Report on the

# Madison County
# Board of Education

## Madison County, Alabama

## October 1, 2019 through September 30, 2020

Filed: June 4, 2021


# Department of
# Examiners of Public Accounts

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***Rachel Laurie Riddle, Chief Examiner***



21-263

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Rachel Laurie Riddle
*Chief Examiner*

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

Dear Madam:

An audit was conducted on the Madison County Board of Education, Madison County, Alabama, for the period October 1, 2019 through September 30, 2020, by Examiners Isabelle Lisenby, Reyna Garcia, and Joseph Hardaway.  I, Isabelle Lisenby, served as Examiner-in-Charge on the engagement, and under the authority of the ***Code of Alabama 1975***, Section 41-5A-19, I hereby swear to and submit this report to you on the results of the audit.

Respectfully submitted,

Isabelle Lisenby

Isabelle Lisenby
Examiner of Public Accounts

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Department of
# Examiners of Public Accounts

## SUMMARY

**Madison County Board of Education**
**October 1, 2019 through September 30, 2020**

The Madison County Board of Education (the "Board") is governed by a five-member body elected by the citizens of Madison County. The members and administrative personnel in charge of governance of the Board are listed in Exhibit 16. The Board is the governmental agency that provides general administration and supervision for Madison County public schools, preschool through high school, with the exception of schools administered by the Huntsville City Board of Education and the Madison City Board of Education.

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

An unmodified opinion was issued on the financial statements, which means that the Board's financial statements present fairly, in all material respects, its financial position and the results of its operations for the fiscal year ended September 30, 2020.

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

### ***EXIT CONFERENCE***

Board members and administrative personnel, as reflected on Exhibit 16, were invited to discuss the results of this report at an exit conference. Individuals in attendance were: Allen Perkins, Superintendent; Dr. Mark Minskey, Interim Superintendent; Karen O'Bannon, Chief School Financial Officer; and Board Members: Dave Weis and Shere Rucker. Representing the Department of Examiners of Public Accounts were: April Purser, Audit Manager; Isabelle Lisenby, Examiner; Reyna Garcia, Examiner; and Joseph Hardaway, Examiner.

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# *Independent Auditor's Report*

# ***Independent Auditor's Report***

Members of the Madison County Board of Education,
Superintendent and Chief School Financial Officer
Huntsville, Alabama

## ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Madison County Board of Education, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Madison County Board of Education's basic financial statements as listed in the table of contents as Exhibits 1 through 8.

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

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

## ***Auditor's Responsibility***

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

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

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Madison County Board of Education, as of September 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), the Schedule of the Employer's Proportionate Share of the Collective Net Pension Liability, Schedule of the Employer's Proportionate Share of the Collective Net Other Postemployment Benefits (OPEB) Liability, Schedules of the Employer's Contributions, and the Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Exhibits 9 through 14), be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Madison County Board of Education's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 15), as required by Title 2 U. S. ***Code of Federal Regulations*** Part 200, ***Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award*****s** (*Uniform Guidance*), is presented for the purpose of additional analysis, and is not a required part of the basic financial statements.

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

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

In accordance with ***Government Auditing Standards***, we have also issued our report dated May 10, 2021, on our consideration of the Madison County 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 Madison County Board of Education's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with ***Government Auditing Standards*** in considering the Madison County Board of Education's internal control over financial reporting and compliance.

Rachel Laurie Riddle

Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

May 10, 2021

*Management's Discussion and Analysis*
*(Required Supplementary Information)*

**Madison County Board of Education**
**Management's Discussion and Analysis (MD&A)**
**September 30, 2020**

Our discussion and analysis of the Madison County Board of Education's (the "Board's") financial performance provides an overview of the Board's financial activities for the fiscal year ended September 30, 2020. Please read it in conjunction with the Board's financial statements and Notes to the Financial Statements, which immediately follow this analysis.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement Number 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999.

Effective September 30, 2011, the GASB passed Statement Number 54 for fund balance reporting. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer classifications and consistency among governmental agencies. Fund balances are reported in governmental funds under five categories using the definitions provided by GASB Statement Number 54: nonspendable, restricted, committed, assigned, and unassigned.

The GASB issued statements related to pensions effective for fiscal year end 2015. GASB Statement Number 68, "Accounting and Financial Reporting for Pensions" and GASB Statement Number 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date" affect reporting for all employers participating in the Teachers' Retirement System (TRS) cost-sharing pension plan. The September 30, 2020, employer's net pension liability calculation for the Board has been determined based upon the September 30, 2018, TRS actuarial valuation rolled forward to September 30, 2019, and is included in the Financial Highlights under Significant Items to Note.

The GASB issued Statement Number 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions effective for fiscal year end 2018. The provisions of this statement establish accounting and financial reporting standards for other post-employment benefits provided to the employees of state and local governmental employers through healthcare plans that are administered through trusts.

## Using the Financial Statements – An Overview for the User

Under the GASB Statement Number 34 reporting model, the financial section consists of five parts – *management's discussion and analysis* (this section), the *independent auditors' report*, the *basic financial statements*, *required supplementary information*, and *other supplementary information relative to federal financial assistance.*

The Board's basic financial statements are comprised of three components: 1) *government-wide financial statements*, 2) *fund financial statements*, and 3) *notes to the basic financial statements*.

***Government-wide financial statements*** **–** The focus of these statements is to provide readers with a broad overview of the Board's finances as a whole instead of on an individual fund basis, in a manner similar to a private-sector business, indicating both long-term and short-term information about the Board's overall financial status. It is important to note that all of the activities of the board reported in the *government-wide financial statements* are classified as governmental activities. These activities include the following:

Instruction includes salaries and benefits for teachers, teacher aides, substitute teachers, textbooks, depreciation of instructional buildings, professional development, and classroom instructional materials, supplies and equipment.
Instructional support includes salaries and benefits for school principals, assistant principals, librarians, counselors, school secretaries, school bookkeepers, speech therapists, testing coordinator, computer services and school nurses, as well as professional development expenses, information technology, attendance, and health services.
Operation and maintenance include utilities, security services, janitorial services, maintenance services, and depreciation of maintenance vehicles.
Auxiliary services include student transportation expenses, such as salaries and benefits for bus drivers, mechanics, bus aides, vehicle maintenance and repair expenses, vehicle fuel, depreciation of buses and bus shops, and fleet insurance. It also includes food service expenses such as salaries and benefits for lunchroom managers, cooks, cashiers, and servers, as well as donated and purchased food, food preparation and service supplies, kitchen and lunchroom equipment and depreciation of food service equipment and facilities.
General administration and central support include salaries and benefits for the Superintendent, assistants, clerical and financial staff, and other personnel that provide system-wide support for the schools. Also included are legal expenses, liability insurance, training for board members and general administrative staff, printing costs, and depreciation of central office equipment and facilities.
Interest and fiscal charges include interest, but not principal payments, on long-term debt issues and other expenses related to the issuance and continuance of debt issues.
Other includes the salaries and benefits for preschool teachers and aides as well as extended day personnel. Also included are the materials, supplies, equipment, related depreciation, and other expenses for operating programs outside of those for educating students in the Kindergarten through $12^{th}$ grade instructional programs.

*Government-wide statements* report the capitalization of capital assets and depreciation of all exhaustible capital assets and the outstanding balances of long-term debt and other obligations. These statements report all assets and liabilities perpetuated by these activities using the accrual basis of accounting. The accrual basis takes into account all of the Board's current year revenues and expenses regardless of when received or paid. This approach moves the financial reporting method for governmental entities closer to the financial reporting methods used in the private sector. The following *government-wide financial statements* report on all of the governmental activities of the Board as a whole.

*The Statement of Net Position* (on page 2) is most closely related to a balance sheet. It presents information on all of the Board's assets (what it owns) and liabilities (what it owes), with the difference between the two reported as net position. The net position reported in this statement represents the accumulation of changes in net position for the current fiscal year and all fiscal years in the past combined. Prior to the passage of GASB Statement Numbers 68 and 71 related to the employer's net pension liability and GASB Statement Number 75 related to other post-employment benefits provided through healthcare plans, the year to year comparisons of the increases or decreases in net position reported in this statement was an indicator of whether the financial position of the school board was improving or deteriorating. The impact of both the pension benefit liability and the other postemployment benefit liability significantly decreases the net position of the Board and the user can no longer see, firsthand, the financial position as to whether it is sound or declining. A better indicator is the change reported in the fund financial statements.

*The Statement of Activities* (on page 4) is most closely related to an income statement. It presents information showing how the Board's net position changed during the current fiscal year only. All of the current year's revenues and expenses are accounted for in the *Statement of Activities* regardless of when cash is received or paid. This statement shows gross expenses and offsetting program revenues to arrive at net cost information for each major expense function or activity of the Board. By showing the change in net position for the year, the reader may be able to determine whether the Board's financial position has improved or deteriorated over the course of the current fiscal year. The change in net position may be financial or non-financial in nature. Non-financial factors which may have an impact on the Board's financial condition include: age and condition of facilities, mandated educational programs for which little or no funding is provided, and increases or decreases in funding from state and federal governments, as well as reporting changes as required by the Governmental Accounting Standards Board (GASB), just to name a few.

***Fund financial statements*** – A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The Board has used fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The reporting model still requires the Board to present financial statements on a fund basis, but with some modifications. All of the funds of the Board are classified into two categories: governmental funds and fiduciary funds.

*Governmental Funds* – Governmental *fund financial statements* begin on page 5. These statements account for basically the same governmental activities reported in the *government-wide financial statements*. As required under the reporting model, the *fund financial statements* presented herein display information on each of the Board's most important governmental funds or *major funds*. This is required in order to better assess the Board's accountability for significant governmental programs or certain dedicated revenue. The Board's *major funds* for the reporting period ending September 30, 2020, are the General Fund, Special Revenue Fund, and the Capital Projects Fund.

The *fund financial statements* are measured on the modified-accrual basis of accounting as reported in the previous fiscal years, where revenues and expenditures are recorded when they become measurable and available. As a result, the *fund financial statements* focus more on the near term use and availability of spendable resources. The information provided in these statements is useful in determining the Board's immediate financial needs. This is in contrast to the accrual-based *government-wide financial statements*, which focus more on overall long-term availability of spendable resources. The relationship between governmental activities reported in the *government-wide financial statements* and the governmental funds reported in the *fund financial statements* are reconciled on page 6 of these financial statements. These reconciliations are useful to readers in understanding the long-term impact of the Board's short-term financing decisions.

*Fiduciary Funds* – The Board is the trustee, or fiduciary, for some of its booster and parent organization activity funds that are under the control and administration of its schools. Fiduciary funds also include the balances of other agency funds, such as accounts payable clearing and payroll clearing funds. All of the Board's fiduciary activities are reported in a separate *Statement of Fiduciary Net Position* on page 9 of this section. These funds are not available to the Board to finance its operations; and therefore, are not included in the *government-wide financial statements*. The Board is responsible for ensuring that the assets reported by these funds are used for their intended purposes.

***Notes to the Basic Financial Statements*** – The *notes to the basic financial statements* provide additional information that is essential for the statements to fairly represent the Board's financial position and its operations. The notes contain important information that is not part of the basic financial statements. However, the notes are an integral part of the statements, not an appendage to them. The *notes to the basic financial statements* begin on page 11 in this section.

After the presentation of the basic financial statements, the GASB Statement Number 34 reporting model requires additional required supplementary information to be presented following the notes to the basic financial statements. The required supplementary information beginning on page 53 provides a comparison of the original adopted budget to the final amended budget of the Board's General Fund, and then further compared to the actual operating results for the fiscal year. The comparison of this data allows users to assess management's ability to project and plan for its operations throughout the year.

**Analysis of the School Board's Overall Financial Position and Financial Highlights Significant to Note**

Net position can serve over time as a useful indicator of a government's financial position; however, as a result of reporting the Board's proportion of the net pension liability and other postemployment benefits the Board's liabilities exceeded its assets at the close of the 2020 fiscal year by $144.67 million. However, the GASB standards related to the net pension liability and other post-employment benefits do not impact the Board's Governmental Fund financial statements and ending fund balances.

- ✓ An increase in the Board's local revenues and state supplemental revenues once again have a positive impact on the Board's unassigned fund balance for governmental funds with an increase of $3.88 million for fiscal year 2020 compared to fiscal year 2019.

✓ The total cost of the Board’s governmental program activities for the fiscal year was $194.17 million. *Refer to Table 1 for Net Cost of Governmental Activities.* After deducting the cost paid with intergovernmental aid, charges or fees and other *miscellaneous* sources, the net cost that required funding from the Madison County taxpayers and other grants and contributions as well as TVA Funds in Lieu of Taxes was $56.73 million. This includes the required 10-mill local system contribution into the State Foundation Program of $10.98 million. The Foundation Program (the state funding mechanism for K-12 education systems in Alabama) provided $113.40 million toward the cost of K-12 programs.

✓ Capital outlays during fiscal year 2020 were $25.85 million for architect and engineering fees, construction costs for several additions and renovations, and the purchase of school buses.

*Table 1* is a condensed statement taken from the Statement of Activities on page 4 showing the total cost for providing identified services for six major Board activities. Total cost of services is compared to the net cost of providing these services. The net cost of services is the remaining cost of services after subtracting grants (State funds included) and charges for services that the Board used to offset the total program costs. In other words, the net cost shows the financial obligation remaining before local tax dollars for each of these activities. This information allows citizens to consider the cost of each program in comparison to the benefits provided, by activity.

## Table 1: Net Cost of Governmental Activities
## Fiscal Year Ended September 30, 2020
**(In millions)**

| | Current Year Total Cost of Services | Net Cost of Services | Prior Year Total Cost of Services | Net Cost of Services |
|---|---|---|---|---|
| Instructional Services | $108.82 | $11.80 | $106.18 | $14.53 |
| Instructional Support Services | 31.66 | 10.21 | 31.61 | 11.80 |
| Operation and Maintenance Services | 16.90 | 8.26 | 17.34 | 6.29 |
| Auxiliary Services | 18.47 | 1.26 | 23.39 | 3.36 |
| General Administrative Services | 5.86 | 3.22 | 4.80 | 2.49 |
| Interest and Fiscal Charges | 6.66 | 6.66 | 7.27 | 6.93 |
| Other Expenses | 5.80 | 1.54 | 6.76 | 2.34 |
| Total | $ 194.17 | $42.95 | $197.35 | $47.74 |

The results of this fiscal year's operations as a whole are reported in detail in the *Statement of Activities* on page 4. *Table 2* below condenses the results of operations for the fiscal year into a format where the reader can easily see the total revenues of the Board for the year. It also shows the impact the operations had on changes in net position as of September 30, 2020.

