued**

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.

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

At September 30, 2022, the Board reported a liability of \$23,582,008 for its proportionate share of net OPEB liability. The net OPEB liability was measured as of September 30, 2021 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2020. 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, 2021, the Board's proportion was 0.456413%, which was an increase of 0.000990% from its proportion measured as of September 30, 2020.

For the year ended September 30, 2022, the Board recognized an OPEB expense reduction of \$(1,885,163), with no special funding situations. At September 30, 2022, 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	\$ 557,951	\$ 8,204,224
Changes of assumptions	8,398,505	9,140,589
Net difference between projected and actual earnings on OPEB plan investments		735,605
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,174,280	3,635,615
Employer contributions subsequent to the measurement date	1,063,824	
Total	\$ 11,194,560	\$ 21,716,033

The \$1,063,824 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, 2023.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2022

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

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:

2023	\$	(3,866,548)
2024	\$	(3,005,036)
2025	\$	(3,177,684)
2026	\$	(549,099)
2027	\$	(309,597)
Thereafter	\$	(677,333)

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of September 30, 2020, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary Increases*	3.25% - 5.00%
Long-Term Investment Rate of Return**	7.00%
Municipal Bond IndexRate at the Measurement Date	2.29%
Municipal Bond IndexRate at the Prior Measurement Date	2.25%
Projected Year for Fiduciary Net Position (FNP) to be Depleted	2051
Single Equivalent Interest Rate at the Measurement Date	3.97%
Single Equivalent Interest Rate at the Prior Measurement Date	3.05%
Healthcare Cost Trend Rate	
Pre-Medicare Eligible	6.50%
Medicare Eligible	***
Ultimate Trend Rate	
Pre-Medicare Eligible	4.50% in 2028
Medicare Eligible	4.50% in 2025

*Including 2.75% wage inflation

**Compounded annually, net of investment expense, and including inflation

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

The rates of mortality are based on the Pub-2010 Public Mortality Plans Mortality Tables, adjusted generationally based on scale MP-2020, with an adjustment of 66-2/3% to the table beginning in year 2019. The mortality rates are adjusted forward and/or back depending on the plan and group covered, as shown in the table below.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2022

NOTE 9. OTHER POSTEMPLOYMENT BENEFITS (OPEB) - Continued**Actuarial Assumptions - Continued**

<u>Group</u>	<u>Membership Table</u>	<u>Set Forward(+)/ Setback (-)</u>	<u>Adjustment to Rates</u>
Active Members	Teacher Employee – Below Median	None	65%
Service Retirees	Teacher Below Median	Male: +2, Female: +2	Male: 108% ages < 63, 96% ages > 67; Phasing down 63-67 Female: 112% ages < 69, 98% ages > 74; Phasing down 69-74
Disabled Retirees	Teacher Disability	Male: +8, Female: +3	None
Beneficiaries	Teacher Contingent Survivor Below Median	Male: +2, Female: None	None

The decremental assumptions used in the valuation were selected based on the actuarial experience study prepared as of September 30, 2020, submitted to and adopted by the Teachers' Retirement System of Alabama Board on September 13, 2021.

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, 2020 valuation.

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

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

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2022

NOTE 9. OTHER POSTEMPLOYMENT BENEFITS (OPEB) - Continued**Actuarial Assumptions - Continued**

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
Fixed income	30.00%	4.40%
U.S. large stocks	38.00%	8.00%
U.S. mid stocks	8.00%	10.00%
U.S. small stocks	4.00%	11.00%
International developed market stocks	15.00%	9.50%
Cash	5.00%	1.50%
Total	100.00%	

* Geometric mean, includes 2.5% inflation

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 was 3.97%. 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. Currently, the monthly employer rate is \$800 per non-university active member. Approximately, 12.990% of the employer contributions were used to assist in funding the retiree benefit payments in 2021 and it is assumed that the 12.990% will increase at the same rate as expected benefit payments for the closed group reaching 20.00%. It is assumed the \$800 rate will increase with inflation at 2.50% starting in 2024. Retiree benefit payments for University members are paid by the Universities and are not included in the cash flow projections. 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 2119. The long-term rate of return is used until the assets are expected to be depleted in 2051, after which the municipal bond rate is used.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2022

