

Report on the

Winston County Board of Education

Winston County, Alabama

October 1, 2019 through September 30, 2020

Filed: November 19, 2021



Department of Examiners of Public Accounts

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Rachel Laurie Riddle, Chief Examiner



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

Dear Madam:

An audit was conducted on the Winston County Board of Education, Winston County, Alabama, for the period October 1, 2019 through September 30, 2020. 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,

Laremy McNeill
Examiner of Public Accounts

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| Reports on whether the financial information constitutes a fair presentation of the financial position and results of financial operations in accordance with generally accepted accounting principles (GAAP). | |
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| <p>Provides basic information related to the Board, including reports and items required by generally accepted government auditing standards and/or Title 2 U. S. <i>Code of Federal Regulations</i> Part 200, <i>Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)</i> for federal compliance audits.</p> | | |
| Exhibit #15 | Board Members and Administrative Personnel – a listing of the Board members and administrative personnel. | 55 |
| Exhibit #16 | Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> – a report on internal controls related to the financial statements and on whether the Board complied with laws and regulations which could have a direct and material effect on the Board’s financial statements. | 56 |
| Exhibit #17 | Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the <i>Uniform Guidance</i> – a report on internal controls over compliance with requirements of federal statutes, regulations, and the terms and conditions of federal awards applicable to major federal programs, and an opinion on whether the Board complied with federal statutes, regulations, and the terms and conditions of its federal awards which could have a direct and material effect on each major program. | 58 |
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Department of
Examiners of Public Accounts

SUMMARY

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

The Winston County Board of Education (the “Board”) is governed by a five-member body elected by the citizens of Winston County. The members and administrative personnel in charge of governance of the Board are listed in Exhibit 15. The Board is the governmental agency that provides general administration and supervision for Winston County public schools, preschool through high school, with the exception of schools administered by the Haleyville 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 15, were invited to discuss the results of this report at an exit conference. Chief School Financial Officer, Andrew McCay attended the exit conference. Also in attendance were representatives from the Department of Examiners of Public Accounts: Denise H. Olive, Audit Manager; and Laremy McNeill, Examiner.

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Independent Auditor's Report

Independent Auditor's Report

Members of the Winston County Board of Education,
Superintendent and Chief School Financial Officer
Double Springs, 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 Winston 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 Winston County Board of Education's basic financial statements as listed in the table of contents as Exhibits 1 through 7.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

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

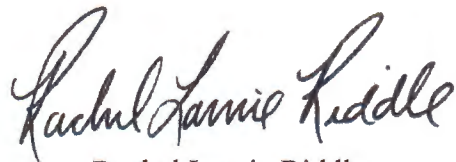
Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Winston County Board of Education's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 14), as required by Title 2 U. S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, is presented for the 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 basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2021, on our consideration of the Winston 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 Winston 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 Winston County Board of Education's internal control over financial reporting and compliance.



Rachel Laurie Riddle
Chief Examiner

Department of Examiners of Public Accounts

Montgomery, Alabama

November 3, 2021

Basic Financial Statements

Statement of Net Position
September 30, 2020

| | Governmental Activities |
|--|------------------------------------|
| Assets | |
| Cash | \$ 4,967,424.77 |
| Cash with Fiscal Agent | 843,140.32 |
| Investments | 7,840.15 |
| Ad Valorem Property Taxes Receivable | 2,613,235.74 |
| Receivables (Note 4) | 1,494,690.48 |
| Inventories | 18,424.25 |
| Other Assets | 22,281.96 |
| Capital Assets (Note 5): | |
| Nondepreciable | 326,589.12 |
| Depreciable, Net | 20,720,985.72 |
| Total Assets | <u>31,014,612.51</u> |
| Deferred Outflows of Resources | |
| Employer Pension Contribution | 1,758,686.91 |
| Proportionate Share of Collective Deferred Outflows Related to Net Pension Liability | 1,707,000.00 |
| Employer Other Postemployment Benefits (OPEB) Contribution | 465,013.00 |
| Proportionate Share of Collective Deferred Outflows Related to Net OPEB Liability | 1,256,078.00 |
| Total Deferred Outflows of Resources | <u>5,186,777.91</u> |
| Liabilities | |
| Payables | 10,141.50 |
| Accrued Interest Payable | 136,491.76 |
| Salaries and Benefits Payable | 1,900,200.15 |
| Long-Term Liabilities: | |
| Portion Payable Within One Year: | |
| Bonds/Warrants Payable | 689,181.64 |
| Notes from Direct Borrowings | 446,078.17 |
| Leases Payable | 121,582.59 |
| Unamortized Bond Premium | 7,060.87 |
| Portion Payable After One Year: | |
| Bonds/Warrants Payable | 5,703,415.90 |
| Notes from Direct Borrowings | 3,875,344.24 |
| Leases Payable | 247,547.27 |
| Unamortized Bond Premium | 124,153.60 |
| Estimated Liability for Compensated Absences | 55,955.14 |
| Net Pension Liability | 21,212,000.00 |
| Net OPEB Liability | 10,070,687.00 |
| Total Liabilities | <u>\$ 44,599,839.83</u> |

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

| | Governmental Activities |
|---|------------------------------------|
| <u>Deferred Inflows of Resources</u> | |
| Unavailable Revenue - Property Taxes | \$ 2,613,235.74 |
| Proportionate Share of Collective Deferred Inflows Related to Net Pension Liability | 2,149,000.00 |
| Proportionate Share of Collective Deferred Inflows Related to OPEB Liability | 12,968,659.00 |
| Total Deferred Inflows of Resources | <u>17,730,894.74</u> |
| <u>Net Position</u> | |
| Net Investment in Capital Assets | 9,833,210.56 |
| Restricted for: | |
| Debt Service | 290,123.09 |
| Capital Projects | 793,111.57 |
| Other Purposes | 1,359,608.28 |
| Unrestricted | <u>(38,405,397.65)</u> |
| Total Net Position | <u>\$ (26,129,344.15)</u> |

Statement of Activities
For the Year Ended September 30, 2020

| Functions/Programs | Expenses | Program Revenues | | | Net (Expenses) Revenues and Changes in Net Position |
|--|-------------------------|-------------------------|---------------------------------------|-------------------------------------|--|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Governmental Activities | | | | | |
| Instruction | \$ 12,722,092.31 | \$ 300,038.15 | \$ 10,745,835.55 | \$ 551,368.00 | \$ (1,124,850.61) |
| Instructional Support | 4,086,704.12 | 146,502.72 | 3,555,645.25 | | (384,556.15) |
| Operation and Maintenance | 2,159,027.13 | 82,812.78 | 1,642,669.41 | 18,567.00 | (414,977.94) |
| Auxiliary Services: | | | | | |
| Student Transportation Services | 2,767,593.80 | 40,516.34 | 2,486,859.01 | 503,323.00 | 263,104.55 |
| Food Services | 1,667,513.64 | 1,192,070.78 | 99,141.97 | | (376,300.89) |
| General Administrative and Central Support | 1,256,468.71 | | 765,476.45 | | (490,992.26) |
| Interest and Fiscal Charges | 436,236.91 | | | | (436,236.91) |
| Other Expenses | 1,061,714.81 | 696,962.51 | 470,778.07 | | 106,025.77 |
| Total Governmental Activities | <u>\$ 26,157,351.43</u> | <u>\$ 2,458,903.28</u> | <u>\$ 19,766,405.71</u> | <u>\$ 1,073,258.00</u> | <u>(2,858,784.44)</u> |
| General Revenues: | | | | | |
| Taxes: | | | | | |
| Property Taxes for General Purposes | | | | | 2,764,942.51 |
| Local Sales Tax | | | | | 2,355,070.74 |
| Other Taxes | | | | | 67,586.50 |
| Investment Earnings | | | | | 25,756.02 |
| Gain on Disposition of Capital Assets | | | | | 57,469.31 |
| Miscellaneous | | | | | 877,738.16 |
| Total General Revenues | | | | | <u>6,148,563.24</u> |
| Changes in Net Position | | | | | 3,289,778.80 |
| Net Position - Beginning of Year | | | | | <u>(29,419,122.95)</u> |
| Net Position - End of Year | | | | | <u>\$ (26,129,344.15)</u> |