**Table 2: Summary of Changes in Net Position from Operating Results**
**Fiscal Year Ended September 30, 2020**
**(In millions)**

| | Current Year | | Prior Year | |
|---|---|---|---|---|
| | Governmental Activities | Percent of Total | Governmental Activities | Percent of Total |
| **Revenues** | | | | |
| Program Revenues: | | | | |
| Charges for Services | $ 10.92 | 5.26% | $ 16.89 | 8.33% |
| Operating Grants and Contributions | 133.93 | 64.40% | 126.65 | 62.47% |
| Capital Grants and Contributions | 6.37 | 3.06% | 6.08 | 3.00% |
| General Revenues: | | | | |
| Local Property Taxes | 23.50 | 11.30% | 21.68 | 10.69% |
| Sales Taxes | 25.14 | 12.09% | 22.80 | 11.24% |
| Other Taxes | 0.47 | 0.23% | 0.49 | 0.24% |
| Other | 7.62 | 3.66% | 8.17 | 4.03% |
| Total Revenues | 207.95 | 100.00% | 202.76 | 100.00% |
| **Expenses** | | | | |
| Instructional Services | 108.82 | 56.04% | 106.18 | 53.80% |
| Instructional Support Services | 31.66 | 16.31% | 31.61 | 16.02% |
| Operation and Maintenance Services | 16.90 | 8.70% | 17.34 | 8.79% |
| Auxiliary Services | 18.47 | 9.51% | 23.39 | 11.85% |
| General Administrative Services | 5.86 | 3.02% | 4.80 | 2.43% |
| Interest and Fiscal Charges | 6.66 | 3.43% | 7.27 | 3.68% |
| Other Expenses | 5.80 | 2.99% | 6.76 | 3.43% |
| Total Expenses | 194.17 | 100.00% | 197.35 | 100.00% |
| Change in Net Position | 13.78 | | 5.41 | |
| Net Position – Beginning | (158.45) | | (163.86) | |
| Net Position – Ending | $(144.67) | | $(158.45) | |

Governmental Activities – As shown in Table 2, the cost of services rendered from the Board's governmental activities for the year ended September 30, 2020, was $194.17 million. It is important to note the financial resources that covered the governmental activities as follows:

- ✓ Some of the cost, $10.92 million, was paid by users who benefited from services provided during the year, such as school lunches, extended day programs, and admission for events at local schools.

- ✓ State and federal governments subsidized certain programs with grants and contributions totaling $133.93 million.

- ✓ Other state capital funds for fleet renewal, capital outlay, and debt service on capital outlay warrants provided for $6.37 million in revenues.

- ✓ Other general revenue sources, such as interest earnings, TVA in Lieu of Taxes, local school fundraisers and donations provided for $7.62 million in revenues.

- ✓ Local taxes provided $49.11 million of the Board's total costs of $194.17 million from district and state taxpayers, as follows: $23.50 million in property taxes, $25.14 million in sales taxes, and $.47 million in other miscellaneous taxes and fees.

- ✓ The Statement of Activities reflects an increase in net position of $13.78 reporting $207.95 million in revenue and $194.17 million in total expenses.

**Performance of School Board Funds**

As noted earlier, the Board uses fund accounting to control and manage resources in order to ensure compliance with finance-related legal requirements. Using funds to account for resources for particular purposes helps the reader to determine whether the Board is being accountable for the resources provided by taxpayers and other entities; it also helps to provide more insight into the Board's overall financial health. The following analysis of the Board's funds should be read in reference to the fund financial statements that begin on page 5.

***Governmental Funds*** **–** The focus of the Board's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Board's financial requirements (note that the relationship between the fund financial statements and the government-wide financial statements are reconciled on pages 6 and 8). The financial performance of the Board as a whole is reflected in its governmental funds as well. At the end of the fiscal year, the Board's governmental funds reported combined ending fund balances of $40.16 million.

The General Fund is the primary operating fund of the Board. It is used to account for all financial resources except those required to be accounted for in another fund. Generally accepted accounting principles (GAAP) require fund financial statements to be presented using the modified accrual basis of accounting. (See Exhibits #3 and #5.) Annual financial reports presented to the Alabama State Department of Education and the monthly financial transactions of the Board are recorded using the modified cash or budgetary basis of accounting. (See Exhibit #13.) Because the Board's scholastic year (July 1 – June 30) does not coincide with its fiscal year (October 1 – September 30) it creates a financial reporting problem for Alabama school districts when certain liabilities for salary accruals must be recognized at September 30, but corresponding revenues cannot be recognized until October 1 in strict adherence to GAAP. The reduction in fund balance for the $15.07 million salary accrual at September 30 is eliminated on October 1.

- ✓ The Debt Service Fund ended the year with a restricted fund balance of $2.74 million.

- ✓ The Special Revenue Funds have a nonspendable fund balance reserve for inventory of $.59 million, a restricted fund balance for the Child Nutrition Program and State Supplemental Program funds of $.19 million, and an assigned fund balance to local schools of $5.56 million.

The restricted fund balance for capital projects totals $13.52 million as reported in the Capital Projects Funds, the majority representing the issuance of the Alabama Public School and College Authority Warrants on behalf of the Board during fiscal year 2013. The Boards of Education in the BRAC impacted growth areas received bond proceeds under Act Number 2012-562, Acts of Alabama, for construction projects/capital needs. It also includes proceeds from the issuance of local refunding warrants during fiscal year 2020.

***General Fund*** – The General Fund is the primary operating fund of the Board. The net change/increase this year in fund balance as a result of operations was $8.96 million. Please refer to the highlights already mentioned regarding the timing difference in recording the obligations for the liabilities and offsetting receivables as it relates to salary accruals at September 30, 2020.

Management is conservatively planning for increases in recurring costs to be realized in future periods, such as funding needed for instructional programs (personnel costs), information technology, as well as capital projects to include repairs and maintenance.

***Special Revenue Fund*** – This fund is used to account for the specific revenue sources associated with federal program funds and local school public funds. These funds have specific compliance requirements and clearly defined budget constraints.

***Capital Projects Fund*** – This fund is used to account for the proceeds from the issuance of the Alabama Public School and College Authority Series 2013-B Warrants (BRAC Bonds), and other local warrants issued for the construction and additions to county schools as well as other capital improvements to existing facilities.

***Fiduciary Funds*** – The Fiduciary Funds financial statements appear in Exhibits #7 & #8, pages 9 and 10. Only a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position are presented, as the Board is responsible for ensuring that the assets reported by these funds are used for their intended purposes.

## Budgetary Highlights of Major Funds

On or before October 1 of each year, the Board is mandated by state law to prepare and submit to the State Superintendent of Education the annual budget adopted by the Board. The original budget for the 2020 fiscal year, adopted on September 5, 2019, was based on a conservative approach that reflected state and federal approved allocations and projected local revenues from historic data. Expenditures were budgeted for immediate needs, both personnel and non-personnel costs. During the course of the year, the Board revised the annual operating budget twice – on January 23, 2020 and June 25, 2020. The primary purpose of the budget amendments was to budget federal program carryover allocations in the Special Revenue Funds and to budget federal and state allocations received during the fiscal year such as the State Supplemental Advancement and Technology Funds and the Corona Relief Funds.

For purposes of this budgetary analysis, only the General Fund of the Board is discussed in accordance with the GASB Statement Number 34 reporting model.

***General Fund*** **–** The comparison of the General Fund original budget to the final amended budget is reflected in Exhibit #13 on page 59. The differences between the original budgeted expenditures and the final amended budgeted expenditures of the Board were primarily due to changes in federal program allocations to include CARES Act and Corona Relief Funds as well as State Supplemental Advancement and Technology Funds. Similar differences were reported between the original budgeted revenues and the final amended budgeted revenues.

## Capital Assets and Debt Administration

***Capital Assets*** **–** The Board's investment in capital assets for its governmental activities for the year ended September 30, 2020, totaled $108.46 million, net of accumulated depreciation and debt related to the acquisition of the assets (Exhibit #1). The Board's investment in capital assets includes land at estimated historical cost, buildings and improvements at estimated historical cost, equipment and furniture at estimated historical cost, and vehicles at estimated historical cost. Table 3 reflects the Board's balance at September 30, 2020, net of accumulated depreciation. (Refer to Note 5 in the Notes to the Financial Statements for a detailed summary).

### Table 3: Capital Assets (net of accumulated depreciation)
### September 30, 2020
**(In millions)**

| | Current Year | Prior Year |
|---|---|---|
| Land and Land Improvements | $ 10.55 | $ 7.38 |
| Buildings and Improvements | 217.60 | 213.38 |
| Equipment and Furniture | 3.78 | 3.64 |
| Vehicles | 7.43 | 6.23 |
| Construction-in-Progress | 30.37 | 21.52 |
| Total | $269.73 | $252.15 |

***Long-Term Debt*** – At year-end, the Board had $410.50 million in refunding warrants, capital outlay warrants and other long-term debt outstanding including $173.30 in net pension liability and $70.96 in other post-employment benefits liability. Of this amount $7.54 in principal is due within one year. Overall debt decreased by $51.57 million from last year, the majority from the decrease in debt outstanding for the other post-employment benefits liability, as shown in Table 4. Note 9 – Long Term Debt in the Notes to the Financial Statements provides a detailed summary of the long-term debt transactions for the Board for the year ended September 30, 2020.

## Table 4: Outstanding Long-Term Debt
**(In millions)**

| | Debt Outstanding 10/01/2019 | Net Change | Debt Outstanding 09/30/2020 |
|---|---|---|---|
| Warrants Payable | $137.03 | $ 2.86 | $139.89 |
| Notes Payable | 1.40 | (.19) | 1.21 |
| Lease Custodial Receipts | 11.71 | (.47) | 11.24 |
| Lease Purchase Agreements | 13.43 | (.39) | 13.04 |
| PowerSouth ADECA Loan | .24 | (.05) | .19 |
| Compensated Absences | .58 | .09 | .67 |
| Net Pension Liability | 147.96 | 25.34 | 173.30 |
| Other Post-Employment Benefits Liability | 149.72 | (78.76) | 70.96 |
| Total Governmental Activities | $462.07 | $(51.57) | $410.50 |

### Economic Factors and Next Years' Budget

The following are known Madison County economic factors considered going into the 2019-20 fiscal year. Since the United States encountered a COVID-19 pandemic that adversely affected the nation beginning in March 2020, the economic factors described below are representative of data prior to March 2020.

The unemployment rate as of December 2019, for Huntsville Metropolitan Area was 2.3%, as compared to the state average of 2.7%, and the national average of 3.5%. Additional information on the current demographics for the County is listed below and information is also available on the Huntsville-Madison County Chamber of Commerce site at www.hsvchamber.org.

| Total Population (HMA) | | 2010 Demographic Profile (Madison County) | |
|---|---|---|---|
| Year 2010 | 417,593 | Population | 334,811 |
| | | Households | 134,700 |
| Year 2000 Census | 276,700 | Median Age | 37.3 |
| Growth 2000 – 2009 | 50.9% | Average Persons Per Household | 2.37 |
| Year 2019 Census Estimate | 455,448 | Median Household Income | $57,617 |
| Growth 2010 – 2019 | 9.1% | Renter Occupied | 45,547 |
| | | Median Selling Price – Homes | $148,200 |

***Growth of Local Tax Revenue*** **–** The local sales taxes and property taxes of the Board remained stable and increased from 2019 to 2020. A continued steady growth in local tax revenue is expected with new economic development within Madison County including Madison City and Huntsville City. The COVID-19 pandemic did not adversely impact the general operating revenues and expenditures of the Board. This is attribution to job growth and new industries in the Huntsville/Madison County area. The chart below reflects the changes in local taxes.

**Local Taxes**

(In Millions)

| | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| Sales Tax | $25.14 | $22.80 | $21.59 | $19.63 | $19.12 |
| Property Tax | $23.50 | $21.69 | $21.29 | $21.04 | $20.88 |

Circumstances that affect the Board's financial health in the future are listed as follows. This list is not all inclusive.

***Fiscal Management*** **–** The Board has a financial plan in place to maintain or exceed a one-month operating reserve of approximately $14 million. Board Financial Policies and Procedures are adopted to establish and describe specific practices and procedures for all phases of financial administration. The practices, procedures, and requirements set forth in the policy manual as well as in Board policy are disseminated to all employees with administrative responsibilities and training is provided under the umbrella of the Superintendent and the Chief School Financial Officer.

***Estimated Capital Needs*** **–** The Board's five-year capital plan submitted and approved in September 2020 is based on facility assessments and enrollment needs and includes $123 million in estimated capital needs throughout the system. Approximately $58 million of this amount for current and future projects will be funded with state bond proceeds as well as local refunding bond issues. The remaining $65 million is unfunded at this time.

***Student Enrollment*** **–** The Board's current enrollment based on the Average Daily Membership (ADM) as of the first 20 days after Labor Day for the 2019-2020 scholastic year was 18,885 a slight increase over the previous year. The number of students and employees for the Board's school system for the past five years is presented as follows.

| School Year | Enrollment | Teachers/Certified Staff | Support |
|---|---|---|---|
| 2019-2020 | 18,885 | 1,365 | 958 |
| 2018-2019 | 18,515 | 1,359 | 952 |
| 2017-2018 | 18,759 | 1,344 | 958 |
| 2016-2017 | 18,814 | 1,355 | 955 |
| 2015-2016 | 18,957 | 1,362 | 958 |

**Medical and Retirement Costs –** Employee health insurance is provided through the Public Education Employees Health Insurance Program (PEEHIP). The premiums for health insurance for teachers and support personnel under PEEHIP remained at $800 per month or $9,600 annually per employee in fiscal year 2020.

Employer contributions to the Teachers Retirement System (TRS) was 12.43% in fiscal year 2019 (Tier1) and 11.34% (Tier 2). The employee contribution remained the same at 7.50% (Tier 1) and 6.00% (Tier 2). (See also Note 6 in the Notes to the Financial Statements).

## CONTACTING THE SCHOOL BOARD'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, investors, and creditors a general overview of the School Board's finances and to cover funding sources available to the Board. Any questions or requests for additional information should be directed as follows Monday – Friday during the hours, 8:00 a.m. – 4:30 p.m. central time.