NOTE 9. OTHER POSTEMPLOYMENT 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 (5.50% decreasing to 3.50% for pre- Medicare, Known decreasing to 3.50% for Medicare eligible)	Current Healthcare Trend Rate (6.50% decreasing to 4.50% for pre- Medicare, Known decreasing to 4.50% for Medicare Eligible)	1% Increase (7.50% decreasing to 5.50% for pre- Medicare, Known decreasing to 5.50% for Medicare Eligible)
Net OPEB Liability	\$ 18,504,157	\$ 23,582,008	\$ 30,124,327

The following table presents the Board's proportionate share of net OPEB liability of the Trust calculated using the discount rate of 3.97%, 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 (2.97%)	Current Discount Rate (3.97%)	1% Increase (4.97%)
Net OPEB Liability	\$29,006,913	\$23,582,008	\$19,230,635

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, 2021. The supporting actuarial information is included in the GASB Statement No. 74 Report for PEEHIP prepared as of September 30, 2021. Additional financial and actuarial information is available at www.rsa-al.gov.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2022

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

Long-term liability balances and activity for the year ended September 30, 2022 were as follows:

	Beginning Balance	Additions/ (Reductions)	Ending Balance	Due Within One Year
Governmental Activities:				
General Obligation Bonds:				
Series 2014-A Warrants	\$ 2,714,931	\$ (629,140)	\$ 2,085,791	\$ 660,995
Unamortized premium	318,809	(86,947)	231,862	86,948
Series 2013-D Warrants	345,479	(64,972)	280,507	66,949
Series 2020-C Warrants	652,540	(10,452)	642,088	10,452
Series 2014-B Warrants	8,022,955	(505,496)	7,517,459	527,161
Series 2017-A Warrants	2,057,780	(84,940)	1,972,840	89,280
Unamortized premium	141,844	(8,774)	133,070	8,774
Total bonds/warrants	14,254,338	(1,390,721)	12,863,617	1,450,559
Direct Borrowings:				
Compass Bank	8,757,523	(386,048)	8,371,475	396,271
Financed lease - PNC		601,448	601,448	90,422
Net pension liability	53,141,000	(12,588,000)	40,553,000	
Net OPEB liability	29,556,319	(5,974,311)	23,582,008	
Right-to-use liability - Copiers		506,183	506,183	95,439
Government activities				
Long-term debt	\$ 105,709,180	\$ (19,231,449)	\$ 86,477,731	\$ 2,032,691

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).

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2022

NOTE 10. LONG-TERM OBLIGATIONS – Continued

Long-Term Obligation Activity – Continued

Warrants Payable – Continued

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.

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 0.253% to 2.44% to partially refund a portion of the Series 2013-D pool bonds. The Board had a 0.45361015% 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.

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.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2022

NOTE 10. LONG-TERM OBLIGATIONS – ContinuedLong-Term Obligation Activity – ContinuedWarrants 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
2023	\$ 660,995	\$ 87,765	\$ 527,161	\$ 372,839	\$ 89,280	\$ 70,338
2024	694,298	53,882	553,640	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	\$ 2,085,791	\$ 159,909	\$ 7,517,459	\$ 2,382,543	\$ 1,972,840	\$ 581,144

Fiscal Year Ending	2013-D Warrants		2020-C Warrants	
	Principal	Interest	Principal	Interest
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	\$ 280,507	\$ 23,540	\$ 642,088	\$ 95,826

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2022

NOTE 10. LONG-TERM OBLIGATIONS – Continued**Long-Term Obligation Activity – Continued****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>
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	172,084	439,942	612,026
2028-2038	<u>1,055,923</u>	<u>6,282,368</u>	<u>7,338,291</u>
Totals	\$ <u>2,023,192</u>	\$ <u>8,371,475</u>	\$ <u>10,394,667</u>