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 | Other Governmental Funds | Total Governmental Funds |
|---|------------------------|----------------------------|--------------------------------|--------------------------------|
| Assets | | | | |
| Cash | \$ 3,220,421.97 | \$ 1,370,416.70 | \$ 376,586.10 | \$ 4,967,424.77 |
| Cash with Fiscal Agent | | | 843,140.32 | 843,140.32 |
| Investments | | 7,840.15 | | 7,840.15 |
| Ad Valorem Property Taxes Receivable | 2,613,235.74 | | | 2,613,235.74 |
| Receivables (Note 4) | 744,609.34 | 750,081.14 | | 1,494,690.48 |
| Due from Other Funds | 512,661.46 | | | 512,661.46 |
| Inventories | | 18,424.25 | | 18,424.25 |
| Other Assets | 22,281.96 | | | 22,281.96 |
| Total Assets | <u>7,113,210.47</u> | <u>2,146,762.24</u> | <u>1,219,726.42</u> | <u>10,479,699.13</u> |
| Liabilities, Deferred Inflows of Resources and Fund Balances | | | | |
| Liabilities | | | | |
| Payables | 8,588.66 | 1,552.84 | | 10,141.50 |
| Due to Other Funds | | 512,661.46 | | 512,661.46 |
| Salaries and Benefits Payable | 1,821,754.47 | 78,445.68 | | 1,900,200.15 |
| Total Liabilities | <u>1,830,343.13</u> | <u>592,659.98</u> | | <u>2,423,003.11</u> |
| Deferred Inflows of Resources | | | | |
| Unavailable Revenue - Property Taxes | 2,613,235.74 | | | 2,613,235.74 |
| Total Deferred Inflows of Resources | <u>2,613,235.74</u> | | | <u>2,613,235.74</u> |
| Fund Balances | | | | |
| Nonspendable: | | | | |
| Inventories | | 18,424.25 | | 18,424.25 |
| Restricted for: | | | | |
| Debt Service | | | 426,614.85 | 426,614.85 |
| Capital Projects | | | 793,111.57 | 793,111.57 |
| Other Purposes | 626,891.12 | | | 626,891.12 |
| Child Nutrition | | 714,292.91 | | 714,292.91 |
| Assigned to: | | | | |
| Local Schools | | 821,385.10 | | 821,385.10 |
| Unassigned | 2,042,740.48 | | | 2,042,740.48 |
| Total Fund Balances | <u>2,669,631.60</u> | <u>1,554,102.26</u> | <u>1,219,726.42</u> | <u>5,443,460.28</u> |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | <u>\$ 7,113,210.47</u> | <u>\$ 2,146,762.24</u> | <u>\$ 1,219,726.42</u> | <u>\$ 10,479,699.13</u> |

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) \$ 5,443,460.28

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

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

| | | |
|-------------------------------|------------------------|---------------|
| The Cost of Capital Assets is | \$ 38,464,087.15 | |
| Accumulated Depreciation is | <u>(17,416,512.31)</u> | |
| | | 21,047,574.84 |

Long-term liabilities, including net pension and other postemployment benefits (OPEB)
obligations and bonds/warrants payable, are not due and payable in the current period
and, therefore, are not reported as liabilities in the funds.

| | | |
|--------------------------------------|----------------------|-----------------|
| Current Portion of Long-Term Debt | \$ 1,263,903.27 | |
| Noncurrent Portion of Long-Term Debt | <u>41,289,103.15</u> | |
| | | (42,553,006.42) |

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

| | | |
|---|-----------------------|--------------|
| Deferred Outflows Related to Defined Benefit Pension Plan | \$ 3,465,686.91 | |
| Deferred Inflows Related to Defined Benefit Pension Plan | <u>(2,149,000.00)</u> | |
| | | 1,316,686.91 |

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

| | | |
|--|------------------------|-----------------|
| Deferred Outflows Related to OPEB Plan | \$ 1,721,091.00 | |
| Deferred Inflows Related to OPEB Plan | <u>(12,968,659.00)</u> | |
| | | (11,247,568.00) |

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

| | | |
|--------------------------|--|---------------------|
| Accrued Interest Payable | | <u>(136,491.76)</u> |
|--------------------------|--|---------------------|

| | | |
|--|--|----------------------------------|
| Total Net Position - Governmental Activities (Exhibit 1) | | <u><u>\$ (26,129,344.15)</u></u> |
|--|--|----------------------------------|

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

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

| | General Fund | Special Revenue Fund | Other Governmental Funds | Total Governmental Funds |
|---|------------------|----------------------------|--------------------------------|--------------------------------|
| Revenues | | | | |
| State | \$ 17,307,831.76 | \$ | \$ 1,001,266.00 | \$ 18,309,097.76 |
| Federal | 187,510.91 | 3,640,916.77 | | 3,828,427.68 |
| Local | 5,333,349.95 | 1,533,486.94 | 164,346.56 | 7,031,183.45 |
| Other | 49,587.42 | 49,954.34 | | 99,541.76 |
| Total Revenues | 22,878,280.04 | 5,224,358.05 | 1,165,612.56 | 29,268,250.65 |
| Expenditures | | | | |
| Current: | | | | |
| Instruction | 11,429,713.18 | 1,595,913.78 | | 13,025,626.96 |
| Instructional Support | 3,599,787.36 | 692,644.26 | | 4,292,431.62 |
| Operation and Maintenance | 1,648,491.68 | 446,083.54 | 88,991.97 | 2,183,567.19 |
| Auxiliary Services: | | | | |
| Student Transportation Services | 2,498,429.67 | 53,253.75 | | 2,551,683.42 |
| Food Services | | 1,897,978.23 | | 1,897,978.23 |
| General Administrative and Central Support | 1,063,645.77 | 195,651.19 | 20.00 | 1,259,316.96 |
| Other | 506,423.83 | 579,770.35 | | 1,086,194.18 |
| Capital Outlay | 1,113,980.00 | 14,500.00 | 341,758.90 | 1,470,238.90 |
| Debt Service: | | | | |
| Principal Retirement | 368,278.14 | | 1,040,359.48 | 1,408,637.62 |
| Interest and Fiscal Charges | 113,522.62 | | 286,233.52 | 399,756.14 |
| Total Expenditures | 22,342,272.25 | 5,475,795.10 | 1,757,363.87 | 29,575,431.22 |
| Excess (Deficiency) of Revenues Over Expenditures | 536,007.79 | (251,437.05) | (591,751.31) | (307,180.57) |
| Other Financing Sources (Uses) | | | | |
| Indirect Cost | 178,633.52 | | | 178,633.52 |
| Long-Term Debt Issued | 935,548.00 | | | 935,548.00 |
| Transfers In | 158,027.21 | 653,757.22 | 179,650.00 | 991,434.43 |
| Other Financing Sources | 121,410.27 | | | 121,410.27 |
| Sale of Capital Assets | 233,918.00 | | | 233,918.00 |
| Transfers Out | (833,407.22) | (158,027.21) | | (991,434.43) |
| Total Other Financing Sources (Uses) | 794,129.78 | 495,730.01 | 179,650.00 | 1,469,509.79 |
| Net Changes in Fund Balances | 1,330,137.57 | 244,292.96 | (412,101.31) | 1,162,329.22 |
| Fund Balances - Beginning of Year | 1,339,494.03 | 1,309,809.30 | 1,631,827.73 | 4,281,131.06 |
| Fund Balances - End of Year | \$ 2,669,631.60 | \$ 1,554,102.26 | \$ 1,219,726.42 | \$ 5,443,460.28 |