Karen C. O'Bannon, Chief School Finance Officer
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Madison County Board of Education
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Telephone – (256) 852-2557, ext. 61500
Fax – (256) 852-4275

*Basic Financial Statements*

## *Statement of Net Position*
## *September 30, 2020*

| | | Governmental Activities |
|---|---|---|
| **Assets** | | |
| Cash and Cash Equivalents | $ | 42,801,570.04 |
| Investments | | 3,367,916.79 |
| Receivables (Note 4) | | 9,419,905.60 |
| Ad Valorem Taxes Receivable | | 20,889,975.58 |
| Inventories | | 590,495.24 |
| Capital Assets (Note 5): | | |
| Nondepreciable | | 36,559,959.30 |
| Depreciable, Net | | 233,165,446.13 |
| Total Assets | | 346,795,268.68 |
| **Deferred Outflows of Resources** | | |
| Loss on Refunding of Debt | | 3,099,105.20 |
| Employer Pension Contributions | | 12,934,394.66 |
| Proportionate Share of Collective Deferred Outflows Related to Net Pension Liability | | 20,460,000.00 |
| Employer Other Post Employment Benefits Contributions | | 3,258,068.00 |
| Proportionate Share of Collective Deferred Outflows Related to Net Other Postemployment Benefits (OPEB) Liability | | 12,388,769.00 |
| Total Deferred Outflows of Resources | | 52,140,336.86 |
| **Liabilities** | | |
| Accounts Payable | | 655,192.71 |
| Unearned Revenue | | 292,503.88 |
| Salaries and Benefits Payable | | 15,073,385.39 |
| Accrued Interest Payable | | 927,889.48 |
| Long-Term Liabilities: | | |
| Portion Due and Payable Within One Year | | 7,535,048.55 |
| Portion Due and Payable After One Year | | 402,957,556.89 |
| Total Liabilities | | 427,441,576.90 |
| **Deferred Inflows of Resources** | | |
| Unavailable Revenue - Property Taxes | | 20,889,975.58 |
| Proportionate Share of Collective Deferred Inflows Related to Net Pension Liability | | 7,156,000.00 |
| Proportionate Share of Collective Deferred Inflows Related to Net Other Postemployment Benefits Liability | | 88,117,298.00 |
| Total Deferred Inflows of Resources | $ | 116,163,273.58 |

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

| | Governmental Activities |
|---|---|
| **Net Position** | |
| Net Investment in Capital Assets | $ 108,460,328.70 |
| Restricted for: | |
| Capital Projects | 12,318,176.79 |
| Debt Service | 1,810,008.51 |
| Child Nutrition Program | 777,258.20 |
| Other Purposes | 5,081,631.15 |
| Unrestricted | (273,116,648.29) |
| Total Net Position | $ (144,669,244.94) |

## *Statement of Activities*
## *For the Year Ended September 30, 2020*

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions | Net (Expenses) Revenues and Changes in Net Position: Total Governmental Activities |
|---|---|---|---|---|---|
| **Governmental Activities** | | | | | |
| Instruction | $ 108,814,906.25 | $ 1,806,457.42 | $ 89,997,566.31 | $ 5,206,208.93 | $ (11,804,673.59) |
| Instructional Support | 31,659,892.57 | 1,104,644.57 | 20,346,410.97 | | (10,208,837.03) |
| Operation and Maintenance | 16,903,509.61 | 1,127,786.10 | 7,502,216.13 | 13,821.00 | (8,259,686.38) |
| Auxiliary Services: | | | | | |
| Student Transportation | 9,344,627.36 | 244,560.72 | 10,263,547.90 | 1,115,684.00 | 2,279,165.26 |
| Food Services | 9,127,762.78 | 5,104,792.99 | 483,446.71 | | (3,539,523.08) |
| General Administrative and Central Support | 5,859,149.74 | 2,439.68 | 2,603,711.96 | 36,434.00 | (3,216,564.10) |
| Other | 5,799,120.84 | 1,532,271.83 | 2,731,204.21 | | (1,535,644.80) |
| Interest and Fiscal Charges | 6,661,896.67 | | | | (6,661,896.67) |
| Total Governmental Activities | $ 194,170,865.82 | $ 10,922,953.31 | $ 133,928,104.19 | $ 6,372,147.93 | (42,947,660.39) |
| **General Revenues:** | | | | | |
| Taxes: | | | | | |
| Property Taxes for General Purposes | | | | | 23,503,269.98 |
| Sales and Use Tax - General Purposes | | | | | 25,140,561.38 |
| Miscellaneous Taxes | | | | | 464,229.95 |
| Grants and Contributions Not Restricted for Specific Purposes | | | | | 132,096.74 |
| Investment Earnings | | | | | 836,598.55 |
| Gain on Disposition of Capital Assets | | | | | 49,240.35 |
| Miscellaneous | | | | | 6,605,285.44 |
| Total General Revenues | | | | | 56,731,282.39 |
| Changes in Net Position | | | | | 13,783,622.00 |
| Net Position - Beginning of Year | | | | | (158,452,866.94) |
| Net Position - End of Year | | | | | $ (144,669,244.94) |

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

## *Balance Sheet*
## *Governmental Funds*
## *September 30, 2020*

| | General Fund | Special Revenue Fund | Capital Projects Fund | Other Governmental Fund | Total Governmental Funds |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and Cash Equivalents | $ 22,783,328.02 | $ 5,953,969.23 | $ 14,064,272.79 | $ | $ 42,801,570.04 |
| Investments | 529,495.85 | 100,522.95 | | 2,737,897.99 | 3,367,916.79 |
| Receivables (Note 4) | 5,488,559.79 | 3,931,345.81 | | | 9,419,905.60 |
| Ad Valorem Taxes Receivable | 20,889,975.58 | | | | 20,889,975.58 |
| Due from Other Funds | 3,375,731.96 | | | | 3,375,731.96 |
| Inventories | | 590,495.24 | | | 590,495.24 |
| Total Assets | 53,067,091.20 | 10,576,333.23 | 14,064,272.79 | 2,737,897.99 | 80,445,595.21 |
| **Liabilities, Deferred Inflows of Resources and Fund Balances** | | | | | |
| **Liabilities** | | | | | |
| Accounts Payable | 107,301.83 | 6,814.08 | 541,076.80 | | 655,192.71 |
| Due to Other Funds | | 3,375,731.96 | | | 3,375,731.96 |
| Unearned Revenue | | 292,503.88 | | | 292,503.88 |
| Salaries and Benefits Payable | 14,511,113.31 | 562,272.08 | | | 15,073,385.39 |
| Total Liabilities | 14,618,415.14 | 4,237,322.00 | 541,076.80 | | 19,396,813.94 |
| **Deferred Inflows of Resources** | | | | | |
| Unavailable Revenue - Property Taxes | 20,889,975.58 | | | | 20,889,975.58 |
| Total Deferred Inflows of Resources | 20,889,975.58 | | | | 20,889,975.58 |
| **Fund Balances** | | | | | |
| Nonspendable: | | | | | |
| Inventories | | 590,495.24 | | | 590,495.24 |
| Restricted for: | | | | | |
| Debt Service | | | | 2,737,897.99 | 2,737,897.99 |
| Capital Projects | | | 13,523,195.99 | | 13,523,195.99 |
| Child Nutrition Program | | 186,762.96 | | | 186,762.96 |
| Other Purposes | 5,081,631.15 | | | | 5,081,631.15 |
| Assigned to: | | | | | |
| Local Schools | | 5,561,753.03 | | | 5,561,753.03 |
| Unassigned | 12,477,069.33 | | | | 12,477,069.33 |
| Total Fund Balances | 17,558,700.48 | 6,339,011.23 | 13,523,195.99 | 2,737,897.99 | 40,158,805.69 |
| Total Liabilities and Deferred Inflows of Resources and Fund Balances | $ 53,067,091.20 | $ 10,576,333.23 | $ 14,064,272.79 | $ 2,737,897.99 | $ 80,445,595.21 |

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

# *Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position*
# *September 30, 2020*

| | | |
|---|---|---|
| Total Fund Balances - Governmental Funds (Exhibit 3) | | $ 40,158,805.69 |
| Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because: | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. | | |
| Total Cost of Capital Assets is | $ 406,814,319.19 | |
| Accumulated Depreciation is | (137,088,913.76) | |
| Total Capital Assets | | 269,725,405.43 |
| 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. | | 3,099,105.20 |
| Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds. | | 26,238,394.66 |
| Deferred outflows and inflows of resources related to Other Postemployment Benefits (OPEB) obligations are applicable to future periods and, therefore, are not reported in the governmental funds. | | (72,470,461.00) |
| Long-term liabilities, including warrants/bonds payable and pension and OPEB liabilities, 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 | $ (7,535,048.55) | |
| Noncurrent Portion of Long-Term Debt | (402,957,556.89) | |
| | | (410,492,605.44) |
| Interest on long-term debt is not accrued in the funds but rather is recognized as an expenditure when due. | | (927,889.48) |
| Total Net Position - Governmental Activities (Exhibit 1) | | $(144,669,244.94) |

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

## *Statement of Revenues, Expenditures and Changes in Fund Balances*
## *Governmental Funds*
## *For the Year Ended September 30, 2020*

| | General Fund | Special Revenue Fund | Capital Projects Fund | Other Governmental Fund | Total Governmental Funds |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| State | $122,176,968.84 | $ 71,000.00 | $ 6,358,326.93 | $ | $ 128,606,295.77 |
| Federal | 1,041,790.67 | 13,794,630.92 | | | 14,836,421.59 |
| Local | 54,023,454.11 | 8,543,680.38 | 264,108.11 | 479,784.17 | 63,311,026.77 |
| Other | 397,123.92 | 411,177.09 | | | 808,301.01 |
| Total Revenues | 177,639,337.54 | 22,820,488.39 | 6,622,435.04 | 479,784.17 | 207,562,045.14 |
| **Expenditures** | | | | | |
| Current: | | | | | |
| Instruction | 93,955,836.12 | 10,679,259.01 | | | 104,635,095.13 |
| Instructional Support | 26,989,154.41 | 4,270,357.80 | | | 31,259,512.21 |
| Operation and Maintenance | 14,420,023.66 | 2,555,729.48 | | | 16,975,753.14 |
| Auxiliary Services: | | | | | |
| Student Transportation Services | 9,082,092.48 | 198,525.23 | | | 9,280,617.71 |
| Food Services | | 9,643,232.85 | | | 9,643,232.85 |
| General Administrative and Central Support | 4,456,733.51 | 533,198.47 | 36,449.75 | 780,136.63 | 5,806,518.36 |
| Other | 3,147,692.03 | 2,927,205.91 | | | 6,074,897.94 |
| Capital Outlay | 2,720,216.31 | 718,856.72 | 22,410,783.92 | | 25,849,856.95 |
| Debt Service: | | | | | |
| Principal Retirement | 440,000.04 | 190,921.74 | 749,952.81 | 5,277,899.75 | 6,658,774.34 |
| Interest and Fiscal Charges | 1,071,800.00 | 56,326.27 | 81,625.00 | 5,569,839.55 | 6,779,590.82 |
| Total Expenditures | 156,283,548.56 | 31,773,613.48 | 23,278,811.48 | 11,627,875.93 | 222,963,849.45 |
| Excess (Deficiency) of Revenues Over Expenditures | 21,355,788.98 | (8,953,125.09) | (16,656,376.44) | (11,148,091.76) | (15,401,804.31) |
| **Other Financing Sources (Uses)** | | | | | |
| Indirect Cost | 922,032.31 | | | | 922,032.31 |
| Long-Term Debt Issued | | | 4,984,542.56 | 52,420,457.44 | 57,405,000.00 |
| Premiums on Long-Term Debt Issued | | | | 563,700.50 | 563,700.50 |
| Transfers In | 81,089.66 | 7,192,131.77 | 657,937.34 | 10,734,601.36 | 18,665,760.13 |
| Other Financing Sources | 343,202.33 | | | | 343,202.33 |
| Proceeds from the Sale of Capital Assets | 177,405.00 | | | | 177,405.00 |
| Transfers Out | (13,916,878.48) | (81,089.66) | (4,667,791.99) | | (18,665,760.13) |
| Discounts on Long-Term Debt Issued | | | | (733,974.85) | (733,974.85) |
| Payments to Refunding Escrow Agent | | | | (51,559,711.04) | (51,559,711.04) |
| Total Other Financing Sources (Uses) | (12,393,149.18) | 7,111,042.11 | 974,687.91 | 11,425,073.41 | 7,117,654.25 |
| Net Changes in Fund Balances | 8,962,639.80 | (1,842,082.98) | (15,681,688.53) | 276,981.65 | (8,284,150.06) |
| Fund Balances - Beginning of Year | 8,596,060.68 | 8,181,094.21 | 29,204,884.52 | 2,460,916.34 | 48,442,955.75 |
| Fund Balances - End of Year | $ 17,558,700.48 | $ 6,339,011.23 | $ 13,523,195.99 | $ 2,737,897.99 | $ 40,158,805.69 |

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

***Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended September 30, 2020***

| | | |
|---|---|---|
| Net Changes in Fund Balances - Total Governmental Funds (Exhibit 5) | | $ (8,284,150.06) |
| Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) are different because: | | |
| Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation expenditures in the period. | | |
| Capital Outlays | $ 25,849,856.95 | |
| Depreciation Expense | (8,148,750.43) | 17,701,106.52 |
| 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. | | 6,658,774.34 |
| Discounts on debt issuance are recorded as financing uses in the governmental funds, but are amortized in the Statement of Activities. | | 733,974.85 |
| Payments to refunding escrow agent are recorded as expenditures in the governmental funds, but reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities. | | 51,559,711.04 |
| 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. | | (57,405,000.00) |
| Premiums on debt issuance are reported as other financing sources in the governmental funds, but are amortized in the Statement of Activities. | | (563,700.50) |
| In the Statement of Activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. The change in net position differs from the change in fund balances by this amount. | | |
| Proceeds from Sale of Capital Assets | $ (177,405.00) | |
| Gain on Disposition of Capital Assets | 49,240.35 | (128,164.65) |

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

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

| | | |
|---|---|---|
| Net Decrease in Accrued Interest Payable | $ (158,236.51) | |
| Net Increase in Compensated Absences | 93,080.96 | |
| Amortization of: | | |
| Discounts | 28,121.65 | |
| Loss on Refunding of Debt | 134,598.89 | |
| Premiums | (122,178.18) | |
| Net Increase in Pension Expense | 5,600,972.73 | |
| Net Decrease in Other Post Employment Benefits Expense | (9,087,430.00) | |
| | | 3,511,070.46 |
| Change in Net Position of Governmental Activities (Exhibit 2) | | $ 13,783,622.00 |

## *Statement of Fiduciary Net Position*
## *September 30, 2020*

| | | Private-Purpose Trust Fund | | Agency Fund |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash | $ | 188,724.04 | $ | 7,726,355.50 |
| Total Assets | | 188,724.04 | | 7,726,355.50 |
| **Liabilities** | | | | |
| Salaries and Benefits Payable | | | | 6,855,832.62 |
| Due to External Organizations | | | | 870,522.88 |
| Total Liabilities | | | $ | 7,726,355.50 |
| **Net Position** | | | | |
| Held in Trust for Other Purposes | | 188,724.04 | | |
| Total Net Position | $ | 188,724.04 | | |

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

# *Statement of Changes in Fiduciary Net Position*
# *For the Year Ended September 30, 2020*

| | | Private-Purpose Trust Fund |
|---|---|---|
| **Additions** | | |
| Earnings on Investments | $ | 1,361.61 |
| Contributions from Private Sources | | 999,760.00 |
| Total Additions | | 1,001,121.61 |
| **Deductions** | | |
| Instructional Support | | 847,925.57 |
| Operation and Maintenance | | 91,074.43 |
| Total Deductions | | 939,000.00 |
| Changes in Net Position | | 62,121.61 |
| Net Position - Beginning of Year | | 126,602.43 |
| Net Position - End of Year | $ | 188,724.04 |

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

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

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

### ***A. Reporting Entity***

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

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

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

### ***B. Government-Wide and Fund Financial Statements***

#### ***Government-Wide Financial Statements***

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

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

### ***Fund Financial Statements***

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

The Board reports the following major governmental funds:

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

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

- ***Capital Projects Fund*** – This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlay, including the acquisition or construction of capital facilities and other capital assets. Also included in this fund are Alabama Department of Education appropriations which are restricted to their use.