Financed Lease

The Board is indebted to PNC Equipment Finance on a capital lease in the amount of \$714,900 secured by lighting equipment. The loan bears a 4.25% interest rate and requires annual payments due on January 15 of each year that consist of principal and interest. Payments will be made from the General Fund and secured by equipment. Final maturity is scheduled for January 15, 2028. In the event of default, the lessee is to return the equipment to the Lessor. A schedule of maturities by year follows:

<u>Payment Dates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2023	\$ 90,422	\$ 25,562	\$ 115,984
2024	94,266	21,718	115,984
2025	98,272	17,712	115,984
2026	102,448	13,536	115,984
2027	106,802	9,182	115,984
2028	<u>109,238</u>	<u>6,746</u>	<u>115,984</u>
Totals	\$ <u>601,448</u>	\$ <u>94,456</u>	\$ <u>695,904</u>

Because this lease is an acquisition of capital assets, GASB 87 requires the reporting of this lease as a finance lease rather than a right-to-use lease liability.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2022

NOTE 10. LONG-TERM OBLIGATIONS – Continued**Long-Term Obligation Activity – Continued****Right-to-Use Lease Liability**

The Board is obligated under a five-year lease with ABS for the use of copiers. The lease is noncancellable and bears a 2.91% fixed interest rate that requires monthly payments of \$9,075, consisting of principal and interest until the lease maturity in 2027. The lease includes an option to purchase the copiers for \$1 at the culmination of the lease period, however the Board does not currently intend to exercise this option. The lease will automatically renew on a month-to-month basis at the same monthly lease payment amount until the Board either exercises the purchase option or provides ABS a notice in writing at least 90 days prior to the expiration of the lease and returns the equipment. The following is a schedule of future lease payments under the lease liability:

<u>Payment Dates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2023	\$ 95,439	\$ 13,464	\$ 108,903
2024	98,253	10,650	108,903
2025	101,151	7,752	108,903
2026	104,135	4,768	108,903
2027	107,205	1,698	108,903
Totals	\$ 506,183	\$ 38,332	\$ 544,515

The lease also includes a monthly service fee of \$6,060 composed of \$1,000 management fee and \$5,060 service cost for number of black and white paper copies not to exceed 772,800 units. The service fee expires at the end of the lease period.

NOTE 11. INTERFUND ACTIVITY

Interfund balances (reported as "Due from other funds" and "Due to other funds" in the Balance Sheet) at September 30, 2022, 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, 2022, consist of the following:

<i>Transfers to General Fund from:</i>	
General Fund – operating transfers for operating expenses	\$ 1,553,954
Capital Projects Fund for capital expenditures	584,450
<i>Total transfers to General Fund</i>	<u>2,138,404</u>
<i>Transfers to Special Revenue Fund from:</i>	
Special Revenue Fund for local school operating expenses	178,135
<i>Total transfers to Special Revenue Fund</i>	<u>178,135</u>
<i>Transfers to other governmental funds from:</i>	
Capital Projects Fund to Debt Service Fund for debt service	315,550
<i>Total interfund transfers</i>	<u>\$ 2,632,089</u>

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2022

NOTE 12. 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.

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 13. 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 February 20, 2023, and noted none affecting the current financial statements. This date approximates the date the financial statements were available to be issued.