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) \$ 1,162,329.22

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 outlay exceeded depreciation expense in the period.

| | | |
|----------------------|-----------------------|------------|
| Capital Outlay | \$ 1,470,238.90 | |
| Depreciation Expense | <u>(1,147,609.04)</u> | 322,629.86 |

Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities. 1,408,637.62

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 (935,548.00)

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

| | | |
|--|------------------|--------------|
| Proceeds from the Sale of Capital Assets | \$ (233,918.00) | |
| Gain on Disposition of Capital Assets | <u>57,469.31</u> | (176,448.69) |

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

| | | |
|--|---------------------|---------------------|
| Accrued Interest Payable, Current Year (Increase)/Decrease | \$ (43,541.64) | |
| Compensated Absences, Current Year (Increase)/Decrease | (35,984.21) | |
| Amortization of Premiums/Deferred Charges on Refunding | 7,060.87 | |
| Net (Increase)/Decrease in Pension Expense | 39,226.77 | |
| Net (Increase)/Decrease in Other Postemployment Benefits Expense | <u>1,541,417.00</u> | |
| | | <u>1,508,178.79</u> |

Change in Net Position of Governmental Activities (Exhibit 2) \$ 3,289,778.80

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

Statement of Fiduciary Net Position
September 30, 2020

| | Agency Funds |
|-------------------------------|-------------------------|
| <u>Assets</u> | |
| Cash | \$ 144,292.29 |
| Total Assets | <u>144,292.29</u> |
| <u>Liabilities</u> | |
| Due to External Organizations | 144,292.29 |
| Total Liabilities | <u>\$ 144,292.29</u> |

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

Notes to the Financial Statements

For the Year Ended September 30, 2020

Note 1 – Summary of Significant Accounting Policies

The financial statements of the Winston 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 cities having a city board of education).

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

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

Notes to the Financial Statements

For the Year Ended September 30, 2020

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. All remaining governmental funds are aggregated and reported as non-major funds in the Other Governmental Funds' column.

The Board reports the following major governmental funds:

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

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

Governmental Fund Types

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

Notes to the Financial Statements

For the Year Ended September 30, 2020

- ◆ **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 type:

Fiduciary Fund Type

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

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. Non-exchange 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.

Notes to the Financial Statements
For the Year Ended September 30, 2020

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 includes cash on hand and demand deposits.

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

Investments, which only consist of certificates of deposit, are stated 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, taxes from local governments and amounts at local schools.

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.

Notes to the Financial Statements
For the Year Ended September 30, 2020

4. Restricted Assets

Certain funds received from the State Department of Education for capital projects and improvements, as well as certain resources set aside for repayment of debt, included in cash and cash with fiscal 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 funding sources are used to report proceeds that are restricted for use in various construction projects and the purchase of school buses. The Debt Service Fund and the Capital Projects Fund are used to report resources set aside to pay the principal and interest on debt as it becomes due.

5. Capital Assets

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

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

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

6. Deferred Outflows of Resources

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

Notes to the Financial Statements

For the Year Ended September 30, 2020

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 are deferred and amortized over the life of the debt. Bonds/Warrants payable are reported gross with the applicable premium reported on separate lines. Issuance costs are reported as an expense in the period incurred.

In the fund financial statements, governmental fund types recognize premiums, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums on debt issuances are reported as other financing sources. 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 earn one day vacation leave per month up to a maximum of twelve days per school year. A maximum of two unused leave days may be carried over to the next school year. All vacation days must be used prior to an effective resignation date. No cash payments will be made for unused vacation days.

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.

Notes to the Financial Statements

For the Year Ended September 30, 2020

- ◆ **Restricted** – Constraints imposed on net position by external creditors, grantors, contributors, laws or regulations of other governments, or law through constitutional provision or enabling legislation.
- ◆ **Unrestricted** – The net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted portion of net position. Assignments and commitments of unrestricted net position should not be reported on the face of the Statement of Net Position.

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

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

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be the 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.

Notes to the Financial Statements

For the Year Ended September 30, 2020

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. All other governmental funds adopts budgets on the modified accrual basis of accounting with the exception of the Capital Projects Fund, which adopts project-length budgets. All appropriations lapse at fiscal year-end.

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

Notes to the Financial Statements
For the Year Ended September 30, 2020

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

B. 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 the 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's cash with fiscal agent is to be invested in accordance with these applicable statutes.

As of September 30, 2020, cash with fiscal agent includes \$734,294.10 of 2019-A loan funds that are held by the State of Alabama for construction projects. The funds are recorded by the Board as cash with fiscal agent in the Capital Projects Fund. Cash with fiscal agent also includes \$108,846.22 invested in money market funds recorded in the Capital Projects and Debt Service Funds.

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

Notes to the Financial Statements
For the Year Ended September 30, 2020

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-funded 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 unity of any such state that the Board invests in be rated in the highest rating category of Standard & Poor’s Corporation and Moody’s Investor Services, Inc. The Board does not have a formal investment policy that addresses its investment choices.

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

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

Note 4 – Receivables

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

| | General Fund | Special Revenue Fund | Total |
|--------------------------|---------------------|-------------------------|-----------------------|
| Receivables: | | | |
| Sales Tax | \$577,400.23 | \$ | \$ 577,400.23 |
| Intergovernmental | 167,209.11 | 750,081.14 | 917,290.25 |
| Total Receivables | \$744,609.34 | \$750,081.14 | \$1,494,690.48 |