The Board reports the following fund in the Other Governmental Fund column:

***Governmental Fund Type***

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

The Board reports the following fiduciary fund types:

***Fiduciary Fund Types***

- ***Private-Purpose Trust Fund*** – This fund is used to report all trust agreements under which principal and income benefit individuals, private organizations, or other governments.

- ***Agency Fund*** – This fund is used to report assets held by the Board in a purely custodial capacity. The Board collects these assets and transfers them to the proper individual, private organizations, or other government.

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

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

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

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

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

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

#### ***1. Deposits and Investments***

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Investments, which consist only of certificates of deposit, are reported at cost.

#### ***2. Receivables***

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

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

Receivables due from other governments include amounts due from grantors for grants issued for specific programs and capital projects, sales taxes, and TVA in Lieu of Taxes.

### 3. Inventories

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

### 4. Restricted Assets

Certain funds received from the State Department of Education for capital projects and improvements, as well as certain resources set aside for repayment of debt, included in cash and cash equivalents and in cash with fiscal agent on the financial statements are considered restricted assets because they are maintained separately and their use is limited. The Public School Capital Projects and Fleet Renewal funds are used to report proceeds that are restricted for use in various construction projects and the purchase of school buses. The Debt Service Fund is used to report resources set aside to pay the principal and interest on debt as it becomes due.

### 5. Capital Assets

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

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

| | Capitalization Threshold | Estimated Useful Life |
|---|---|---|
| Land Improvements | $50,000 | 20 years |
| Buildings | $50,000 | 50 years |
| Building Improvements | $50,000 | 7 – 30 years |
| Equipment and Furniture | $ 5,000 | 5 – 20 years |
| Vehicles | $ 5,000 | 8 – 10 years |
| Assets Under Capital Lease | $ 5,000 | 10 years |

## *6. Deferred Outflows of Resources*

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

## *7. Long-Term Obligations*

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

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

## *8. Compensated Absences*

The Board's vacation leave policy consists of the following: All administrative and supervisory personnel who are employed for twelve months are entitled to an annual vacation with pay not to exceed ten workdays, earned at 5/6 day per month. A maximum of ten days can be carried over at June 30$^{th}$, the end of the contract year, but must be used prior to termination of employment or the vacation shall be forfeited.

The Board's personal leave policy entitles employees to five days; the first two allocated by the State and an additional three allocated by the local Board. Personal days must be taken by the end of the contract year, June 30$^{th}$, or the unused days convert to sick leave with the exception of the two days allocated by the State for certified personnel which gives these employees the option of reimbursement or conversion to sick leave.

## *9. Deferred Inflows of Resources*

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

## *10. Net Position/Fund Balances*

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

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

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

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

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

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

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

c) Committed fund balances consist of amounts that are subject to a purpose constraint imposed by formal action or resolution of the Board, which is the highest level of decision-making authority, before the end of the fiscal year and that require the same level of formal action to remove or modify the constraint.

d) Assigned fund balances consist of amounts that are intended to be used by the Board for specific purposes. The Board authorized the Superintendent or Chief School Financial Officer to make a determination of the assigned amounts of fund balance. Such assignments may not exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. Assigned fund balances require the same level of authority to remove the constraint.

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

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

The Board has a minimum fund balance policy. The policy states that the Superintendent or Chief School Financial Officer will inform the Board if Board approval of a proposed budget or budget amendment will prevent the establishment or maintenance of a one-month operating balance equal to one-twelfth of the General Fund expenditures and outgoing transfers for the proposed budget or amendment.

### ***E. Pensions***

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

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

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

## *Note 2 – Stewardship, Compliance, and Accountability*

### *Budgets*

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

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

## Note 3 – Deposits and Investments

### A. Deposits

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

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. However, they are classified as "Investments" on the financial statements.

### B. Investments in Cash with Fiscal Agent

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 pledge of the three-mill school tax and other obligations as outlined in the ***Code of Alabama 1975***, Section 19-3-120 and Section 19-3-120.1.

The Board has a formal policy on investments that was approved on January 17, 1995 and revised in February 2002 and again in December 2011.

As of September 30, 2020, the Board had the following investments in cash with fiscal agent accounts:

| Investments | Maturities | Market Value |
|---|---|---|
| Goldman Sachs Financial Square Treasury Instruments | Average 58 days | $2,737,897.99 |

The Board also has $1,745,866.30 classified as cash with fiscal agent that is on deposit with the Public School and College Authority. This amount represents the Boards share of unexpended funds from the 2013-B Pool Bonds.

***Interest Rate Risk*** – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board's investment portfolio shall be designed with the objective of regularly equaling the average rate of return on three-month U. S. Treasury Bills. The investment program shall seek to augment returns above this threshold while being consistent with risk limitations of the Board, the state law restrictions, the cash flow characteristics of the Board, and prudent investment principles.

***Credit Risk*** – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. State law requires that pre-refunded public obligations, such as any bonds or other obligations of any state of the United States of America or of any agency instrumentality or local governmental unit of any such state that the Board invests in be rated in the highest rating category of Standard & Poor's Corporation and Moody's Investors Service, Inc. As of September 30, 2020, the Board's investments in the treasury instruments were rated AAAm by Standard & Poor's Rating Group and Aaa-mf by Moody's Investor Service, Inc.

***Custodial Credit Risk*** – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to cover the value of its investments or collateral securities that are in the possession of an outside party. The Board's investment portfolio shall be diversified with respect to maturity, security types, and/or financial institutions to avoid incurring unreasonable or avoidable risk to principal or liquidity of the investments.

***Concentrations of Credit Risk*** – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. It is the policy of the Board to diversify its investment portfolio. Assets shall be diversified to eliminate the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. Portfolio maturities shall be staggered in a way that avoids undue concentration of assets in a specific maturity sector. Maturities shall be selected which provide stability of income and reasonable liquidity.

## *Note 4 – Receivables*

On September 30, 2020, receivables for the Board's individual major funds are as follows:

| | General Fund | Special Revenue Fund | Total |
|---|---|---|---|
| Governmental Funds: | | | |
| Due from Other Governments | $ 645,687.67 | $3,931,345.81 | $4,577,033.48 |
| Sales Tax Receivable | 4,171,619.82 | | 4,171,619.82 |
| TVA in Lieu of Taxes | 671,252.30 | | 671,252.30 |
| Total | $5,488,559.79 | $3,931,345.81 | $9,419,905.60 |

## *Note 5 – Capital Assets*

Capital asset activity for the year ended September 30, 2020, was as follows:

| | Balance 10/01/2019 | Additions/ Reclassifications (*) | Deletions/ Reclassifications (*) | Balance 09/30/2020 |
|---|---|---|---|---|
| Governmental Activities: | | | | |
| Capital Assets, Not Being Depreciated: | | | | |
| Land | $ 6,190,840.36 | $ | $ | $ 6,190,840.36 |
| Construction in Progress | 21,514,622.37 | 20,193,630.33 | (11,339,133.76) | 30,369,118.94 |
| Total Capital Assets, Not Being Depreciated | 27,705,462.73 | 20,193,630.33 | (11,339,133.76) | 36,559,959.30 |
| Capital Assets Being Depreciated: | | | | |
| Land Improvements | 3,631,147.98 | 3,339,227.16 | | 6,970,375.14 |
| Buildings | 238,737,567.65 | 9,722,222.28 | | 248,459,789.93 |
| Building Improvements | 81,769,401.01 | 1,130,199.45 | | 82,899,600.46 |
| Vehicles | 22,077,449.62 | 2,158,485.77 | (2,358,776.25) | 21,877,159.14 |
| Equipment and Furniture | 9,632,098.76 | 645,225.72 | (229,889.26) | 10,047,435.22 |
| Total Capital Assets, Being Depreciated | 355,847,665.02 | 16,995,360.38 | (2,588,665.51) | 370,254,359.89 |
| Less Accumulated Depreciation for: | | | | |
| Land Improvements | (2,443,140.38) | (169,682.00) | | (2,612,822.38) |
| Buildings | (72,028,124.67) | (4,276,140.85) | | (76,304,265.52) |
| Building Improvements | (35,094,093.64) | (2,360,405.93) | | (37,454,499.57) |
| Vehicles | (15,845,303.85) | (843,409.04) | 2,239,780.59 | (14,448,932.30) |
| Equipment and Furniture | (5,990,001.65) | (499,112.61) | 220,720.27 | (6,268,393.99) |
| Total Accumulated Depreciation | (131,400,664.19) | (8,148,750.43) | 2,460,500.86 | (137,088,913.76) |
| Total Capital Assets, Being Depreciated, Net | 224,447,000.83 | 8,846,609.95 | (128,164.65) | 233,165,446.13 |
| Total Governmental Activities Capital Assets, Net | $ 252,152,463.56 | $29,040,240.28 | $(11,467,298.41) | $ 269,725,405.43 |

(*) The "Additions" and "Deletions" columns include reclassifications in the amount of $11,339,133.76 from Construction in Progress to Land Improvements, Buildings, and Building Improvements.

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

| | Current Year Depreciation Expense |
|---|---|
| Governmental Activities: | |
| Instruction | $5,581,150.70 |
| Instructional Support | 706,231.97 |
| Operation and Maintenance | 142,641.97 |
| Auxiliary Services: | |
| Student Transportation | 788,515.56 |
| Food Service | 690,678.67 |
| General Administrative and Central Support | 239,531.56 |
| Total Depreciation Expense – Governmental Activities | $8,148,750.43 |

## *Note 6 – Defined Benefit Pension Plan*

### *A. Plan Description*

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

### *B. Benefits Provided*

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

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

## ***C. Contributions***

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

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

Participating employers' contractually required contribution rate for the year ended September 30, 2020, was 12.43% of annual pay for Tier 1 members and 11.34% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the Board were $12,934,394.66 for the year ended September 30, 2020.

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

At September 30, 2020, the Board reported a liability of $173,301,000.00 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2019, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of September 30, 2018. 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, 2019, the Board's proportion was 1.567360%, which was an increase of 0.079124% from its proportion measured as of September 30, 2018.

For the year ended September 30, 2020, the Board recognized pension expense of $19,610,000.00. At September 30, 2020, 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 |
|---|---|---|
| Difference between expected and actual experience | $ 2,562,000.00 | $5,747,000.00 |
| Changes of assumptions | 5,339,000.00 | |
| Net difference between projected and actual earnings on pension plan investments | 6,034,000.00 | |
| Changes in proportion and differences between Employer contributions and proportionate share of contributions | 6,525,000.00 | 1,409,000.00 |
| Employer contributions subsequent to the measurement date | 12,934,394.66 | |
| Total | $33,394,394.66 | $7,156,000.00 |

The $12,934,394.66 is 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 ending September 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ending | |
|---|---|
| September 30, 2021 | $1,482,000.00 |
| 2022 | $1,725,000.00 |
| 2023 | $4,696,000.00 |
| 2024 | $5,312,000.00 |
| 2025 | $ 89,000.00 |
| Thereafter | $ |

## *E. Actuarial Assumptions*

The total pension liability as of September 30, 2019, was determined by an actuarial valuation as of September 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Inflation | 2.75% |
| Investment rate of return (*) | 7.70% |
| Projected salary increases | 3.25% – 5.00% |

(*) Net of pension plan investment expense

The actuarial assumptions used for the purposes of determining the total pension liability were based on the results of an actuarial experience study for the period October 1, 2010 through September 30, 2015 and a discount rate of 7.70%, as adopted by the Board of Trustees on December 4, 2018.

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

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

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

(*) Includes assumed rate of inflation of 2.50%

***F. Discount Rate***

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

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

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

| | 1% Decrease (6.70%) | Current Rate (7.70%) | 1% Increase (8.70%) |
|---|---|---|---|
| Board's Proportionate Share of Collective Net Pension Liability | $235,267,000 | $173,301,000 | $120,864,000 |

## H. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2019. The supporting actuarial information is included in the GASB Statement Number 67 Report for the TRS prepared as of September 30, 2019. The auditor's report dated August 18, 2020, on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the sum of all participating entities as of September 30, 2019, along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

## ***Note 7 – Other Postemployment Benefits (OPEB)***

### ***A. Plan Description***

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

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

### ***B. Benefits Provided***

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

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

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

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

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

***C. Contributions***

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

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

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

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

At September 30, 2020, the Board reported a liability of $70,953,162.00 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of September 30, 2019 and the total OPEB liability used to calculate the collective net OPEB liability was determined by an actuarial valuation as of September 30, 2018. The Board's proportion of the collective net OPEB liability was based on a projection of the Board's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At September 30, 2019, the Board's proportion was 1.880666%, which was an increase of 0.059009% from its proportion measured as of September 30, 2018.

