

**MORGAN COUNTY BOARD OF EDUCATION  
GOVERNMENT-WIDE FINANCIAL STATEMENTS  
AND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2020**

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# Mercer & Associates, PC

a CPA firm

201 Williams Ave., Suite 280  
Huntsville, Alabama 35801  
(256) 536 - 4318  
Fax (256) 533 - 7193

Jerry Mercer, CPA, owner  
Lisa Eaton, CPA  
Misty Whiting, CPA  
Carol Crews, CPA  
Jordan Gibbs, CPA

Members  
Alabama Society of C.P.A.s  
American Institute C.P.A.s

## INDEPENDENT AUDITOR'S REPORT

To the Board Members  
Morgan County Board of Education  
Decatur, 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 Morgan 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 Board's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Morgan County Board of Education as of September 30, 2020, and the 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 on pages 3 through 10, the budgetary comparison information on pages 43 through 45, the schedule of the board's proportionate share of the collective net pension liability on page 46, the schedule of board pension contributions on page 47, the schedule of the board's proportionate share of the net OPEB liability on page 48, the schedule of board OPEB contributions on page 49 and notes to required OPEB supplementary information on page 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Morgan County Board of Education's financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2021, on our consideration of the Morgan 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 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 Morgan 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 Morgan County Board of Education's internal control over financial reporting and compliance.

*Mercer & Associates, PC*

June 10, 2021

**MORGAN COUNTY BOARD OF EDUCATION  
MANAGEMENT'S DISCUSSION & ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION  
SEPTEMBER 30, 2020**

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

**Financial Highlights: Significant Items to Note**

Our financial statements provide these insights into the results of this year's operations:

- ✓ The Morgan County Board of Education has adopted the pension-related GASB 68, "Accounting and Financial Reporting for Pensions" and GASB Statement 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date," as well as the OPEB-related GASB 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." The adoption of these standards had a significant impact on the Board's government-wide financial statements. The adoption does not, however, impact the Board's fund financial statements and fund balances.
- ✓ The Board's financial status increased for FY 2020. The Board's total net position increased by approximately \$8.06 million, over the course of the fiscal year.
- ✓ Major local tax revenues remained steady for most of the year.
- ✓ The liabilities plus deferred inflows of resources of the Board exceeded its assets plus deferred outflows of resources at the close of FY 2020 by \$48.70 million (net position).
- ✓ The total cost of the Board's programs for the year was \$81.23 million. After taking away a portion of these costs paid for with charges or fees, intergovernmental aid, interest earnings and other miscellaneous sources, the net cost that required funding from city and county taxpayers was \$21.49 million. (The state's Foundation Program provided \$38.39 million towards the cost of the programs.)
- ✓ For the General Fund, total revenues during the year exceeded expenditures by \$9.82 million.
- ✓ At the end of the current fiscal year, fund balance for the General Fund was \$20.04 million.
- ✓ The Board had \$173.37 million in long-term liabilities at year end, with \$65.65 million being attributable to GASB Statement No. 68 regarding pension liabilities and \$30.23 million being attributable to GASB Statement No. 75 regarding OPEB liabilities.

**Using the Financial Statements - An Overview for the User**

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

***Government-wide financial statements*** - The focus of these statements is to provide readers with a broad overview of the Board's finances as a whole instead of on an individual fund basis, in a manner similar to a private-sector business, indicating both long-term and short-term information about the Board's overall financial status. It is important to note that all of the activities of the board reported in the *government-wide financial statements* are classified as governmental activities. These activities include, but are not limited to, student transportation, school food services, facility maintenance, local school organizations, interest and fiscal charges on long-term debt, and student instruction. *Government-wide statements* report the capitalization of capital assets and depreciation of all exhaustible capital assets and the outstanding balances of long-term debt and other obligations. These statements report all assets and liabilities perpetuated by these activities using the accrual basis of accounting. The accrual basis takes into account all of the Board's current year revenues and expenses regardless of when received or paid. This approach moves the financial reporting method for governmental entities closer to the financial reporting methods used in the private sector. The following *government-wide financial statements* report on all of the governmental activities of the Board as a whole.

## MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)

### Using the Financial Statements - An Overview for the User, continued

The *statement of net position* (on page 11) is most closely related to a balance sheet. It presents information on all of the Board's assets (what it owns), deferred outflows of resources, liabilities (what it owes) and deferred inflows of resources, with the difference reported as net position. The net position reported in this statement represents the accumulation of changes in net position for the current fiscal year and all fiscal years in the past combined. Over time, the increases or decreases in net position reported in this statement may serve as a useful indicator of whether the financial position of the Board is improving or deteriorating.

The *statement of activities* (on page 12) is most closely related to an income statement. It presents information showing how the Board's net position changed during the current fiscal year only. All of the current year's revenues and expenses are accounted for in the *statement of activities* regardless of when cash is received or paid. This statement shows gross expenses and offsetting program revenues to arrive at net cost information for each major expense function or activity of the Board. By showing the change in net position for the year, the reader may be able to determine whether the Board's financial position has improved or deteriorated over the course of the current fiscal year. The change in net position may be financial or non-financial in nature. Non-financial factors which may have an impact on the Board's financial condition include: age and condition of facilities and mandated educational programs for which little or no funding is provided.

***Fund financial statements*** - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Board uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Board can be classified into two categories: governmental funds and fiduciary funds.

***Governmental Funds*** - Governmental *fund financial statements* begin on page 13. These statements account for basically the same governmental activities reported in the *government-wide financial statements*. The *fund financial statements* presented herein display information on each of the Board's most important governmental funds or *major funds*. This is required in order to better assess the Board's accountability for significant governmental programs or certain dedicated revenue. The Board's *major funds* are the General Fund, the Special Revenue Fund and the Capital Projects Fund.

The *fund financial statements* are measured on the modified-accrual basis of accounting, where revenues and expenditures are recorded when they become measurable and available. As a result, the *fund financial statements* focus more on the near-term use and availability of expendable resources. The information provided in these statements is useful in determining the Board's immediate financial needs. This is in contrast to the accrual-based *government-wide financial statements*, which focus more on overall long-term availability of expendable resources. The relationship between governmental activities reported in the *government-wide financial statements* and the governmental funds reported in the *fund financial statements* are reconciled on pages 14 and 16 of these financial statements. The reconciliation is useful to readers in understanding the long-term impact of the Board's short-term financing decisions.

***Fiduciary Funds*** - Fiduciary funds are used to account for assets held by the Board in a trustee capacity or as an agent for others. Activities from fiduciary funds are not included in the government-wide financial statements because the Board cannot use these assets for its operations. Fiduciary funds of the Board, consisting of agency funds and private-purpose trust funds, are reported in the Statement of Fiduciary Net Position using an accrual basis of accounting. Agency funds held by the Board involve only the receipt, temporary investment, and remittance of resources to individuals, private organizations, or other governments in a purely custodial capacity (assets equal liabilities).

## MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)

### Using the Financial Statements - An Overview for the User, continued

*Notes to the Basic Financial Statements* - The notes to the basic financial statements provide additional information that is essential for the statements to fairly represent the Board's financial position and its operations. The notes contain important information that is not part of the basic financial statements. However, the notes are an integral part of the statements, not an appendage to them. The notes to the basic financial statements begin on page 19 in this section.

Additional required supplemental information is presented following the notes to the basic financial statements. The required supplemental information beginning on page 43 provides a comparison of the original adopted budget to the final amended budget of the Board's General Fund and Special Revenue Fund, which is then further compared to the actual operating results for the fiscal year. The comparison of this data allows users to assess management's ability to project and plan for its operations throughout the year.

### Analysis of the School Board's Overall Financial Position

As indicated earlier, net position may serve over time as a useful indicator of a government's financial position. Refer to *Table 1* when reading the following analysis of net position. The Board's liabilities and deferred inflows exceeded assets and deferred outflows by \$48.70 million at September 30, 2020.