Notes to the Financial Statements
For the Year Ended September 30, 2020

Note 5 – Capital Assets

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

| | Balance 10/01/2019 | Additions (*) | Deletions (*) | Balance 09/30/2020 |
|--|-------------------------|-----------------------|-----------------------|-------------------------|
| Governmental Activities: | | | | |
| Capital Assets, Not Being Depreciated: | | | | |
| Land and Land Improvements | \$ 310,107.95 | \$ | \$ | \$ 310,107.95 |
| Construction in Progress | 33,784.30 | 341,758.90 | (359,062.03) | 16,481.17 |
| Total Capital Assets, Not Being Depreciated | <u>343,892.25</u> | <u>341,758.90</u> | <u>(359,062.03)</u> | <u>326,589.12</u> |
| Capital Assets Being Depreciated: | | | | |
| Building and Building Improvements | 29,062,070.80 | 359,062.03 | | 29,421,132.83 |
| Land Improvements - Exhaustible | 257,174.81 | | | 257,174.81 |
| Equipment and Furniture | 8,173,297.01 | 1,128,480.00 | (842,586.62) | 8,459,190.39 |
| Total Capital Assets Being Depreciated | <u>37,492,542.62</u> | <u>1,487,542.03</u> | <u>(842,586.62)</u> | <u>38,137,498.03</u> |
| Less Accumulated Depreciation for: | | | | |
| Buildings and Building Improvements | (12,781,420.43) | (527,424.05) | | (13,308,844.48) |
| Land Improvements - Exhaustible | (105,555.77) | (11,572.88) | | (117,128.65) |
| Equipment and Furniture | (4,048,065.00) | (608,612.11) | 666,137.93 | (3,990,539.18) |
| Total Accumulated Depreciation | <u>(16,935,041.20)</u> | <u>(1,147,609.04)</u> | <u>666,137.93</u> | <u>(17,416,512.31)</u> |
| Total Capital Assets Being Depreciated, Net | <u>20,557,501.42</u> | <u>339,932.99</u> | <u>(176,448.69)</u> | <u>20,720,985.72</u> |
| Total Governmental Activities Capital Assets, Net | <u>\$ 20,901,393.67</u> | <u>\$ 681,691.89</u> | <u>\$(535,510.72)</u> | <u>\$ 21,047,574.84</u> |
| (*) Additions and deletions columns include reclassification from Construction in Progress to Buildings and Building Improvements of \$359,062.03. | | | | |

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

| | Current Year Depreciation Expense |
|--|---|
| Governmental Activities: | |
| Instruction | \$ 482,610.74 |
| Instructional Support | 19,077.83 |
| Operation and Maintenance | 35,089.88 |
| Auxiliary Services: | |
| Food Service | 52,684.88 |
| Student Transportation Services | 481,225.23 |
| General Administrative and Central Support | 51,441.76 |
| Other | 25,478.72 |
| Total Depreciation Expense - Governmental Activities | <u>\$1,147,609.04</u> |

Notes to the Financial Statements

For the Year Ended September 30, 2020

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 30th, are paid to a qualified beneficiary.

Notes to the Financial Statements
For the Year Ended September 30, 2020

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 \$1,758,686.91 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 \$21,212,000.00 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 0.191847%, which was a decrease of 0.010429% from its proportion measured as of September 30, 2018.

Notes to the Financial Statements
For the Year Ended September 30, 2020

For the year ended September 30, 2020, the Board recognized pension expense of \$1,719,000.00. 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 |
|--|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 314,000.00 | \$ 703,000.00 |
| Changes of assumptions | 654,000.00 | |
| Net difference between projected and actual earnings on pension plan investments | 739,000.00 | |
| Changes in proportion and difference between employer contributions and proportionate share of contributions | | 1,446,000.00 |
| Employer contributions subsequent to the measurement date | 1,758,686.91 | |
| Total | \$3,465,686.91 | \$2,149,000.00 |

The \$1,758,686.91 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 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 | \$(481,000.00) |
| 2022 | \$(337,000.00) |
| 2023 | \$ 153,000.00 |
| 2024 | \$ 249,000.00 |
| 2025 | \$ (26,000.00) |
| Thereafter | \$ 0.00 |

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 | |

Notes to the Financial Statements

For the Year Ended September 30, 2020

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

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

(*) Includes assumed rate of inflation of 2.50%

Notes to the Financial Statements
For the Year Ended September 30, 2020

F. Discount Rate

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

G. Sensitivity of the 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 OPEB liability | \$28,797,000 | \$21,212,000 | \$14,794,000 |

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.

Notes to the Financial Statements

For the Year Ended September 30, 2020

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.

Notes to the Financial Statements

For the Year Ended September 30, 2020

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.

Notes to the Financial Statements

For the Year Ended September 30, 2020

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 \$10,070,687.00 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 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 .266931%, which was an increase of .004140% from its proportion measured as of September 30, 2018.

Notes to the Financial Statements
For the Year Ended September 30, 2020

For the year ended September 30, 2020, the Board recognized OPEB income of \$1,070,150.00, 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 | \$ 333,449.00 | \$ 7,721,767.00 |
| Changes of assumptions | 481,439.00 | 4,171,338.00 |
| Net difference between projected and actual earnings on OPEB plan investments | 20,774.00 | |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 420,416.00 | 1,075,554.00 |
| Employer contributions subsequent to the measurement date | 465,013.00 | |
| Total | \$1,721,091.00 | \$12,968,659.00 |

The \$465,013.00 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 | \$(2,510,024.00) |
| 2022 | \$(2,510,024.00) |
| 2023 | \$(2,483,635.00) |
| 2024 | \$(1,914,564.00) |
| 2025 | \$(1,954,769.00) |
| Thereafter | \$ (339,565.00) |

Notes to the Financial Statements

For the Year Ended September 30, 2020

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 at the Measurement Date | 5.50% |
| Single Equivalent Interest Rate at 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 detrimental 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, and updated participation assumptions were used in this report.

Notes to the Financial Statements

For the Year Ended September 30, 2020

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

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

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

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return (*) |
|---|----------------------|--|
| Fixed Income | 30.00% | 4.40% |
| U. S. Large Stocks | 38.00% | 8.00% |
| U. S. Mid Stocks | 8.00% | 10.00% |
| U. S. Small Stocks | 4.00% | 11.00% |
| International Developed Market Stocks | 15.00% | 9.50% |
| Cash | 5.00% | 1.50% |
| Total | <u>100.00%</u> | |
| (*) Geometric mean, includes 2.5% inflation | | |

Notes to the Financial Statements
For the Year Ended September 30, 2020

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 Public Education Employees' Health Insurance Board for active employees shall include an amount to partially fund the cost of coverage for retired employees. The projection of cash flows used to determine the discount rate assumed that plan contributions will be made at the current contribution rates. Each year, the State specifies the monthly employer rate that participating school systems must contribute for each active employee. Approximately 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 the Collective Net OPEB Liability | \$8,074,879 | \$10,070,687 | \$12,584,316 |

Notes to the Financial Statements
For the Year Ended September 30, 2020

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 Rate (5.50%) | 1% Increase (6.50%) |
|---|------------------------|-------------------------|------------------------|
| Board's Proportionate Share of the Collective Net OPEB Liability | \$12,172,759 | \$10,070,687 | \$8,353,987 |

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.com.

Note 8 – Long-Term Debt

The Board issued tax anticipation warrants entitled Series 2013 to provide funds for the acquisition, construction, and renovation of school facilities. The Board also issued Special Tax School Warrants entitled Series 2012 to refund the Series 1998 and Series 1998-B Special Tax School Warrants and the Board issued Special Tax School Warrants entitled Series 2016 to refund the Series 2007 Special Tax School Warrants.

During the 2011 fiscal year, the Board, as part of a pooled bond issuance with other school systems within the State of Alabama, issued Capital Improvement Pool Refunding Bonds, Series 2011-B to provide funds for the refunding of the remaining portion of the Capital Improvement Pool Bonds, Series 2001-A. During the 2015 fiscal year, the Board, as part of a pooled bond issuance with other school systems within the State of Alabama, issued Capital Improvement Pool Refunding Bonds, Series 2015-B to provide funds to refund a portion of the Capital Improvement Pool Bonds, Series 2008-A.

During the 2019 fiscal year, the Board, as part of a pooled bond issuance with other school systems within the State of Alabama, issued its Capital Outlay Pool Bonds, Series 2019 to provide funds for the acquisition, construction, and renovation of school facilities. In the event of default, whether due to failure to comply with terms and conditions of Bonds or in failure to pay amount due on the Bonds, the Alabama Public School and College Authority (the “Authority”) may (1) withhold all leveraged funds due to the Board until full compliance with the terms and (2) file suit to compel performance of the obligations of the Board under the bond agreement.