For the year ended September 30, 2020, the Board recognized net negative OPEB expense of $5,784,062, with no special funding situations. At September 30, 2020, 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 | $ 2,349,322 | $54,403,817 |
| Changes of assumptions | 3,391,986 | 29,389,217 |
| Net difference between projected and actual earnings on OPEB plan investments | 146,367 | |
| Changes in proportion and differences between Employer contributions and proportionate share of contributions | 6,501,094 | 4,324,264 |
| Employer contributions subsequent to the measurement date | 3,258,068 | |
| Total | $15,646,837 | $88,117,298 |

The $3,258,068 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, 2021.

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

| Year Ending | |
|---|---|
| September 30, 2021 | $(15,928,710) |
| 2022 | $(15,928,710) |
| 2023 | $(15,742,787) |
| 2024 | $(12,509,010) |
| 2025 | $(13,296,901) |
| Thereafter | $ (2,322,411) |

## ***E. Actuarial Assumptions***

The total OPEB liability was determined by an actuarial valuation as of September 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Inflation | 2.75% |
| Projected Salary Increases (1) | 3.25% - 5.00% |
| Long-Term Investment Rate of Return (2) | 7.25% |
| Municipal Bond Index Rate at the Measurement Date | 3.00% |
| Municipal Bond Index Rate at the Prior Measurement Date | 4.18% |
| Projected Year for Fiduciary Net Position (FNP) to be Depleted | 2055 |
| Single Equivalent Interest Rate the Measurement Date | 5.50% |
| Single Equivalent Interest Rate the Prior Measurement Date | 4.44% |
| Healthcare Cost Trend Rate: | |
| Pre-Medicare Eligible | 6.75% |
| Medicare Eligible | (**) |
| Ultimate Trend Rate: | |
| Pre-Medicare Eligible | 4.75% in 2026 |
| Medicare Eligible | 4.75% in 2024 |

(1) Includes 3.00% wage inflation.
(2) Compounded annually, net of investment expense, and includes inflation.
(**) Initial Medicare claims are set based on scheduled increases through plan year 2022.

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

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

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the September 30, 2018 valuation, however, updated Medicare Advantage premium rates which reflect the repeal of the Affordable Care Act (ACA) Health Insurer Fee, updated optional claims costs, and updated participation assumptions were used in this report.

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

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

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

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

(*) Geometric mean, includes 2.5% inflation

***F. Discount Rate***

The discount rate, also known as the Single Equivalent Interest Rate (SEIR), as described by GASB Statement Number 74, used to measure the total OPEB liability at September 30, 2019, was 5.50%. The discount rate used to measure the total OPEB liability at the prior measurement date was 4.44%. Premiums paid to the PEEHIB for active employees shall include an amount to partially fund the cost of coverage for retired employees. The projection of cash flows used to determine the discount rate assumed that plan contributions will be made at the current contribution rates. Each year, the State specifies the monthly employer rate that participating school systems must contribute for each active employee. Approximately 24.245% of the employer contributions were used to assist in funding retiree benefit payments in 2019, and it is assumed that once benefit payments exceed employer contributions, this amount will increase by 1.00% per year and continue into the future. The discount rate determination will use a municipal bond rate to the extent the Trust is projected to run out of money before all benefits are paid. The rate used for this purpose is the monthly average of the Bond Buyers General Obligation 20-year Municipal Bond Index Rate. Therefore, the projected future benefit payments for all current plan members were projected through 2117. The long-term rate of return is used until the assets are expected to be depleted in 2055, after which the municipal bond rate is used.

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

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

| | 1% Decrease (5.75% Decreasing to 3.75% for Pre-Medicare, Known Decreasing to 3.75% for Medicare Eligible) | Current Healthcare Trend Rate (6.75% Decreasing to 4.75% for Pre-Medicare, Known Decreasing to 4.75% for Medicare Eligible) | 1% Increase (7.75% Decreasing to 5.75% for Pre-Medicare, Known Decreasing to 5.75% for Medicare Eligible) |
|---|---|---|---|
| Board's proportionate share of collective net OPEB liability | $56,891,673 | $70,953,162 | $88,662,971 |

The following table presents the Board's proportionate share of the collective net OPEB liability of the Trust calculated using the discount rate of 5.50%, as well as what the collective net OPEB liability would be if calculated using one percentage point lower or one percentage point higher than the current rate:

| | 1% Decrease (4.50%) | Current Discount Rate (5.50%) | 1% Increase (6.50) |
|---|---|---|---|
| Board's proportionate share of collective net OPEB liability | $85,763,343 | $70,953,162 | $58,858,131 |

## *H. OPEB Plan Fiduciary Net Position*

Detailed information about the OPEB plan's fiduciary net position is located in the Trust's financial statements for the fiscal year ended September 30, 2019. The supporting actuarial information is included in the GASB Statement Number 74 Report for PEEHIP prepared as of September 30, 2019. Additional financial and actuarial information is available at www.rsa-al.gov.

## *Note 8 – Construction and Other Significant Commitments*

As of September 30, 2020, the Board was obligated under the following significant construction contract:

| | Contract Amount | Remaining Balance |
|---|---|---|
| Lynn Fanning Elementary School Addition | $5,851,948.02 | $4,575,341.14 |

## *Note 9 – Long-Term Debt*

On March 14, 2012, the Alabama Public School and College Authority ("APSCA"), on behalf of the various Boards of Education in the pool, issued $79,340,000.00 in Pool Refunding Bonds, Series 2012-A ("Series 2012-A"), with interest rates ranging from 3.00% to 5.00% to refund and retire on a current basis $57,497,698.00 of outstanding Capital Improvement Pool Bonds, Series 2002-A ("Series 2002-A"), and $21,842,302.00 of outstanding Capital Improvement and Economic Development and Training Bonds, Series 2003 ("Series 2003") which were selected to mature in fiscal years 2013 through 2022 with interest rates ranging from 4.00% to 5.00%. The Board had a 12.2592% participation in the Series 2003. This resulted in the Board being obligated for $2,677,691.49 of the total principal of $79,340,000.00. In the event of default which is defined as a failure to pay principal and interest when due and a failure to comply with covenants in the loan agreement, the APSCA may withhold the Board's Public School Funds and intercept any State allocated funds payable to the Board. The warrants are not subject to acceleration.

The Board issued $12,400,000.00 in Refunding Tax Anticipation Warrants, Series 2013, dated February 1, 2013. The proceeds were used to advance refund the outstanding 2005-A Capital Outlay Tax Anticipation Warrants. Payments on the 2013 Refunding Tax Anticipation Warrants are to be made from the Debt Service Fund with special county-wide sales and use taxes. In the event of default which is defined as a failure to pay principal and interest when due, the principal of and the interest on each warrant, to the extent permitted by law, bear interest after maturity until paid or until moneys sufficient for payment thereof have been made available for that purpose by the Board, whichever first occurs, at the rate stated on such warrant. The warrants are not subject to acceleration.

On June 24, 2013, the Alabama Public School and College Authority ("APSCA"), on behalf of the Board, issued $53,625,000.00 in 2013-B Authority Pool Bonds as provided under Act Number 2012-562, Acts of Alabama, for Boards of Education in the BRAC impacted growth areas. The proceeds are to be used for the addition and renovation to Madison County Elementary School and for the addition and renovation of Sparkman High School among other additions and renovations to existing facilities. The Board entered into the Loan Agreement to repay the portion of its obligation, $26,812,500, or one half of the principal on the Warrants. Payments on the Warrants are to be made from the Debt Service Fund with local ad valorem and sales and use taxes. Although the bonds are payable from any of the revenues described in the preceding sentence, none of such revenues or funds are pledged to secure the payment of the bonds. The bonds are not a general obligation of the Board. In the event of default which is defined as a failure to pay principal and interest when due, the APSCA may withhold the Board's Public School Funds and intercept any State allocated funds payable to the Board. The bonds are not subject to acceleration.

The Board issued $9,700,000.00 in Lease Revenue Custodial Receipts, Series 2013A, and $3,715,000.00, Series 2013B, dated July 1, 2013. The proceeds were used for the acquisition and installation of certain energy conservation measures to existing facilities under the Energy Services Contract, Phase I, with Schneider Electric Buildings America, Inc. Payments on the 2013-A and 2013-B Lease Revenue Custodial Receipts are to be made from the guaranteed savings on the energy enhancements and conservation measures. In the event of any default, the lessor may exercise any of several options including the collection of all payments due, by acceleration or otherwise, with the Board liable for all costs and expenses incurred by the lessor. Other options include removing or disposing of the "Equipment" under the lease, repossessing the "Equipment" with the Board liable for any amounts payable through the date of termination of the lease, and any other remedy available at law or in equity by the lessor.

The Board entered into a Lease Purchase Agreement consisting of $5,647,153.00 in Qualified Energy Conservation Bonds and $9,228,907.00 in Tax Exempt Obligations dated November 18, 2013. The proceeds were used for the acquisition and installation of certain energy conservation measures to existing facilities under the Energy Services Contract, Phase II, with Schneider Electric Buildings America, Inc. Payments on the financing agreements are to be made from the guaranteed savings on the energy enhancements and conservation measures. In the event of any default, the lessor may exercise any of several options including the collection of all payments due, by acceleration or otherwise, with the Board liable for all costs and expenses incurred by the lessor. Other options include removing or disposing of the "Equipment" under the lease, repossessing the "Equipment" with the Board liable for any amounts payable through the date of termination of the lease, and any other remedy available at law or in equity by the lessor.

The Board entered into an interest free Loan Agreement with PowerSouth Development Corporation, Inc., in the amount of $500,000.00 dated September 5, 2014. The proceeds of the energy efficiency Alabama Department of Economic and Community Affairs (ADECA) loan were for reimbursement of expenditures on energy efficiency measures in existing facilities. The principal payments on the loan are to be made from the Board's General Fund.

The Board issued $18,750,000.00 in Refunding and Capital Outlay Tax Anticipation Warrants, Series 2014, dated December 23, 2014. The proceeds were used to refund on a current basis and defease the Board's outstanding 2005-B Series Warrants; to partially advance refund and defease the Board's 2006 Series Warrants; and to acquire, construct, and install a new mechanical boiler system at Hazel Green High School. Payments on the 2014 Refunding and Capital Outlay Tax Anticipation Warrants are to be made from the Debt Service Fund with School District Number 1 special sales and use taxes. In the event of default which is defined as a failure to pay principal and interest when due, the principal of and the interest on each warrant, to the extent permitted by law, bear interest after maturity until paid or until moneys sufficient for payment thereof have been made available for that purpose by the Board, whichever first occurs, at the rate stated on such warrant. The warrants are not subject to acceleration.

The Board issued $41,205,000.00 in Refunding and Capital Outlay Tax Anticipation Warrants, Series 2016, dated March 10, 2016. The proceeds were used to partially advance refund and defease the Board's 2009-A Series Warrants, and for the renovation and capital improvements to existing facilities. Payments on the 2016 Refunding and Capital Outlay Tax Anticipation Warrants are to be made from the Debt Service Fund with School District Number 1 special sales and use taxes. In the event of default which is defined as a failure to pay principal and interest when due, the principal of and the interest on each warrant, to the extent permitted by law, bear interest after maturity until paid or until moneys sufficient for payment thereof have been made available for that purpose by the Board, whichever first occurs, at the rate stated on such warrant. The warrants are not subject to acceleration.

The Board issued $27,185,000.00 in Taxable Refunding and Capital Outlay Tax Anticipation Warrants, Series 2019-A, dated March 1, 2020. The proceeds were used to advance refund the outstanding Series 2011-A Capital Outlay and Refunding Tax Anticipation Warrants, and to acquire, construct, alter, extend, reconstruct and/or remodel public school facilities. Payments on the 2019-A Series Warrants are to be made from the Debt Service Fund with School District 6.5 Mill ad valorem taxes. In the event of default which is defined as a failure to pay principal and interest when due, the principal of and the interest on each warrant, to the extent permitted by law, bear interest after maturity until paid or until moneys sufficient for payment thereof have been made available for that purpose by the Board, whichever first occurs, at the rate stated on such warrant. The warrants are not subject to acceleration.

The Board issued $23,495,000.00 in Taxable Refunding and Capital Outlay Tax Anticipation Warrants, Series 2019-B, dated March 1, 2020. The proceeds were used to advance refund the outstanding Series 2011-B Capital Outlay Tax Anticipation Warrants, and to acquire, construct, alter, extend, reconstruct and/or remodel public school facilities. Payments on the 2019-B Series Warrants are to be made from the Debt Service Fund with special county-wide sales and use taxes. In the event of default which is defined as a failure to pay principal and interest when due, the principal of and the interest on each warrant, to the extent permitted by law, bear interest after maturity until paid or until moneys sufficient for payment thereof have been made available for that purpose by the Board, whichever first occurs, at the rate stated on such warrant. The warrants are not subject to acceleration.

The Board issued $6,725,000.00 in Refunding and Capital Outlay Tax Anticipation Warrants, Series 2019-C, dated March 1, 2020. The proceeds were used to refund, on a current basis, the outstanding Series 2010-A Refunding Tax Anticipation Warrants and the Series 2010-B Refunding Tax Anticipation Warrants and to provide for certain capital improvements. In the event of default which is defined as a failure to pay principal and interest when due, the principal of and the interest on each warrant, to the extent permitted by law, bear interest after maturity until paid or until moneys sufficient for payment thereof have been made available for that purpose by the Board, whichever first occurs, at the rate stated on such warrant. The warrants are not subject to acceleration.

The Board has entered into numerous notes from direct borrowings for the purchase of equipment and capital improvements. Proceeds, accounted for in the Special Revenue Fund, were used for various capital improvements of the local schools. These notes from direct borrowings are paid with local school funds.

***Direct Borrowings***

The Board has outstanding direct borrowings related to governmental activities totaling $8,798,722.07. The outstanding notes and transactions from direct borrowings are summarized in the following paragraphs.

The Board's outstanding note in the amount of $256,628.15 for athletic facilities contains a provision that in any event of default, all commitments and obligations of the lender will terminate, and, at the lender's option, all indebtedness immediately will become due and payable except in certain cases of default due to insolvency.