Gadsden City Board of Education

BUDGETARY COMPARISON SCHEDULE
General Fund

For the Year Ended September 30, 2022

	Budgeted Amounts		Actual	Variance with
	Original	Final	(Budgetary Basis)	Final Budget
Revenues:				
State sources	\$ 33,132,489	\$ 33,155,380	\$ 33,296,234	\$ 140,854
Federal sources	7,200	7,200	2,340	(4,860)
Local sources	8,035,420	8,035,420	8,353,036	317,616
Total revenues	<u>41,175,109</u>	<u>41,198,000</u>	<u>41,651,610</u>	<u>453,610</u>
Expenditures:				
Instructional services	27,111,672	27,092,938	26,671,210	421,728
Instructional support services	7,787,730	7,744,909	8,852,993	(1,108,084)
Operation and maintenance services	3,042,676	3,042,676	3,242,931	(200,255)
Auxiliary services:				
Student transportation	935,790	935,790	947,169	(11,379)
General administrative services	1,413,044	1,422,523	1,593,274	(170,751)
Other expenses	719,412	758,112	763,455	(5,343)
Debt service:				
Principal retirement	386,049	386,049	386,049	0
Interest and fiscal charges	226,652	226,652	226,017	635
Total expenditures	<u>41,623,025</u>	<u>41,609,649</u>	<u>42,683,098</u>	<u>(1,073,449)</u>
Excess (deficiency) of revenues over expenditures	<u>(447,916)</u>	<u>(411,649)</u>	<u>(1,031,488)</u>	<u>(619,839)</u>
Other Financing Sources (Uses):				
Indirect cost	1,670,331	1,103,591	555,387	(548,204)
Long-term debt issued			506,183	506,183
Transfers in	584,450	584,450	2,138,404	1,553,954
Transfers out	(400,000)		(1,553,954)	(1,553,954)
Total other financing sources (uses)	<u>1,854,781</u>	<u>1,688,041</u>	<u>1,646,020</u>	<u>(42,021)</u>
Net change in fund balances	1,406,865	1,276,392	614,532	(661,860)
Fund balances - beginning	<u>4,440,000</u>	<u>4,738,591</u>	<u>3,674,994</u>	<u>(1,063,597)</u>
Fund balances - ending	<u>\$ 5,846,865</u>	<u>\$ 6,014,983</u>	<u>\$ 4,289,526</u>	<u>\$ (1,725,457)</u>

Gadsden City Board of Education

BUDGETARY COMPARISON SCHEDULE
Special Revenue Fund

For the Year Ended September 30, 2022

	Budgeted Amounts		Actual	Variance with
	Original	Final	(Budgetary Basis)	Final Budget
Revenues:				
State sources		\$ 1,366,596	\$ 1,395,676	\$ 29,080
Federal sources	\$ 35,706,775	40,752,577	17,990,907	(22,761,670)
Local sources	1,578,355	1,935,414	2,857,432	922,018
Other	115,500	115,500	47,249	(68,251)
Total revenues	<u>37,400,630</u>	<u>44,170,087</u>	<u>22,291,264</u>	<u>(21,878,823)</u>
Expenditures:				
Instructional services	16,237,717	18,088,492	7,570,330	10,518,162
Instructional support services	6,008,348	7,963,330	4,276,416	3,686,914
Operation and maintenance services	1,049,187	2,506,608	1,377,926	1,128,682
Auxiliary services:				
Student transportation	37,236	649,820	561,257	88,563
Food service	3,671,851	3,863,970	4,446,771	(582,801)
General administrative services	2,101,388	1,696,274	997,686	698,588
Other expenses	1,780,375	2,414,640	1,415,560	999,080
Capital outlay	8,924,702	8,709,290	2,588,536	6,120,754
Total expenditures	<u>39,810,804</u>	<u>45,892,424</u>	<u>23,234,482</u>	<u>22,657,942</u>
Excess (deficiency) of revenues over expenditures	<u>(2,410,174)</u>	<u>(1,722,337)</u>	<u>(943,218)</u>	<u>779,119</u>
Other Financing Sources (Uses):				
Transfers in	499,515	99,106	178,135	79,029
Transfers out	<u>(99,515)</u>	<u>(99,106)</u>	<u>(178,135)</u>	<u>(79,029)</u>
Total other financing sources	<u>400,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net change in fund balances	(2,010,174)	(1,722,337)	(943,218)	779,119
Fund balances - beginning	<u>4,085,000</u>	<u>4,308,429</u>	<u>5,265,250</u>	<u>956,821</u>
Fund balances - ending	\$ 2,074,826	\$ 2,586,092	\$ 4,322,032	\$ 1,735,940