Notes to the Financial Statements

For the Year Ended September 30, 2020

The Board has entered into numerous notes from direct borrowings for the purchase of buses and equipment.

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

| | Debt Outstanding 10/01/2019 | Issued/ Increased | Repaid/ Decreased | Debt Outstanding 09/30/2020 | Amounts Due Within One Year |
|---|-----------------------------------|-----------------------|--------------------------|-----------------------------------|-----------------------------------|
| Governmental Activities: | | | | | |
| Bonds/Warrants Payable: | | | | | |
| Capital Improvement Pool Bonds: | | | | | |
| Series 2011B | \$ 348,872.50 | \$ | \$ (170,130.00) | \$ 178,742.50 | \$ 178,742.50 |
| Series 2015B | 1,615,537.60 | | (138,327.52) | 1,477,210.08 | 145,075.20 |
| Series 2019A | 943,645.28 | | (32,000.32) | 911,644.96 | 30,363.94 |
| Unamortized Premium | 138,275.34 | | (7,060.87) | 131,214.47 | 7,060.87 |
| Special Tax School Warrants: | | | | | |
| Series 2016 | 1,310,000.00 | | (135,000.00) | 1,175,000.00 | 135,000.00 |
| Series 2013 | 2,750,000.00 | | (100,000.00) | 2,650,000.00 | 200,000.00 |
| Series 2012 | 95,000.00 | | (95,000.00) | | |
| Sub-Total Bonds/Warrants Payable | 7,201,330.72 | | (677,518.71) | 6,523,812.01 | 696,242.51 |
| Notes from Direct Borrowings | 4,009,460.40 | 935,548.00 | (623,585.99) | 4,321,422.41 | 446,078.17 |
| Leases Payable | 483,723.65 | | (114,593.79) | 369,129.86 | 121,582.59 |
| Net Pension Liability | 20,111,000.00 | 1,101,000.00 | | 21,212,000.00 | |
| Net OPEB Liability | 21,598,073.00 | | (11,527,386.00) | 10,070,687.00 | |
| Compensated Absences | 19,970.93 | 35,984.21 | | 55,955.14 | |
| Total Governmental Activities Long-Term Debt | <u>\$53,423,558.70</u> | <u>\$2,072,532.21</u> | <u>\$(12,943,084.49)</u> | <u>\$42,553,006.42</u> | <u>\$1,263,903.27</u> |

Payments on the Series 2012, 2013, and 2016 warrants payable are made by the debt service fund with sales taxes. Payments on the Capital Improvement Pool Refunding Bonds 2011-B, 2015-B, and 2019-A are made with Public School funds withheld from the Board's allocation from the Alabama Department of Education. The payments on the notes from direct borrowings are paid by state fleet renewal funds.

The Board's outstanding note from direct borrowing, originally issued at \$1,004,969.26, is secured by twelve 2014 school buses. The outstanding note contains a provision that in the event of default, the bank may (1) declare outstanding amounts immediately due, plus all collections expenses, attorney fees, and interest at the default rate and/or (2) make collateral property available to sell for repayment of the note.

The Board's outstanding note from direct borrowing, originally issued at \$522,664.95, is secured by twelve 2015 school buses. The outstanding note contains a provision that in the event of default, the bank may (1) declare outstanding amounts immediately due, plus all collections expenses, attorney fees, and interest at the default rate and/or (2) make collateral property available to sell for repayment of the note.

Notes to the Financial Statements

For the Year Ended September 30, 2020

The Board's outstanding note from direct borrowing, originally issued at \$512,470.02, is secured by six 2016 school buses. The outstanding note contains a provision that in the event of default, the bank may (1) declare unpaid principal immediately due and payable, plus interest thereon at the prime rate, (2) proceed by appropriate court action to enforce performance of debt agreement, (3) terminate agreement ceasing the Board's rights to the secured equipment, and (4) foreclose and take possession of the secured equipment to sell for repayment of the note.

The Board's outstanding note from direct borrowing, originally issued at \$469,680.00, is secured by six 2018 school buses. The outstanding note contains a provision that in the event of default, the bank may (1) declare outstanding amounts immediately due, plus all collections expenses, attorney fees, and interest at the default rate and/or (2) make collateral property available to sell for repayment of the note.

The Board's outstanding note from direct borrowing, originally issued at \$702,605.48, is secured by ten 2019 school buses. The outstanding note contains a provision that in the event of default, the bank may (1) declare outstanding amounts immediately due, plus all collections expenses, attorney fees, and interest at the default rate and/or (2) make collateral property available to sell for repayment of the note.

The Board's outstanding note from direct borrowing, originally issued at \$2,280,749.80, is secured by twenty-two 2020 school buses. The outstanding note contains a provision that in the event of default, the bank may (1) declare unpaid principal immediately due and payable, plus interest thereon at the prime rate, (2) proceed by appropriate court action to enforce performance of debt agreement, (3) terminate agreement ceasing the Board's rights to the secured equipment, and (4) foreclose and take possession of the secured equipment to sell for repayment of the note.

The Board's outstanding note from direct borrowing, originally issued at \$935,548.00, is secured by nine 2021 school buses. The outstanding note contains a provision that in the event of default, the bank may declare all indebtedness of borrower to Lender under this Note immediately due and payable without further notice of any kind notwithstanding anything to the contrary.

The compensated absences liability will be liquidated by the General Fund or the fund for which the employee worked.

Notes to the Financial Statements
For the Year Ended September 30, 2020

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

| Fiscal Year Ending | Warrants Payable | | Notes from Direct Borrowings | | Leases Payable | | Total |
|--------------------|------------------|----------------|---------------------------------|--------------|----------------|-------------|-----------------|
| | Principal | Interest | Principal | Interest | Principal | Interest | |
| September 30, 2021 | \$ 689,181.64 | \$ 223,943.30 | \$ 446,078.17 | \$126,138.74 | \$121,582.59 | \$18,893.29 | \$ 1,625,817.73 |
| 2022 | 529,355.92 | 197,510.47 | 459,119.55 | 113,097.36 | 116,771.31 | 11,476.48 | 1,427,331.09 |
| 2023 | 548,805.41 | 179,297.67 | 472,461.32 | 99,755.59 | 85,950.27 | 5,613.25 | 1,391,883.51 |
| 2024 | 568,432.47 | 160,341.16 | 486,037.58 | 86,179.33 | 44,825.69 | 956.07 | 1,346,772.30 |
| 2025 | 583,596.49 | 139,980.79 | 500,301.10 | 71,915.82 | | | 1,295,794.20 |
| 2026-2030 | 2,944,675.39 | 360,924.17 | 1,957,424.69 | 148,279.31 | | | 5,411,303.56 |
| 2031-2035 | 270,729.46 | 78,753.52 | | | | | 349,482.98 |
| 2036-2040 | 257,820.76 | 21,560.22 | | | | | 279,380.98 |
| Totals | \$6,392,597.54 | \$1,362,311.30 | \$4,321,422.41 | \$645,366.15 | \$369,129.86 | \$36,939.09 | \$13,127,766.35 |

Premium on Debt Issuance

The Board has a premium in connection with the PSCA Capital Improvement Pool Bonds, Series 2019-A. The premium is being amortized using the straight-line method over a period of 239 months.

| Premium | |
|------------------------------|--------------|
| Premium | \$140,628.94 |
| Amount Amortized Prior Years | (2,353.60) |
| Balance Premium | 138,275.34 |
| Current Amount Amortized | (7,060.87) |
| Balance Premium | \$131,214.47 |

Pledged Revenues

The Board issued Series 2016 Special Tax School Warrants for the purpose of refunding the Series 2007 Special Tax School Warrants. The Board pledged to repay the 2016 Warrants from the proceeds of a special tax levied by the Winston County Commission pursuant the provisions of the *Code of Alabama 1975*, Section 40-12-4, of which the Board receives 60% of the proceeds. Future revenues in the amount of \$1,309,225.00 are pledged to repay the principal and interest of the warrants at September 30, 2020. Tax proceeds of the special tax in the amount of \$2,324,678.82 were received by the Board during the fiscal year ended September 30, 2020, of which \$166,000.00 was used to pay principal and interest on the warrants. The Series 2016 Special Tax School Warrants will mature in fiscal year 2028.