The Board's outstanding notes in the amount of $746,603.36 for various athletic facilities and band uniforms contain a provision upon default, including failure to pay upon final maturity, the interest rate on the notes shall be increased to 18.00% per annum based on a year of 360 days. However, in no event will the interest rate exceed the maximum interest rate limitations under applicable law. Upon the occurrence of any default described in provisions under "Death or Insolvency" or "Creditor or Forfeiture Proceedings", the entire unpaid principal balance and all accrued unpaid interest shall become immediately due.

The Board's outstanding note in the amount of $209,676.29 for athletic facilities contains a provision upon event of default, the loan and the indebtedness may, at the lender's sole option, be declared immediately due and payable. The lender may apply the Board's bank accounts and any other property held by the lender against the indebtedness.

The Board's outstanding balance in the amount of $195,833.09 on the interest free loan agreement with PowerSouth Development Corporation, Inc., for reimbursement of expenditures on energy efficiency measures in existing facilities contains a Security and Pledge agreement in the original principal amount of $500,000.00. The Board has pledged assets in the form of a certificate of deposit as collateral for this loan. In the event of default under the Security and Pledge Agreement, all of the obligations, with interest thereon, shall at once become due and payable at the option of the lender.

The Board's outstanding balance in the amount of $7,389,981.18 in tax exempt lease obligations for the acquisition and installation of certain energy conservation measures to existing facilities. The Energy Services Contract, Phase II, with Schneider Electric Buildings America, Inc., contains a provision in the event of any default that the lessor may exercise any of several options including the collection of all payments due, by acceleration or otherwise, with the Board liable for all costs and expenses incurred by the lessor. Other options include removing or disposing of the "Equipment" under the lease, repossessing the "Equipment" with the Board liable for any amounts payable through the date of termination of the lease, and any other remedy available at law or in equity by the lessor.

The following is a summary of long-term debt obligations for the Board for the year ended September 30, 2020:

| | Debt Outstanding 10/01/2019 | Issued/ Increased | Repaid/ Decreased |
|---|---|---|---|
| Governmental Activities: | | | |
| Warrants and Bonds Payable: | | | |
| Refunding Tax Anticipation Warrants: | | | |
| Series 2010-A | $ 6,200,000.00 | $ | $ (6,200,000.00) |
| Series 2010-B | 1,945,000.00 | | (1,945,000.00) |
| Series 2011-A | 22,690,000.00 | | (22,690,000.00) |
| Series 2013 | 9,785,000.00 | | (530,000.00) |
| Series 2014 | 11,455,000.00 | | (1,410,000.00) |
| Series 2016 | 39,830,000.00 | | (1,065,000.00) |
| Series 2019-C | | 6,725,000.00 | |
| Capital Outlay Tax Anticipation Warrants: | | | |
| Series 2011-B | 19,345,000.00 | | (19,345,000.00) |
| Capital Outlay Pool Warrants: | | | |
| Series 2012-A | 1,044,380.91 | | (279,952.81) |
| Series 2013-B | 24,640,000.00 | | (390,000.00) |
| Taxable Refunding and Capital Outlay Tax Anticipation Warrants: | | | |
| Series 2019-A | | 27,185,000.00 | (305,000.00) |
| Series 2019-B | | 23,495,000.00 | (205,000.00) |
| Sub-Total Warrants/Bonds Payable | 136,934,380.91 | 57,405,000.00 | (54,364,952.81) |
| Less: Discount on Warrants | (88,392.53) | (733,974.85) | 116,514.18 |
| Plus: Premium on Warrants | 178,228.84 | 563,700.50 | (122,178.18) |
| Total Warrants/Bonds Payable | 137,024,217.22 | 57,234,725.65 | (54,370,616.81) |
| Lease Custodial Receipts: | | | |
| Series 2013-A | 9,700,000.00 | | |
| Series 2013-B | 2,005,000.00 | | (470,000.00) |
| Lease Purchase Agreement: | | | |
| Qualified Energy Conservation Bonds | 5,647,153.00 | | |
| Tax Exempt Lease Direct Borrowing | 7,782,880.93 | | (392,899.75) |
| PowerSouth Direct Borrowing | 245,833.13 | | (50,000.04) |
| Notes from Direct Borrowings – Local Schools | 1,403,829.54 | | (190,921.74) |
| Net Pension Liability | 147,969,000.00 | 25,332,000.00 | |
| Other Postemployment Benefits | 149,717,005.00 | | (78,763,843.00) |
| Compensated Absences | 576,161.35 | 93,080.96 | |
| Total | $462,071,080.17 | $82,659,806.61 | $(134,238,281.34) |

| Debt Outstanding 09/30/2020 | Amount Due Within One Year |
|---|---|
| $ | $ |
| 9,255,000.00 | 545,000.00 |
| 10,045,000.00 | 1,480,000.00 |
| 38,765,000.00 | 1,110,000.00 |
| 6,725,000.00 | 1,400,000.00 |
| 764,428.10 | 293,958.82 |
| 24,250,000.00 | 400,000.00 |
| 26,880,000.00 | 190,000.00 |
| 23,290,000.00 | 180,000.00 |
| 139,974,428.10 | 5,598,958.82 |
| (705,853.20) | (33,745.97) |
| 619,751.16 | 149,457.78 |
| 139,888,326.06 | 5,714,670.63 |
| 9,700,000.00 | |
| 1,535,000.00 | 500,000.00 |
| 5,647,153.00 | |
| 7,389,981.18 | 437,354.24 |
| 195,833.09 | 50,000.00 |
| 1,212,907.80 | 163,781.37 |
| 173,301,000.00 | |
| 70,953,162.00 | |
| 669,242.31 | 669,242.31 |
| $410,492,605.44 | $7,535,048.55 |

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

| | Capital Improvement Pool Bonds Series 2013 | | Refunding Tax Anticipation Warrants Series 2012-A | | Refunding Tax Anticipation Warrants Series 2013 | |
|---|---|---|---|---|---|---|
| Fiscal Year Ending | Principal | Interest | Principal | Interest | Principal | Interest |
| September 30, 2021 | $ 400,000.00 | $1,052,300.00 | $293,958.82 | $29,222.13 | $ 545,000.00 | $ 267,712.52 |
| 2022 | 407,500.00 | 1,032,300.00 | 309,146.13 | 14,144.41 | 555,000.00 | 256,812.52 |
| 2023 | 417,500.00 | 1,011,925.00 | 78,805.32 | 4,445.67 | 575,000.00 | 244,325.02 |
| 2024 | 430,000.00 | 991,050.00 | 82,517.83 | 1,237.81 | 590,000.00 | 229,950.02 |
| 2025 | 2,085,000.00 | 969,550.00 | | | 605,000.00 | 215,200.02 |
| 2026-2030 | 12,030,000.00 | 3,249,800.00 | | | 3,315,000.00 | 803,843.80 |
| 2031-2035 | 8,480,000.00 | 687,200.00 | | | 3,070,000.00 | 256,612.54 |
| 2036-2040 | | | | | | |
| 2041 | | | | | | |
| Totals | $24,250,000.00 | $8,994,125.00 | $764,428.10 | $49,050.02 | $9,255,000.00 | $2,274,456.44 |

| | Refunding Tax Anticipation Warrants Series 2019-B | | Refunding Tax Anticipation Warrants Series 2019-C | |
|---|---|---|---|---|
| Fiscal Year Ending | Principal | Interest | Principal | Interest |
| September 30, 2021 | $ 180,000.00 | $ 726,881.28 | $1,400,000.00 | $262,900.00 |
| 2022 | 185,000.00 | 723,281.28 | 1,490,000.00 | 190,650.00 |
| 2023 | 190,000.00 | 719,581.28 | 1,575,000.00 | 121,900.00 |
| 2024 | 195,000.00 | 715,306.28 | 1,100,000.00 | 68,400.00 |
| 2025 | 200,000.00 | 710,918.78 | 1,160,000.00 | 23,200.00 |
| 2026-2030 | 1,060,000.00 | 3,480,193.90 | | |
| 2031-2035 | 3,610,000.00 | 3,331,137.60 | | |
| 2036-2040 | 14,495,000.00 | 1,973,406.32 | | |
| 2041 | 3,175,000.00 | 107,156.26 | | |
| Totals | $23,290,000.00 | $12,487,862.98 | $6,725,000.00 | $667,050.00 |

| | Lease Purchase Agreement Tax Exempt Lease | | Lease Purchase Agreement Qualified Energy Conservation Bonds | |
|---|---|---|---|---|
| Fiscal Year Ending | Principal | Interest | Principal | Interest |
| September 30, 2021 | $ 437,354.24 | $ 327,103.64 | $ | $ 302,122.68 |
| 2022 | 484,635.31 | 306,946.09 | | 302,122.68 |
| 2023 | 534,895.80 | 284,632.70 | | 302,122.68 |
| 2024 | 588,296.21 | 260,027.89 | | 302,122.68 |
| 2025 | 645,005.12 | 232,988.82 | | 302,122.68 |
| 2026-2030 | 1,755,652.52 | 794,301.48 | 2,367,204.43 | 1,357,180.09 |
| 2031-2035 | 2,285,393.92 | 563,477.87 | 3,279,948.57 | 360,213.78 |
| 2036-2040 | 658,748.06 | 14,788.89 | | |
| 2041 | | | | |
| Totals | $7,389,981.18 | $2,784,267.38 | $5,647,153.00 | $3,228,007.27 |

| Refunding Tax Anticipation Warrants Series 2014 | | Refunding Tax Anticipation Warrants Series 2016 | | Refunding Tax Anticipation Warrants Series 2019-A | |
|---|---|---|---|---|---|
| Principal | Interest | Principal | Interest | Principal | Interest |
| $ 1,480,000.00 | $ 429,050.00 | $ 1,110,000.00 | $ 1,666,137.50 | $ 190,000.00 | $ 822,312.50 |
| 1,555,000.00 | 355,050.00 | 1,165,000.00 | 1,610,637.50 | 195,000.00 | 818,750.00 |
| 1,630,000.00 | 277,300.00 | 1,215,000.00 | 1,552,387.50 | 195,000.00 | 815,093.76 |
| 1,720,000.00 | 195,800.00 | 1,235,000.00 | 1,528,087.50 | 200,000.00 | 810,950.00 |
| 1,800,000.00 | 109,800.00 | 1,265,000.00 | 1,503,387.50 | 205,000.00 | 806,700.00 |
| 1,860,000.00 | 55,800.00 | 15,590,000.00 | 5,909,937.50 | 1,100,000.00 | 3,958,787.50 |
| | | 17,185,000.00 | 1,557,962.50 | 4,075,000.00 | 3,809,197.50 |
| | | | | 16,995,000.00 | 2,260,825.00 |
| | | | | 3,725,000.00 | 121,062.50 |
| $10,045,000.00 | $1,422,800.00 | $38,765,000.00 | $15,328,537.50 | $26,880,000.00 | $14,223,678.76 |

| Lease Revenue Custodial Receipts Series 2013-A | | Lease Revenue Custodial Receipts Series 2013-B | |
|---|---|---|---|
| Principal | Interest | Principal | Interest |
| $ | $ 409,340.00 | $ 500,000.00 | $27,627.50 |
| | 409,340.00 | 530,000.00 | 16,555.00 |
| 60,000.00 | 408,074.00 | 505,000.00 | 5,428.75 |
| 595,000.00 | 394,253.50 | | |
| 620,000.00 | 368,617.00 | | |
| 3,800,000.00 | 1,389,435.00 | | |
| 4,625,000.00 | 502,707.50 | | |
| $9,700,000.00 | $3,881,767.00 | $1,535,000.00 | $49,611.25 |

| PowerSouth ADECA Loan Agreement | | Notes from Direct Borrowing – Local Schools | | Total Principal and Interest Requirements to Maturity |
|---|---|---|---|---|
| Principal | Interest | Principal | Interest | |
| $ 50,000.00 | $ | $ 163,781.37 | $ 46,490.30 | $ 13,119,294.48 |
| 50,000.00 | | 520,291.03 | 41,048.56 | 13,524,210.51 |
| 50,000.00 | | 283,468.16 | 18,107.19 | 13,074,992.83 |
| 45,833.09 | | 87,712.40 | 11,459.76 | 12,378,004.97 |
| | | 72,486.49 | 7,935.65 | 13,907,912.06 |
| | | 85,168.35 | 6,718.70 | 63,969,023.27 |
| | | | | 57,678,851.78 |
| | | | | 36,397,768.27 |
| | | | | 7,128,218.76 |
| $195,833.09 | $ | $1,212,907.80 | $131,760.16 | $231,178,276.93 |

***Deferred Loss on Refunding, Discounts and Premiums***

The Board reports warrant discounts and deferred losses on refunding in connection with the issuance of its 2011-A, 2019-A, 2019-B, and 2019-C Refunding Tax Anticipation Warrants. The Board also reports warrant premiums on debt in connection with the issuance of its 2012-A Pool Refunding Bonds and 2019-C Refunding Tax Anticipation Warrants. The warrant discounts, warrant premiums, and deferred loss on refunding are being amortized using the straight-line method over the term of the related debt.

| | Discounts | Deferred Loss on Refunding | Premiums |
|---|---|---|---|
| Total Discounts, Loss on Refunding and Premiums | $ 795,532.80 | $ 1,778,292.53 | $ 484,244.40 |
| Amount Amortized Prior Years | (707,140.27) | (1,382,692.01) | (306,015.56) |
| Balance Discounts, Loss on Refunding and Premiums | 88,392.53 | 395,600.52 | 178,228.84 |
| Current Year Additions | 733,974.85 | 3,233,704.09 | 563,700.50 |
| Current Year Deletions | (88,392.53) | (395,600.52) | |
| Current Year Amortized | (28,121.65) | (134,598.89) | (122,178.18) |
| Balance Discounts, Loss on Refunding and Premiums | $ 705,853.20 | $ 3,099,105.20 | $ 619,751.16 |
| Current Portion | $ 33,754.97 | $ 163,457.41 | $ 149,457.78 |
| Long-Term Portion | $ 672,107.23 | $ 2,935,647.79 | $ 470,293.38 |

***Pledged Revenues***

The Board, as part of a pooled bond issuance with other school systems within the State of Alabama, issued Series 2012-A Pool Refunding Bonds pledged to be repaid from their allocation of public school funds received from the State of Alabama. The proceeds were used to refund the Series 2003 Capital Outlay Pool Warrants. Future revenues in the amount of $813,478.12 are pledged to repay the principal and interest on the warrants at September 30, 2020. Proceeds in the amount of $5,206,208.93 of the pledged funds were received by the Board during the fiscal year ended September 30, 2020, of which $323,522.81 were used to pay principal and interest on the warrants. The Series 2012-A warrants will mature in fiscal year 2024.