Gadsden City Board of Education

**NOTES TO THE
BUDGETARY COMPARISON SCHEDULES**

For the Year Ended September 30, 2022

Note A - Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures	<u>General Fund</u>	<u>Special Revenue Fund</u>
Sources/inflows of resources		
Actual amounts (budgetary basis) available for appropriation shown as total revenues on the budgetary comparison schedule	\$ <u>41,651,610</u>	\$ <u>22,291,264</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	\$ <u>41,651,610</u>	\$ <u>22,291,264</u>
Uses/outflows of resources		
Actual amounts (budgetary basis) available for expenditures shown as total expenditures on the budgetary comparison schedule	\$ 42,683,098	\$ 23,234,482
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.	<u>2,494</u>	<u>(38,880)</u>
Total expenditures are reported on the statement of revenues, expenditures and changes in fund balances - governmental funds.	\$ <u>42,685,592</u>	\$ <u>23,195,602</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,

	2022	2021	2020	2019	2018	2017	2016	2015
Board's proportion of net pension liability	0.430483%	0.429608%	0.439144%	0.422019%	0.426308%	0.435488%	0.432293%	0.429637%
Board's proportionate share of the net pension liability	\$ 40,553,000	\$ 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*	\$ 31,016,212	\$ 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	130.75%	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	76.44%	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 2022, the measurement period is October 1, 2020 through September 30, 2021.

Gadsden City Board of Education

SCHEDULE OF BOARD CONTRIBUTIONS

TEACHERS' RETIREMENT SYSTEM OF ALABAMA

For the Year Ended September 30,

	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 4,015,847	\$ 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>4,015,847</u>	<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>	\$ <u>0</u>
Board's covered-employee payroll*	\$ 33,163,433	\$ 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	12.11%	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 2022, the measurement period is October 1, 2021 through September 30, 2022.

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>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Board's proportion of net OPEB liability	0.456413%	0.455423%	0.512048%	0.493587%	0.483214%
Board's proportionate share of the net OPEB liability	\$ 23,582,008	\$ 29,556,319	\$ 19,318,382	\$ 40,566,565	\$ 35,890,376
Board's covered-employee payroll	\$ 31,016,212	\$ 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	76.03%	97.26%	73.00%	144.08%	127.50%
Plan fiduciary net position as a percentage of the total OPEB liability	27.11%	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>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contribution	\$ 1,063,824	\$ 792,904	\$ 901,425	\$ 1,460,286	\$ 1,218,639
Contributions in relation to the contractually required contribution	<u>1,063,824</u>	<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>	\$ <u>0</u>
Board's covered-employee payroll	\$ 33,163,433	\$ 31,016,212	\$ 30,389,984	\$ 26,464,012	\$ 28,154,831
Contributions as a percentage of covered-employee payroll	3.21%	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, 2022

Changes in Actuarial Assumptions

Changes to actuarial assumptions as a result of the experience study for the five-year period ending June 30, 2020 are summarized below:

Assumption	Description
Price Inflation	2.50%
Investment Return	7.00%
Wage Inflation	2.75%
Mortality Rates (Pre-Retirement, Post-Retirement Healthy and Disabled)	Update to Pub-2010 Public Mortality Plans Mortality Tables. For future mortality improvement, generational mortality improvement with mortality improvement scale MP-2020, with an adjustment of 66-2/3% to the table beginning in year 2019.
Retirement Rates	Decreased rates of retirement at most ages and extended retirement rates at age 80.
Withdrawal Rates	Changed from an age-based table broken down by service bands to a pure service-based table. Used a liability weighted methodology in analyzing rates.
Disability Rates	Lowered rates of disability retirement at most ages.
Salary Increases	No change to total assumed rates of salary increases, but increased merit salary scale by 0.25% to offset the recommended decrease in the wage inflation assumption by 0.25%.