Notes to the Financial Statements

For the Year Ended September 30, 2020

The Board issued Series 2013 Special Tax School Warrants for the purpose of acquiring, constructing and renovating school facilities. The Board pledged to repay the 2013 Warrants from the proceeds of a special tax levied by the Winston County Commission pursuant the provisions of the *Code of Alabama 1975*, Section 40-12-4, of which the Board receives 60% of the proceeds. Future revenues in the amount of \$3,098,695.00 are pledged to repay the principal and interest of the warrants at September 30, 2020. Tax proceeds of the special tax in the amount of \$2,324,678.82 were received by the Board during the fiscal year ended September 30, 2020, of which \$179,650.00 was used to pay interest on the warrants. The Series 2013 Special Tax School Warrants will mature in fiscal year 2030.

The Board issued Series 2011-B Capital Improvement Pool Refunding Bonds which are pledged to be repaid from their allocation of public school funds received from the State of Alabama. The proceeds were used to refund the remaining portion of the Series 2001-A Capital Improvement Pool Bonds. Future revenues in the amount of \$187,679.62 are pledged to repay the principal and interest on the bonds at September 30, 2020. Proceeds of public school funds in the amount of \$568,314.00 were received by the Board during the fiscal year ended September 30, 2020, of which \$187,573.62 was used to pay principal and interest on the bonds. This amount represents 33.00 percent of the pledged funds received by the Board. The Series 2011-B Bonds will mature in fiscal year 2021.

The Board issued Series 2015-B Capital Improvement Pool Refunding Bonds which are pledged to be repaid from their allocation of public school funds received from the State of Alabama. The proceeds were used to refund a portion of the Series 2008-A Capital Improvement Pool Bonds. Future revenues in the amount of \$1,831,301.88 are pledged to repay the principal and interest on the bonds at September 30, 2020. Proceeds of public school funds in the amount of \$568,314.00 were received by the Board during the fiscal year ended September 30, 2020, of which \$217,268.32 was used to pay principal and interest on the bonds. This amount represents 38.23 percent of the pledged funds received by the Board. The Series 2015-B Bonds will mature in fiscal year 2029.

Notes to the Financial Statements

For the Year Ended September 30, 2020

Note 9 – Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board has insurance for its buildings and contents through the State Insurance Fund (SIF) part of the State of Alabama, Department of Finance, Division of Risk Management, which operates as a common risk management and insurance program for state owned properties and county boards of education. The Board pays an annual premium based on the amount of coverage requested. The SIF is self-insured up to \$3.5 million per occurrence and purchases commercial insurance for claims in excess of \$3.5 million. Automobile liability insurance is obtained as fleet insurance through Auto-Owners Insurance. 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.

Notes to the Financial Statements
For the Year Ended September 30, 2020

Note 10 – Interfund Transactions

Interfund Receivables and Payables

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

| | Interfund Receivables | |
|----------------------------|--------------------------|---------------------|
| | General Fund | Totals |
| <u>Interfund Payables:</u> | | |
| Special Revenue Fund | \$512,661.46 | \$512,661.46 |
| Totals | <u>\$512,661.46</u> | <u>\$512,661.46</u> |

Interfund Transfers

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

| | Transfers Out | | |
|--------------------------|---------------------|-------------------------|---------------------|
| | General Fund | Special Revenue Fund | Total |
| <u>Transfers In:</u> | | | |
| General Fund | \$ | \$158,027.21 | \$158,027.21 |
| Special Revenue Fund | 653,757.22 | | 653,757.22 |
| Other Governmental Funds | 179,650.00 | | 179,650.00 |
| Totals | <u>\$833,407.22</u> | <u>\$158,027.21</u> | <u>\$991,434.43</u> |

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

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Required Supplementary Information

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

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| Employer's proportion of the collective net pension liability | 0.191847% | 0.202276% | 0.204093% | 0.210548% | 0.218319% | 0.220452% |
| Employer's proportionate share of the collective net pension liability | \$ 21,212 | \$ 20,111 | \$ 20,059 | \$ 22,794 | \$ 22,849 | \$ 20,027 |
| Employer's covered payroll during the measurement period (*) | \$ 13,567 | \$ 13,400 | \$ 13,385 | \$ 13,309 | \$ 13,736 | \$ 13,842 |
| Employer's proportionate share of the collective net pension liability as a percentage of its covered payroll | 156.35% | 150.08% | 149.86% | 171.27% | 166.34% | 144.68% |
| Plan fiduciary net position as a percentage of the total collective 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 the fiscal year 2020, the measurement period is October 1, 2018 through 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 | \$ 1,759 | \$ 1,668 | \$ 1,624 | \$ 1,597 | \$ 1,583 | \$ 1,609 |
| Contributions in relation to the contractually required contribution | \$ 1,759 | \$ 1,668 | \$ 1,624 | \$ 1,597 | \$ 1,583 | \$ 1,609 |
| Contribution deficiency (excess) | \$ | \$ | \$ | \$ | \$ | \$ |
| Employer's covered payroll | \$ 14,293 | \$ 13,567 | \$ 13,400 | \$ 13,385 | \$ 13,309 | \$ 13,736 |
| Contributions as a percentage of covered payroll | 12.31% | 12.29% | 12.12% | 11.93% | 11.89% | 11.71% |

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 Employee's 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 | 0.266931% | 0.262791% | 0.260553% |
| Employer's proportionate share of the collective net OPEB liability | \$ 10,071 | \$ 21,598 | \$ 19,352 |
| Employer's covered-employee payroll during the measurement period (*) | \$ 13,567 | \$ 13,400 | \$ 13,385 |
| Employer's proportionate share of the collective net OPEB liability as a percentage of its covered-employee payroll | 74.23% | 161.18% | 144.58% |
| Plan fiduciary net position as a percentage of the total collective 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 through 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 | \$ 465 | \$ 753 | \$ 648 |
| Contributions in relation to the contractually required contribution | <u>\$ 465</u> | <u>\$ 753</u> | <u>\$ 648</u> |
| Contribution deficiency (excess) | \$ | \$ | \$ |
| Employer's covered-employee payroll | \$ 14,293 | \$ 13,567 | \$ 13,400 |
| Contributions as a percentage of covered-employee payroll | 3.25% | 5.55% | 4.84% |

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

***Notes to Required Supplementary Information for
Other Postemployment Benefits (OPEB)
For the Year Ended September 30, 2020***

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 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.