The Board issued Series 2013 Refunding Tax Anticipation Warrants to refund the Board's Capital Outlay Tax Anticipation Warrants, Series 2005-A. The Board pledged to repay these warrants from the proceeds of a special sales tax levied by the Madison County Commission pursuant to provisions of the ***Code of Alabama 1975***, Section 40-12-4. Future revenues in the amount of $11,529,456.44 are pledged to repay the principal and interest on the warrants at September 30, 2020. Proceeds in the amount of $13,103,772.69 of the special tax were received by the Board during the fiscal year ended September 30, 2020, of which $808,312.52 were used to pay principal and interest on the warrants. The Series 2013 Refunding Tax Anticipation Warrants will mature in fiscal year 2034.

The Board issued Series 2014 Refunding and Capital Outlay Tax Anticipation Warrants to refund on a current basis and defease the Board's outstanding 2005-B Series Warrants; to advance refund and defease the Board's 2006 Series Warrants; and to acquire, construct, and install a new mechanical boiler system at Hazel Green High School. The Board pledged to repay these warrants from the proceeds of a sales tax levied pursuant to Act Number 82-525, Acts of Alabama. Future revenues in the amount of $11,467,800.00 are pledged to repay the principal and interest on the warrants at September 30, 2020. Proceeds in the amount of $11,345,065.88 of the special tax were received by the Board during the fiscal year ended September 30, 2020, of which $1,909,550.00 were used to pay principal and interest on the warrants. The Series 2014 Refunding and Capital Outlay Warrants will mature in fiscal year 2026.

The Board issued Series 2016 Refunding and Capital Outlay Tax Anticipation Warrants to advance refund and defease the Board's outstanding 2009-A Series Warrants, and for the renovation and capital improvements to existing facilities. The Board pledged to repay these warrants from the proceeds of a sales tax levied pursuant to Act Number 82-525, Acts of Alabama. Future revenues in the amount of $54,093,537.50 are pledged to repay the principal and interest on the warrants at September 30, 2020. Proceeds in the amount of $11,345,065.88 of the special tax were received by the Board during the fiscal year ended September 30, 2020, of which $2,773,737.50 were used to pay interest on the warrants. The Series 2016 Refunding and Capital Outlay Warrants will mature in fiscal year 2034.

The Board issued Series 2019-A Taxable Refunding and Capital Outlay Tax Anticipation Warrants to advance refund and defease the Board's outstanding Series 2011-A Capital Outlay and Refunding Tax Anticipation Warrants, and to acquire, construct, alter, extend, reconstruct and/or remodel public school facilities. The Board pledged to repay these warrants from the proceeds of a 6.5 mill special district ad valorem tax levied under the authority of Amendment Number 149 to the Constitution of Alabama of 1901. Future revenues in the amount of $41,103,678.76 are pledged to repay the principal and interest on the warrants at September 30, 2020. Proceeds in the amount of $7,986,735.12 of the special tax were received by the Board during the fiscal year ended September 30, 2020, of which $1,012,774.38 were used to pay interest on the warrants. The Series 2019-A Taxable Refunding and Capital Outlay Tax Anticipation Warrants will mature in fiscal year 2041.

The Board issued Series 2019-B Taxable Refunding and Capital Outlay Tax Anticipation Warrants to advance refund and defease the Board's outstanding Series 2011-B Capital Outlay and Refunding Tax Anticipation Warrants, and to acquire, construct, alter, extend, reconstruct and/or remodel public school facilities. The Board pledged to repay these warrants from the proceeds of a special sales tax levied by the Madison County Commission pursuant to provisions of the ***Code of Alabama 1975***, Section 40-12-4. Future revenues in the amount of $35,777,862.98 are pledged to repay the principal and interest on the warrants at September 30, 2020. Proceeds in the amount of $13,103,772.69 of the special tax were received by the Board during the fiscal year ended September 30, 2020, of which $829,956.63 were used to pay principal and interest on the warrants.

The Series 2019-B Taxable Refunding and Capital Outlay Tax Anticipation Warrants will mature in fiscal year 2041.

The Board issued Series 2019-C Refunding and Capital Outlay Tax Anticipation Warrants to refund, on a current basis, the Board's outstanding Series 2010-A and 2010-B Refunding Tax Anticipation Warrants, and to provide for certain capital improvements. The Board pledged to repay these warrants from the proceeds of a 6.5 mill special district ad valorem tax levied under the authority of Amendment Number 149 to the Constitution of Alabama of 1901. Future revenues in the amount of $7,392,050.00 are pledged to repay the principal and interest on the warrants at September 30, 2020. Proceeds in the amount of $7,986,735.12 of the special tax were received by the Board during the fiscal year ended September 30, 2020, of which $207,702.50 were used to pay interest on the warrants. The Series 2019-C Refunding and Capital Outlay Tax Anticipation Warrants will mature in fiscal year 2025.

***Defeased Debt***

On October 21, 2019, the Board issued $27,185,000.00 in Taxable Refunding and Capital Outlay Tax Anticipation Warrants, Series 2019-A, with interest rates ranging from 1.625% to 3.250%. The proceeds were used to advance refund the Board's outstanding Capital Outlay and Refunding Tax Anticipation Warrants, Series 2011-A, dated September 15, 2011 in the amount of $22,690,000.00. The net proceeds were deposited in an irrevocable trust fund with an escrow agent to provide for all future debt service payments on the Series 2011-A Warrants, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of $2,398,407.85. The refunded warrants in the amount of $22,690,000.00 are considered defeased.

On October 21, 2019, the Board issued $23,495,000.00 in Taxable Refunding and Capital Outlay Tax Anticipation Warrants, Series 2019-B, with interest rates ranging from 1.750% to 3.375%. The proceeds were used to advance refund the Board's outstanding Capital Outlay Tax Anticipation Warrants, Series 2011-B, dated September 15, 2011, in the amount of $19,345,000.00. The net proceeds were deposited in an irrevocable trust fund with an escrow agent to provide for all future debt service payments on the Series 2011-B Warrants. The refunding resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of $2,401,595.89. The refunded warrants in the amount of $19,345,000.00 are considered defeased.

On December 19, 2019, the Board issued $6,725,000.00 in Refunding and Capital Outlay Tax Anticipation Warrants, Series 2019-C, with interest rates ranging from 4.0% to 5.0%. The proceeds were used to refund, on a current basis with the exception of the 2020 maturity, the Board's outstanding Refunding Tax Anticipation Warrants, Series 2010-A and Series 2010-B, dated March 1, 2010, in the amount of $5,285,000.00 for Series 2010-A and $1,490,000 for Series 2010-B. The net proceeds were deposited in an irrevocable trust fund with an escrow agent to provide for all future debt service payments on the Series 2010-A and 2010-B Warrants. The refunding resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of $332,414.75. The refunded Series 2010-A Warrants in the amount of $5,285,000.00 and Series 2010-B Warrants in the amount of $1,490,000.00 are considered defeased.

## ***Note 10 – Risk Management***

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

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

Board employees who are injured while on the job are entitled to salary and fringe benefits of up to ninety working days in accordance with the ***Code of Alabama 1975***, Section 16-1-18.1(d). Any unreimbursed medical expenses and costs which the employee incurs as a result of an on-the-job injury may be filed for reimbursement with the State Board of Adjustment.

## Note 11 – Interfund Transactions

### Interfund Receivables and Payables

The interfund receivables and payables at September 30, 2020, were as follows:

| | Interfund Receivables General Fund | Total |
|---|---|---|
| Interfund Payables: | | |
| Special Revenue Fund | $3,375,731.96 | $3,375,731.96 |
| Totals | $3,375,731.96 | $3,375,731.96 |

### Interfund Transfers

The amounts of interfund transfers during the fiscal year ended September 30, 2020, were as follows:

| | Transfers In | | | | |
|---|---|---|---|---|---|
| | General Fund | Special Revenue Fund | Capital Projects Fund | Other Governmental Fund | Totals |
| Transfers Out: | | | | | |
| General Fund | $ | $6,942,131.77 | $657,937.34 | $ 6,316,809.37 | $13,916,878.48 |
| Special Revenue Fund | 81,089.66 | | | | 81,089.66 |
| Capital Projects Fund | | 250,000.00 | | 4,417,791.99 | 4,667,791.99 |
| Totals | $81,089.66 | $7,192,131.77 | $657,937.34 | $10,734,601.36 | $18,665,760.13 |

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

# *Required Supplementary Information*

## *Schedule of the Employer's Proportionate Share of the Collective Net Pension Liability*
## *For the Year Ended September 30, 2020*
## *(Dollar amounts in thousands)*

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|---|
| Employer's proportion of the collective net pension liability | 1.567360% | 1.488236% | 1.505450% | 1.512904% | 1.512995% | 1.508412% |
| Employer's proportionate share of the collective net pension liability | $ 173,301 | $ 147,969 | $ 147,963 | $ 163,787 | $ 158,345 | $ 137,033 |
| Employer's covered payroll during the measurement period (*) | $ 103,037 | $ 99,429 | $ 99,471 | $ 95,757 | $ 95,598 | $ 95,680 |
| Employer's proportionate share of the collective net pension liability as a percentage of its covered payroll | 168.19% | 148.82% | 148.75% | 171.04% | 165.64% | 143.22% |
| Plan fiduciary net position as a percentage of the total collective net pension liability | 69.85% | 72.29% | 71.50% | 67.93% | 67.51% | 71.01% |

(*) Employer's covered payroll during the measurement period is the total covered payroll (See GASB Statement Number 82).
For fiscal year 2020, the measurement period is October 1, 2018 - September 30, 2019.

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

## *Schedule of the Employer's Contributions - Pension*
## *For the Year Ended September 30, 2020*
## *(Dollar amounts in thousands)*

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|---|
| Contractually required contribution | $ 12,934 | $ 12,551 | $ 11,947 | $ 11,784 | $ 11,314 | $ 11,164 |
| Contributions in relation to the contractually required contribution | $ 12,934 | $ 12,551 | $ 11,947 | $ 11,784 | $ 11,314 | $ 11,164 |
| Contribution deficiency (excess) | $ | $ | $ | $ | $ | $ |
| Employer's covered payroll | $ 106,194 | $ 103,037 | $ 99,429 | $ 99,471 | $ 95,757 | $ 95,598 |
| Contributions as a percentage of covered payroll | 12.18% | 12.18% | 12.02% | 11.85% | 11.82% | 11.68% |

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

## *Schedule of the Employer's Proportionate Share of the Collective Net Other Postemployment Benefits (OPEB) Liability Alabama Retired Education Employees' Health Care Trust For the Year Ended September 30, 2020 (Dollar amounts in thousands)*

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Employer's proportion of the collective net OPEB liability | 1.880666% | 1.821657% | 1.780574% |
| Employer's proportionate share of the collective net OPEB liability | $ 70,953 | $ 149,717 | $ 132,251 |
| Employer's covered-employee payroll during the measurement period (*) | $ 103,037 | $ 99,429 | $ 99,471 |
| Employer's proportionate share of the collective net OPEB liability as a percentage of its covered-employee payroll | 68.86% | 150.58% | 132.95% |
| Plan fiduciary net position as a percentage of the total collective net OPEB liability | 28.14% | 14.81% | 15.37% |

(*) Employer's covered-employee payroll during the measurement period is the total covered payroll.
For fiscal year 2020, the measurement period is October 1, 2018 - September 30, 2019.

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

***Schedule of the Employer's Contributions - Other Postemployment Benefits (OPEB)***
***Alabama Retired Education Employees' Health Care Trust***
***For the Year Ended September 30, 2020***
***(Dollar amounts in thousands)***

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Contractually required contribution | $ 3,258 | $ 5,304 | $ 4,501 |
| Contributions in relation to the contractually required contribution | $ 3,258 | $ 5,304 | $ 4,501 |
| Contribution deficiency (excess) | $ | $ | $ |
| Employer's covered-employee payroll | $ 106,194 | $ 103,037 | $ 99,429 |
| Contributions as a percentage of covered-employee payroll | 3.07% | 5.15% | 4.53% |

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

## ***Changes in Actuarial Assumptions***

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

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

## ***Recent Plan Changes***

Beginning in plan year 2021, the Medicare Advantage Plan with Prescription Drug Coverage (MAPD) plan premium rates exclude the Affordable Care Act (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 United Healthcare Medicare Advantage Plan with Prescription Drug Coverage (MAPD).