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

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 Affordable Care Act maximum annual out-of-pocket amounts.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended September 30, 2022

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, 2018, 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	23 years, closed
Asset Valuation Method	Market Value of Assets
Inflation	2.75%
Healthcare Cost Trend Rate:	
Pre-Medicare Eligible	6.75%
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
Optional Plans Trend Rate	2.00%
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, 2022

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass- Through Grantor Number	Total Federal Expenditures
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed through Alabama State Department of Education:			
<i>Special Education Cluster:</i>			
Special Education Grants to States	84.027	144	\$ 1,349,789
Special Education Preschool Grants	84.173	144	62,870
<i>Subtotal Special Education Cluster</i>			1,412,659
Title I Grants to Local Educational Agencies	84.010	144	3,188,120
Career and Technical Education - Basic Grants to States	84.048	144	131,337
Education for Homeless Children and Youth	84.196	144	26,000
Twenty-First Century Community Learning Centers	84.287	144	526,599
Special Education - State Personnel Development	84.323	144	136,013
English Language Acquisition State Grants	84.365	144	56,512
Supporting Effective Instruction State Grant	84.367	144	353,993
School Improvement Grants	84.377	144	20,189
Student Support and Academic Enrichment Program	84.424	144	217,373
<i>COVID-19 Education Stabilization Fund:</i>			
Governors Emergency Education Relief (GEER) Fund	84.425C	144	106,437
Elementary and Secondary School Emergency Relief (ESSER) Fund	84.425D	144	3,955,877
American Rescue Plan - Elementary and Secondary School Emergency Relief (ARP ESSER)	84.425U	144	3,527,468
American Rescue Plan - Elementary and Secondary School Emergency Relief - Homeless Children and Youth	84.425W	144	22,583
<i>Subtotal COVID-19 Education Stabilization Fund</i>			7,612,365
Total U.S. Department of Education passed through Alabama State Department of Education			13,681,160
Total U.S. Department of Education			13,681,160
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed through Alabama State Department of Education:			
<i>Child Nutrition Cluster:</i>			
School Breakfast Program	10.553	144	789,826
National School Lunch Program	10.555	144	2,759,283
Food Distribution Program (N)	10.555	144	286,420
USDA Supply Chain Assistance Funds	10.555	144	102,619
Summer Food Service Program for Children	10.559	144	112,994
<i>Subtotal Child Nutrition Cluster</i>			4,051,142
Child and Adult Care Food Program	10.558	144	176,188
State Administrative Expenses for Child Nutrition	10.560	144	18,322
State Pandemic Electronic Benefit Transfer (P-EBT) Administrative Costs Grants	10.649	144	3,301
Total U.S. Department of Agriculture			4,248,933
<u>U. S. DEPARTMENT OF DEFENSE</u>			
Direct Programs:			
ROTC Language and Culture Training Grants	12.357		60,814
<u>SOCIAL SECURITY ADMINISTRATION</u>			
Passed through Alabama State Department of Education:			
Social Security Disability Insurance	96.001	144	2,340
Total Expenditures of Federal Awards			\$ 17,993,247

(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, 2022

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, 2022. 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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**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, 2022, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements and have issued our report thereon dated February 20, 2023.

Report on 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) as a basis for designing 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 were not 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 2022-001 that we consider to be significant deficiencies.

Report on 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 financial statements. 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

Government Auditing Standards requires the auditor to perform limited procedures on the Board's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Board's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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
February 20, 2023

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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

Opinion on Each Major Federal Program

We have audited the Gadsden City Board of Education's (the "Board") compliance with the types of compliance requirements identified as subject to audit 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, 2022. 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.

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, 2022.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Board and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Board's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Board's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Board's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the

Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the Board's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, Government Auditing Standards, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Board's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Board's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Board's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

Montgomery, Alabama
February 20, 2023

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2022

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
84.425C, 84.425D, 84.425U, 84.425W	COVID-19 Education Stabilization Fund (ESF)

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000Auditee qualified as low-risk auditee? X Yes No**Section II - Financial Statement Findings**

Reference Number: 2022-001

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, 2022

None noted.