***Notes to Required Supplementary Information for
Other Postemployment Benefits (OPEB)
For the Year Ended September 30, 2020***

Method and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates in the Schedule of Employer's 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 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 | | Actual Amounts Budgetary Basis | Budget to GAAP Differences | Actual Amounts GAAP Basis | |
|---|------------------|------------------|-----------------------------------|-------------------------------|------------------------------|-----------------|
| | Original | Final | | | | |
| Revenues | | | | | | |
| State | \$ 16,629,425.00 | \$ 17,348,350.00 | \$ 17,307,831.76 | \$ | \$ 17,307,831.76 | |
| Federal | 500.00 | 500.00 | 187,510.91 | | 187,510.91 | |
| Local | 4,638,740.00 | 4,638,740.00 | 5,333,349.95 | | 5,333,349.95 | |
| Other | 21,900.00 | 21,900.00 | 49,587.42 | | 49,587.42 | |
| Total Revenues | 21,290,565.00 | 22,009,490.00 | 22,878,280.04 | | 22,878,280.04 | |
| Expenditures | | | | | | |
| Current: | | | | | | |
| Instruction | 10,972,467.00 | 11,153,396.60 | 11,382,430.99 | (1) | 47,282.19 | 11,429,713.18 |
| Instructional Support | 3,682,772.00 | 3,720,565.00 | 3,595,972.04 | (1) | 3,815.32 | 3,599,787.36 |
| Operation and Maintenance | 1,718,189.87 | 2,279,374.93 | 1,647,122.45 | (1) | 1,369.23 | 1,648,491.68 |
| Auxiliary Services: | | | | | | |
| Student Transportation Services | 2,546,427.00 | 2,642,427.00 | 2,490,619.78 | (1) | 7,809.89 | 2,498,429.67 |
| General Administrative and Central Support | 1,048,505.00 | 1,048,505.00 | 1,063,024.83 | (1) | 620.94 | 1,063,645.77 |
| Other | 480,825.00 | 480,289.00 | 504,876.12 | (1) | 1,547.71 | 506,423.83 |
| Capital Outlay | 1,500.00 | 14,448.00 | 1,113,980.00 | | | 1,113,980.00 |
| Debt Service: | | | | | | |
| Principal Retirement | | 29,158.05 | 368,278.14 | | | 368,278.14 |
| Interest and Fiscal Charges | 58,770.34 | 88,304.82 | 113,522.62 | | | 113,522.62 |
| Total Expenditures | 20,509,456.21 | 21,456,468.40 | 22,279,826.97 | | 62,445.28 | 22,342,272.25 |
| Excess (Deficiency) of Revenues Over Expenditures | 781,108.79 | 553,021.60 | 598,453.07 | | (62,445.28) | 536,007.79 |
| Other Financing Sources (Uses) | | | | | | |
| Indirect Cost | 189,184.82 | 190,960.12 | 178,633.52 | | | 178,633.52 |
| Long-Term Debt Issued | | | 935,548.00 | | | 935,548.00 |
| Transfers In | 187,702.00 | 187,702.00 | 158,027.21 | | | 158,027.21 |
| Other Financing Sources | | | 121,410.27 | | | 121,410.27 |
| Sale of Capital Assets | | | 233,918.00 | | | 233,918.00 |
| Transfers Out | (847,779.13) | (847,779.13) | (833,407.22) | | | (833,407.22) |
| Total Other Financing Sources (Uses) | (470,892.31) | (469,117.01) | 794,129.78 | | | 794,129.78 |
| Net Changes in Fund Balances | 310,216.48 | 83,904.59 | 1,392,582.85 | | (62,445.28) | 1,330,137.57 |
| Fund Balances - Beginning of Year | 2,768,429.49 | 3,098,803.22 | 3,098,803.22 | (2) | (1,759,309.19) | 1,339,494.03 |
| Fund Balances - End of Year | \$ 3,078,645.97 | \$ 3,182,707.81 | \$ 4,491,386.07 | | \$ (1,821,754.47) | \$ 2,669,631.60 |

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 GAAP Basis:

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

- | | |
|--|-----------------------|
| (1) The Board budgets salaries and benefits only to the extent they are expected to be paid in the current fiscal period, rather than on the modified accrual basis. | <u>\$ (62,445.28)</u> |
| Net Decrease in Fund Balance - Budget to GAAP | <u>\$ (62,445.28)</u> |
- (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 Budgetary Basis | Budget to GAAP Differences | Actual Amounts GAAP Basis |
|---|------------------|-----------------|-----------------------------------|-------------------------------|------------------------------|
| | Original | Final | | | |
| Revenues | | | | | |
| Federal | \$ 2,553,513.00 | \$ 2,714,895.36 | \$ 3,640,916.77 | \$ | \$ 3,640,916.77 |
| Local | 3,458,700.00 | 3,458,700.00 | 1,533,486.94 | | 1,533,486.94 |
| Other | 36,600.00 | 36,600.00 | 49,954.34 | | 49,954.34 |
| Total Revenues | 6,048,813.00 | 6,210,195.36 | 5,224,358.05 | | 5,224,358.05 |
| Expenditures | | | | | |
| Current: | | | | | |
| Instruction | 2,220,702.44 | 2,274,130.17 | 1,595,913.78 | | 1,595,913.78 |
| Instructional Support | 729,098.80 | 824,867.83 | 692,644.26 | | 692,644.26 |
| Operation and Maintenance | 158,232.00 | 168,232.00 | 446,083.54 | | 446,083.54 |
| Auxiliary Services: | | | | | |
| Student Transportation Services | 101,918.00 | 101,918.00 | 53,253.75 | | 53,253.75 |
| Food Services | 2,296,253.27 | 2,296,253.27 | 1,904,118.71 | (1) | (6,140.48) |
| General Administrative and Central Support | 199,836.55 | 201,611.85 | 195,651.19 | | 195,651.19 |
| Other | 638,637.21 | 639,047.51 | 579,770.35 | | 579,770.35 |
| Capital Outlay | 63,975.00 | 63,975.00 | 14,500.00 | | 14,500.00 |
| Total Expenditures | 6,408,653.27 | 6,570,035.63 | 5,481,935.58 | | (6,140.48) |
| Excess (Deficiency) of Revenues Over Expenditures | (359,840.27) | (359,840.27) | (257,577.53) | | 6,140.48 |
| Other Financing Sources (Uses) | | | | | |
| Transfers In | 795,981.13 | 795,981.13 | 653,757.22 | | 653,757.22 |
| Other Financing Sources | 200.00 | 200.00 | | | |
| Transfers Out | (315,554.00) | (315,554.00) | (158,027.21) | | (158,027.21) |
| Total Other Financing Sources (Uses) | 480,627.13 | 480,627.13 | 495,730.01 | | 495,730.01 |
| Net Changes in Fund Balances | 120,786.86 | 120,786.86 | 238,152.48 | | 6,140.48 |
| Fund Balances - Beginning of Year | 1,341,724.55 | 1,494,672.79 | 1,394,395.46 | (2) | (84,586.16) |
| Fund Balances - End of Year | \$ 1,462,511.41 | \$ 1,615,459.65 | \$ 1,632,547.94 | | \$ (78,445.68) |
| | | | | | \$ 1,554,102.26 |

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

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

- (1) The Board budgets salaries and benefits only to the extent they are expected to be paid in the current fiscal period, rather than on the modified accrual basis.

\$ 6,140.48

Net Increase in Fund Balance - Budget to GAAP

\$ 6,140.48

- (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.