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

## *Method and Assumptions Used in Calculations of Actuarially Determined Contributions*

The actuarially determined contribution rates in the Schedule of Employer Contributions – Other Postemployment Benefits (OPEB) are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Therefore, the actuarially determined employer contribution for fiscal year ending September 30, 2019, is determined based on the actuarial valuation as of September 30, 2016. The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

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

## *Schedule of Revenues, Expenditures and Changes in Fund Balances*
## *Budget and Actual - General Fund*
## *For the Year Ended September 30, 2020*

| | Budgeted Amounts Original | Budgeted Amounts Final | Actual Amounts Budgetary Basis | | Budget to GAAP Differences | Actual Amounts GAAP Basis |
|---|---|---|---|---|---|---|
| **Revenues** | | | | | | |
| State | $ 116,344,249.00 | $ 121,737,774.40 | $ 122,176,968.84 | | $ | $ 122,176,968.84 |
| Federal | 430,572.00 | 430,572.00 | 1,041,790.67 | | | 1,041,790.67 |
| Local | 49,954,910.00 | 49,954,910.00 | 54,023,454.11 | | | 54,023,454.11 |
| Other | 367,834.50 | 367,834.50 | 397,123.92 | | | 397,123.92 |
| Total Revenues | 167,097,565.50 | 172,491,090.90 | 177,639,337.54 | | | 177,639,337.54 |
| **Expenditures** | | | | | | |
| Current: | | | | | | |
| Instruction | 93,781,869.24 | 96,705,497.04 | 95,320,916.16 | (1) | (1,365,080.04) | 93,955,836.12 |
| Instructional Support | 27,248,622.04 | 27,651,983.64 | 27,087,018.99 | (1) | (97,864.58) | 26,989,154.41 |
| Operation and Maintenance | 15,862,569.29 | 16,861,969.29 | 14,363,099.02 | (1) | 56,924.64 | 14,420,023.66 |
| Auxiliary Services: | | | | | | |
| Student Transportation | 10,227,758.76 | 10,227,758.76 | 9,292,685.48 | (1) | (210,593.00) | 9,082,092.48 |
| General Administrative and Central Support | 4,323,291.99 | 4,338,291.99 | 4,434,321.57 | (1) | 22,411.94 | 4,456,733.51 |
| Other | 3,106,434.33 | 3,128,834.33 | 3,175,525.66 | (1) | (27,833.63) | 3,147,692.03 |
| Capital Outlay | 482,570.00 | 1,385,570.00 | 2,720,216.31 | | | 2,720,216.31 |
| Debt Service: | | | | | | |
| Principal Retirement | 440,000.00 | 440,000.00 | 440,000.04 | | | 440,000.04 |
| Interest and Fiscal Charges | 1,071,800.00 | 1,071,800.00 | 1,071,800.00 | | | 1,071,800.00 |
| Total Expenditures | 156,544,915.65 | 161,811,705.05 | 157,905,583.23 | | (1,622,034.67) | 156,283,548.56 |
| Excess (Deficiency) of Revenues Over Expenditures | 10,552,649.85 | 10,679,385.85 | 19,733,754.31 | | 1,622,034.67 | 21,355,788.98 |
| **Other Financing Sources (Uses)** | | | | | | |
| Indirect Cost | 967,915.31 | 970,984.07 | 922,032.31 | | | 922,032.31 |
| Transfers In | | | 81,089.66 | | | 81,089.66 |
| Other Financing Sources | 100,000.00 | 100,000.00 | 343,202.33 | | | 343,202.33 |
| Sale of Capital Assets | 30,000.00 | 30,000.00 | 177,405.00 | | | 177,405.00 |
| Transfers Out | (12,169,322.93) | (12,169,322.93) | (13,916,878.48) | | | (13,916,878.48) |
| Total Other Financing Sources (Uses) | (11,071,407.62) | (11,068,338.86) | (12,393,149.18) | | | (12,393,149.18) |
| Net Change in Fund Balances | (518,757.77) | (388,953.01) | 7,340,605.13 | | 1,622,034.67 | 8,962,639.80 |
| Fund Balances - Beginning of Year | 17,500,000.00 | 24,033,168.30 | 24,634,801.47 | (2) | (16,038,740.79) | 8,596,060.68 |
| Fund Balances - End of Year | $ 16,981,242.23 | $ 23,644,215.29 | $ 31,975,406.60 | | $ (14,416,706.12) | $ 17,558,700.48 |

## *Schedule of Revenues, Expenditures and Changes in Fund Balances*
## *Budget and Actual - General Fund*
## *For the Year Ended September 30, 2020*

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

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

| | |
|---|---|
| (1) The Board budgets for salaries and benefits only to the extent expected to be paid, rather than on the modified accrual basis. | $ 1,622,034.67 |
| Net Change in Fund Balance - Budget to GAAP | $ 1,622,034.67 |

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

## *Schedule of Revenues, Expenditures and Changes in Fund Balances*
## *Budget and Actual - Special Revenue Fund*
## *For the Year Ended September 30, 2020*

| | Budgeted Amounts | | Actual Amounts | | Budget to GAAP | Actual Amounts |
|---|---|---|---|---|---|---|
| | Original | Final | Budgetary Basis | | Differences | GAAP Basis |
| **Revenues** | | | | | | |
| State | $ | $ | $ 71,000.00 | | $ | $ 71,000.00 |
| Federal | 13,155,941.84 | 14,912,365.32 | 13,794,630.92 | | | 13,794,630.92 |
| Local | 13,735,368.52 | 13,735,368.52 | 8,543,680.38 | | | 8,543,680.38 |
| Other | 249,000.00 | 249,000.00 | 411,177.09 | | | 411,177.09 |
| Total Revenues | 27,140,310.36 | 28,896,733.84 | 22,820,488.39 | | | 22,820,488.39 |
| **Expenditures** | | | | | | |
| Current: | | | | | | |
| Instruction | 9,525,624.62 | 11,000,249.45 | 10,683,427.76 | (1) | (4,168.75) | 10,679,259.01 |
| Instructional Support | 4,662,818.45 | 4,870,693.62 | 4,270,357.80 | | | 4,270,357.80 |
| Operation and Maintenance | 1,881,659.36 | 1,906,659.36 | 2,555,397.61 | (1) | 331.87 | 2,555,729.48 |
| Auxiliary Services: | | | | | | |
| Student Transportation | 361,227.30 | 360,460.05 | 198,525.23 | | | 198,525.23 |
| Food Service | 12,123,898.34 | 12,123,898.34 | 9,776,186.90 | (1) | (132,954.05) | 9,643,232.85 |
| General Administrative and Central Support | 574,952.00 | 590,718.70 | 533,198.47 | | | 533,198.47 |
| Other | 4,179,259.50 | 4,197,323.53 | 2,927,205.91 | | | 2,927,205.91 |
| Capital Outlay | 261,102.84 | 308,071.84 | 718,856.72 | | | 718,856.72 |
| Debt Service: | | | | | | |
| Principal Retirement | 133,134.92 | 133,134.92 | 190,921.74 | | | 190,921.74 |
| Interest and Fiscal Charges | 57,865.08 | 57,865.08 | 56,326.27 | | | 56,326.27 |
| Total Expenditures | 33,761,542.41 | 35,549,074.89 | 31,910,404.41 | | (136,790.93) | 31,773,613.48 |
| Excess (Deficiency) of Revenues Over Expenditures | (6,621,232.05) | (6,652,341.05) | (9,089,916.02) | | 136,790.93 | (8,953,125.09) |
| **Other Financing Sources (Uses)** | | | | | | |
| Transfers In | 9,278,176.38 | 9,278,176.38 | 7,192,131.77 | | | 7,192,131.77 |
| Transfers Out | (2,957,946.60) | (2,957,946.60) | (81,089.66) | | | (81,089.66) |
| Total Other Financing Sources (Uses) | 6,320,229.78 | 6,320,229.78 | 7,111,042.11 | | | 7,111,042.11 |
| Net Change in Fund Balances | (301,002.27) | (332,111.27) | (1,978,873.91) | | 136,790.93 | (1,842,082.98) |
| Fund Balances - Beginning of Year | 6,916,082.66 | 9,730,644.02 | 8,880,157.22 | (2) | (699,063.01) | 8,181,094.21 |
| Fund Balances - End of Year | $ 6,615,080.39 | $ 9,398,532.75 | $ 6,901,283.31 | | $ (562,272.08) | $ 6,339,011.23 |

## *Schedule of Revenues, Expenditures and Changes in Fund Balances*
## *Budget and Actual - Special Revenue Fund*
## *For the Year Ended September 30, 2020*

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

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

| | | |
|---|---|---|
| (1) The Board budgets for salaries and benefits only to the extent expected to be paid, rather than on the modified accrual basis. | $ | 136,790.93 |
| Net Change in Fund Balance - Budget to GAAP | $ | 136,790.93 |

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

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# *Supplementary Information*

## *Schedule of Expenditures of Federal Awards*
## *For the Year Ended September 30, 2020*

| Federal Grantor/<br>Pass-Through Grantor/<br>Program Title | Federal<br>CFDA<br>Number | Pass-Through<br>Grantor's<br>Number | Total<br>Federal<br>Expenditures |
|---|---|---|---|
| **U. S. Department of Agriculture** | | | |
| **Passed Through Alabama Department of Education** | | | |
| Child Nutrition Cluster: | | | |
| School Breakfast Program - Cash Assistance | 10.553 | N.A. | $ 591,808.03 |
| National School Lunch Program: | | | |
| Cash Assistance | 10.555 | N.A. | 2,027,500.23 |
| Non-Cash Assistance (Commodities) | 10.555 | N.A. | 513,483.17 |
| Sub-Total National School Lunch Program | | | 2,540,983.40 |
| Summer Food Service Program for Children | 10.559 | N.A. | 658,401.93 |
| Sub-Total Child Nutrition Cluster | | | 3,791,193.36 |
| State Administrative Expenses for Child Nutrition | 10.560 | N.A. | 45,607.91 |
| Total U. S. Department of Agriculture | | | 3,836,801.27 |
| **U. S. Department of Treasury** | | | |
| **Passed Through Alabama Department of Education** | | | |
| COVID-19 Coronavirus Relief Fund | 21.019 | N.A. | 2,488,630.37 |
| **U. S. Department of Education** | | | |
| **Direct Programs** | | | |
| Impact Aid | 84.041 | N.A. | 132,096.74 |
| Indian Education Grants to Local Educational Agencies | 84.060 | N.A. | 242,869.60 |
| **U. S. Department of Education** | | | |
| **Passed Through Alabama Department of Education** | | | |
| Title I Grants to Local Educational Agencies | 84.010 | N.A. | 2,740,534.20 |
| Career and Technical Education - Basic Grants to States | 84.048 | N.A. | 214,931.23 |
| Special Education Cluster: | | | |
| Special Education - Grants to States | 84.027 | N.A. | 3,602,352.59 |
| Special Education- Preschool Grants | 84.173 | N.A. | 55,727.00 |
| Sub-Total Special Education Cluster | | | 3,658,079.59 |
| Education for Homeless Children and Youth | 84.196 | N.A. | 23,925.94 |
| English Language Acquisition State Grants | 84.365 | N.A. | 24,281.96 |
| Supporting Effective Instruction State Grants | 84.367 | N.A. | 460,404.44 |
| Student Support and Academic Enrichment Grant | 84.424 | N.A. | 182,095.96 |
| COVID-19 Education Stabilization Fund | 84.425D | N.A. | 229,889.96 |
| Sub-Total Passed Through Alabama Department of Education | | | 7,534,143.28 |
| Total U. S. Department of Education | | | 7,909,109.62 |
| Sub-Total Forward | | | $ 14,234,541.26 |

## *Schedule of Expenditures of Federal Awards*
## *For the Year Ended September 30, 2020*

| Federal Grantor/<br>Pass-Through Grantor/<br>Program Title | Federal<br>CFDA<br>Number | Pass-Through<br>Grantor's<br>Number | Total<br>Federal<br>Expenditures |
|---|---|---|---|
| Sub-Total Brought Forward | | | $ 14,234,541.26 |
| | | | |
| **Social Security Administration** | | | |
| **Passed Through Alabama Department of Education** | | | |
| Social Security - Disability Insurance | 96.001 | N.A. | 4,020.00 |
| | | | |
| **U. S. Department of Defense** | | | |
| **Direct Programs** | | | |
| Competitive Grants: Promoting K-12 Student Achievement at Military-Connected Schools | 12.556 | N.A. | 171,667.86 |
| Competitive Grants: Promoting K-12 Student Achievement at Military-Connected Schools | 12.556 | N.A. | 121,536.73 |
| Sub-Total Competitive Grants: Promoting K-12 Student Achievement at Military-Connected Schools | | | 293,204.59 |
| | | | |
| **Other Federal Assistance** | | | |
| **U. S. Department of Defense** | | | |
| Navy ROTC | N.A. | N.A. | 79,741.01 |
| Army ROTC | N.A. | N.A. | 224,914.73 |
| Total U. S. Department of Defense | | | 597,860.33 |
| | | | |
| Total Expenditures of Federal Awards | | | $ 14,836,421.59 |

N.A. = Not Available or Not Applicable

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

***Note 1 – Basis of Presentation***

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the Madison County Board of Education under programs of the federal government for the year ended September 30, 2020. 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 Madison County Board of Education, it is not intended to and does not present the financial position or changes in net position of the Madison County Board of Education.

***Note 2 – Summary of Significant Accounting Policies***

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the *Uniform Guidance* wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Madison County Board of Education has elected not to use the 10-percent de minimis indirect cost rate as allowed in the *Uniform Guidance*.

# *Additional Information*

# *Board Members and Administrative Personnel*

## *October 1, 2019 through September 30, 2020*

| **Board Members** | | **Term Expires** |
|---|---|---|
| Hon. Dave Weis | President | November 2022 |
| Hon. Nathan Curry | Vice-President | November 2024 |
| Hon. Angie Bates | Member | November 2024 |
| Hon. Mary Louise Stowe | Member | November 2020 |
| Hon. Shere Rucker | Member | November 2022 |
| **Administrative Personnel** | | |
| Allen Perkins | Superintendent | December 2022 |
| Dr. Mark Minskey | Interim Superintendent | November 3, 2019 |
| Karen O’Bannon | Chief School Financial Officer | Indefinite |

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

***Independent Auditor's Report***

Members of the Madison County Board of Education,
Superintendent and Chief School Financial Officer
Huntsville, Alabama

We have audited, in accordance with auditing standards generally accepted in the United States of American and the standards applicable to financial audits contained in ***Government Auditing Standards*** issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Madison County Board of Education, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Madison County Board of Education's basic financial statements, and have issued our report thereon dated May 10, 2021.

***Internal Control Over Financial Reporting***

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

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

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

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

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Madison County Board of Education's financial statements are free of 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 or other matters that are required to be reported under ***Government Auditing Standards***.

***Purpose of this Report***

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

Rachel Laurie Riddle

Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

May 10, 2021

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

***Independent Auditor's Report***

Members of the Madison County Board of Education,
Superintendent and Chief School Financial Officer
Huntsville, Alabama

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

We have audited the Madison County Board of Education's compliance with the types of compliance requirements described in the ***OMB Compliance Supplement*** that could have a direct and material effect on each of the Madison County Board of Education's major federal programs for the year ended September 30, 2020. The Madison County Board of Education's major federal programs are identified in the Summary of Examiner's Results Section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

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

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

In our opinion, the Madison County Board of Education complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2020.

***Report on Internal Control Over Compliance***

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

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

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

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

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

Rachel Laurie Riddle

Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

May 10, 2021

## Section I – Summary of Examiner's Results

***Financial Statements***

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

***Federal Awards***

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

Identification of major federal programs:

| CFDA Numbers | Name of Federal Program or Cluster |
|---|---|
| 21.019 | COVID-19 Coronavirus Relief Fund |
| 84.027 and 84.173 | Special Education Cluster |

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

## Section II – Financial Statement Findings (GAGAS)

No matters were reportable.

## Section III – Federal Awards Findings and Questioned Costs

No matters were reportable.