Supplementary Information

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

| Federal Grantor/ Pass-Through Grantor/ Program Title | Federal CFDA Number | Pass-Through Grantor's Number | Total Federal Expenditures |
|---|------------------------------------|--|---|
| <u>U. S. Department of Agriculture</u> | | | |
| <u>Passed Through Alabama Department of Education</u> | | | |
| Child Nutrition Cluster: | | | |
| School Breakfast Program - Cash Assistance | 10.553 | N/A | \$ 151,749.64 |
| National School Lunch Program: | | | |
| Cash Assistance | 10.555 | N/A | 392,670.56 |
| Non-Cash Assistance (Commodities) | 10.555 | N/A | 86,778.11 |
| Sub-Total National School Lunch Program | | | 479,448.67 |
| Summer Food Service Program for Children | 10.559 | N/A | 800,474.78 |
| Sub-Total Child Nutrition Cluster | | | 1,431,673.09 |
| State Administrative Expenses for Child Nutrition | 10.560 | N/A | 4,285.87 |
| Child and Adult Care Food Program | 10.558 | N/A | 9,300.13 |
| <u>Passed Through Winston County Commission</u> | | | |
| Schools and Roads - Grants to States | 10.665 | N/A | 48,375.26 |
| Total U. S. Department of Agriculture | | | 1,493,634.35 |
| <u>General Services Administration</u> | | | |
| <u>Passed Through Alabama Department of Economic and Community Affairs</u> | | | |
| Donation of Federal Surplus Personal Property (N) | 39.003 | N/A | 1,521.50 |
| <u>U. S. Department of Energy</u> | | | |
| <u>Passed Through Alabama Department of Economic and Community Affairs</u> | | | |
| State Energy Program | 81.041 | 1SEP19DOE 04 | 70,371.00 |
| <u>U. S. Department of Education</u> | | | |
| <u>Passed Through Alabama Department of Education</u> | | | |
| Title I Grants to Local Educational Agencies | 84.010 | N/A | 665,743.79 |
| Career and Technical Education - Basic Grants to States | 84.048 | N/A | 43,968.60 |
| Rural Education | 84.358 | N/A | 41,817.41 |
| Special Education Cluster: | | | |
| Special Education - Grants to States | 84.027 | N/A | 683,473.87 |
| Special Education - Preschool Grants | 84.173 | N/A | 18,812.00 |
| Sub-Total Special Education Cluster | | | 702,285.87 |
| Supporting Effective Instruction State Grants | 84.367 | N/A | 109,077.00 |
| Student Support and Academic Enrichment Program | 84.424 | N/A | 48,336.05 |
| COVID-19 Education Stabilization Fund: | | | |
| COVID-19 Governor's Emergency Education Relief Fund | 84.425C | N/A | 30,600.00 |
| COVID-19 Elementary and Secondary School Emergency Fund | 84.425D | N/A | 535,778.82 |
| Sub-Total COVID-19 Education Stabilization Fund | | | 566,378.82 |
| <u>Passed Through Alabama Department of Early Childhood Education</u> | | | |
| Preschool Development Grants | 84.419 | N/A | 26.68 |
| Total U. S. Department of Education | | | 2,177,634.22 |
| Sub-Total Forward | | | \$ 3,743,161.07 |

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

| Federal Grantor/ Pass-Through Grantor/ Program Title | Federal CFDA Number | Pass-Through Grantor's Number | Total Federal Expenditures |
|---|------------------------------------|--|---|
| Sub-Total Brought Forward | | | \$ 3,743,161.07 |
| <u>U. S. Department of Health and Human Services</u> | | | |
| <u>Passed Through Alabama Department of Education</u> | | | |
| Child Care and Development Block Grant | 93.575 | N/A | 15,000.00 |
| <u>Direct Program</u> | | | |
| Head Start | 93.600 | N/A | 8,373.60 |
| Total U. S. Department of Health and Human Services | | | <u>23,373.60</u> |
| <u>U. S. Department of the Treasury</u> | | | |
| <u>Passed Through Alabama Department of Education</u> | | | |
| COVID-19 Coronavirus Relief Fund | 21.019 | N/A | 111,376.48 |
| <u>Social Security Administration</u> | | | |
| <u>Passed Through Alabama Department of Education</u> | | | |
| Social Security - Disability Insurance | 96.001 | N/A | 440.00 |
| Total Expenditures of Federal Awards | | | <u>\$ 3,878,351.15</u> |

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

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

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

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal award activity of the Winston 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 Winston County Board of Education, it is not intended to and does not present the financial position or changes in net position of the Winston 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 Winston County Board of Education has not elected 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. Joey Boteler | President | 2020 |
| Hon. Allin Bailey | Vice-President | 2020 |
| Hon. Mark Finley | Member | 2020 |
| Hon. Lamar Frith | Member | 2020 |
| Hon. Randy Lee | Member | 2020 |
| <u>Administrative Personnel</u> | | |
| Mr. Greg Pendley | Superintendent | 2020 |
| Mr. Andrew McCay | 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 Winston County Board of Education
Superintendent and Chief School Financial Officer
Double Springs, Alabama

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards*** issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Winston 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 Winston County Board of Education's basic financial statements, and have issued our report thereon dated November 3, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Winston 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 Winston County Board of Education's internal control. Accordingly, we do not express an opinion on the effectiveness of the Winston 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

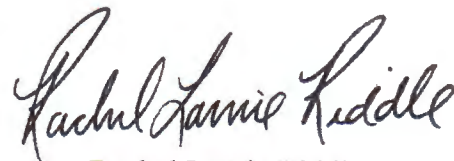
***Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance With
Government Auditing Standards***

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Winston County Board of Education's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

November 3, 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 Winston County Board of Education,
Superintendent and Chief School Financial Officer
Double Springs, Alabama

Report on Compliance for Each Major Federal Program

We have audited the Winston 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 the Winston County Board of Education's major federal programs for the year ended September 30, 2020. The Winston 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 the 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 Winston 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 Winston County Board of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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 Winston County Board of Education's compliance.

Opinion on Each Major Federal Program

In our opinion, the Winston 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

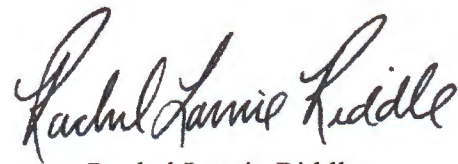
Management of the Winston County Board of Education is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Winston County Board of Education's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

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

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.

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



Rachel Laurie Riddle
Chief Examiner

Department of Examiners of Public Accounts

Montgomery, Alabama

November 3, 2021

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2020

Section I – Summary of Examiner's Results

Financial Statements

Type of report the auditor issued on whether the audited financial statements were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified?

_____ Yes X None reported

Noncompliance material to financial statements noted?

_____ Yes X No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified?

_____ Yes X None reported

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with

2 CFR 200.516(a) of the *Uniform Guidance*?

_____ Yes X No

Identification of major federal programs:

| CFDA Numbers | Name of Federal Program or Cluster |
|--|--|
| 10.553, 10.555 and 10.559 84.027 and 84.173 | Child Nutrition Cluster Special Education Cluster |

Dollar threshold used to distinguish between

Type A and Type B programs:

\$750,000.00

Auditee qualified as low-risk auditee?

_____ Yes X No

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2020

Section II – Financial Statement Findings (GAGAS)

No matters were reportable.

Section III – Federal Awards Findings and Questioned Costs

No matters were reportable.