- ✓ Of this figure, \$46.08 million reflects the Board's net investment in capital assets (e.g., land, buildings, improvements other than buildings, furniture and equipment, and transportation equipment), less accumulated depreciation and debt related to the acquisition of the assets, if any. Since these capital assets are used in governmental activities, this portion of net position is not available for future spending or funding of operations.
- ✓ Restricted net position is \$2.37 million of total net position. Restricted net position is reported separately to show external legal constraints from debt covenants and enabling legislation that limit the Board's ability to use those assets for day-to-day operations.
- ✓ Unrestricted net position is a deficit balance of (\$97.15) million. Unrestricted net position is a group of items owned by the government that have no external restrictions regarding their use or function; however, a portion of unrestricted net position is held by and available only to the local schools.

**Table 1: Summary of Net Position**  
As of September 30, 2020 and 2019 (in millions)

	2020	2020	2019	2019
	Governmental Activities	Percent of Total	Governmental Activities	Percent of Total
Current and other assets	\$68.35	31%	\$42.33	31%
Capital assets	98.09	69%	94.97	69%
<b>Total Assets</b>	<b>166.44</b>	<b>100%</b>	<b>137.30</b>	<b>100%</b>
<b>Deferred Outflows of Resources</b>	<b>18.64</b>	<b>100%</b>	<b>15.34</b>	<b>100%</b>
Current and other liabilities	5.75	3%	6.31	4%
Long-term liability	173.36	97%	177.68	97%
<b>Total Liabilities</b>	<b>179.11</b>	<b>100%</b>	<b>183.99</b>	<b>100%</b>
<b>Deferred Inflows of Resources</b>	<b>54.67</b>	<b>100%</b>	<b>25.42</b>	<b>100%</b>
Net Position:				
Net Investment in Capital Assets	46.08		41.83	
Restricted	2.37		5.51	
Unrestricted	(97.15)		(104.10)	
<b>Total Net Position</b>	<b>(48.70)</b>		<b>(56.76)</b>	

**MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)**

**Analysis of the School Board's Overall Financial Position, continued**

The results of this fiscal year's operations as a whole are reported in detail in the *Statement of Activities* on page 12. *Table 2* below condenses the results of operations for the fiscal year into a format where the reader can easily see the total revenues of the Board for the year. It also shows the impact the operations had on changes in net position as of September 30, 2020.

**Table 2: Summary of Changes in Net Position From Operating Results**  
Fiscal Years Ended September 30, 2020 and 2019 (in millions)

	<b>2020</b>	<b>2020</b>	<b>2019</b>	<b>2019</b>
	Governmental Activities	Percent of Total	Governmental Activities	Percent of Total
<b>Revenues</b>				
Program Revenues:				
Charges for services	\$4.93	5%	\$6.53	8%
Operating grants and contributions	52.29	59%	49.29	57%
Capital grants and contributions	2.52	3%	2.19	2%
General Revenues:				
Local property taxes	13.87	16%	13.80	16%
Local sales taxes	10.20	11%	9.42	11%
Other taxes	0.10	0%	0.10	0%
Other	5.38	6%	5.41	6%
<b>Total Revenues</b>	<b>\$89.29</b>	<b>100%</b>	<b>\$86.74</b>	<b>100%</b>
<b>Expenses</b>				
Instructional services	\$42.40	52%	\$44.70	53%
Instructional support services	14.03	17%	13.34	16%
Operation and maintenance services	7.27	9%	7.66	9%
Student transportation services	4.46	6%	5.18	6%
Food services	5.14	6%	6.00	7%
General administrative services	3.01	4%	2.91	4%
Interest and fiscal charges	2.58	3%	1.66	2%
Other expenses	2.34	3%	2.72	3%
<b>Total Expenses</b>	<b>\$81.23</b>	<b>100%</b>	<b>\$84.17</b>	<b>100%</b>
<b>(Decrease) Increase in Net Position</b>	<b>8.06</b>		<b>2.57</b>	
<b>Net Position – Beginning</b>	<b>(56.76)</b>		<b>(59.33)</b>	
<b>Net Position – Ending</b>	<b>(\$48.70)</b>		<b>(\$56.76)</b>	

The Board's net position increased by \$8.06 million during the current fiscal year.

**MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)**

**Analysis of the School Board's Overall Financial Position, continued**

Governmental Activities - As shown in *Table 2*, the cost of services rendered from the Board's governmental activities for the year ended September 30, 2020 was \$81.23 million. It is important to note that not all of these costs were borne by the taxpayers of Morgan County:

- ✓ Some of the cost, \$4.93 million, was paid by users who benefited from services provided during the year, such as school lunches, local school fees and charges, and tuition.
- ✓ State and federal governments subsidized certain programs with grants and contributions totaling \$52.29 million.
- ✓ \$24.17 million of the Board's total costs of \$81.23 million was financed by county and state taxpayers, as follows: \$13.87 million in property taxes, \$10.20 million in sales taxes and \$0.10 million in other taxes (business privilege tax, helping school vehicle tags and manufactured home registration).

*Table 3* is a condensed statement taken from the Statement of Activities on page 12 showing the total cost for providing identified services for major Board activities. Total cost of services is compared to the net cost of providing these services. The net cost of services is the remaining cost of services after subtracting grants and charges for services that the Board used to offset the program's total cost. In other words, the net cost shows the financial burden that was placed on all taxpayers for each of these activities. This information allows citizens to consider the cost of each program in comparison to the benefits they believe are provided.

**Table 3: Net Cost of Governmental Activities**  
Fiscal Year Ended September 30, 2020 and 2019 (in millions)

	2020	2020	2019	2019
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instructional services	\$42.40	\$9.12	\$44.70	\$11.64
Instructional support services	14.03	3.89	13.34	3.97
Operation and maintenance services	7.27	2.39	7.66	3.93
Student transportation	4.46	(0.16)	5.18	0.89
Food service	5.14	1.49	6.00	1.74
General administrative services	3.01	1.53	2.91	1.23
Interest and fiscal services	2.58	2.58	1.66	1.66
Other expenses	2.34	0.65	2.72	1.09
<b>Total</b>	<b>\$81.23</b>	<b>\$21.49</b>	<b>\$84.17</b>	<b>\$26.16</b>

## Performance of School Board Funds

As noted earlier, the Board uses fund accounting to control and manage resources in order to ensure compliance with finance-related legal requirements. Using funds to account for resources for particular purposes helps the reader to determine whether the Board is being accountable for the resources provided by taxpayers and other entities, and it may also help to provide more insight into the Board's overall financial health. The following analysis of the Board's funds should be read in reference to the fund financial statements, which begin on page 13.

**Governmental Funds** - The focus of the Board's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Board's financial requirements (Note that the relationship between the *fund financial statements* and the *government-wide financial statements* are reconciled on pages 14 and 16). The financial performance of the Board as a whole is reflected in its governmental funds as well. At the end of the fiscal year, the Board's governmental funds reported combined ending fund balances of \$49.81 million.

- ✓ The General Fund has a fund balance of \$20.04 million at September 30, 2020. The General Fund balance increased \$4.44 million during the year.
- ✓ The Special Revenue Fund has a fund balance of \$3.60 million at September 30, 2020. The Special Revenue Fund decreased by \$0.09 million during the year.
- ✓ The Capital Projects Fund has a fund balance of \$25.83 million at September 30, 2020. The Capital Projects Fund balance increased \$21.59 million during the year.
- ✓ Other Governmental Funds has a fund balance of \$0.34 million at September 30, 2020. The Other Governmental Funds increased by \$0.14 million during the year.

**Total Governmental Funds** – Overall, the Board's governmental funds increased by a total of \$26.08 million. Total governmental fund balances at September 30, 2020, are \$49.81 million.

**Fiduciary Funds** - The Fiduciary Fund financial statements are on pages 17 and 18 of the financial statements. The Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position are presented, as the Board serves as the custodian of these funds, and is responsible for ensuring that the assets reported by these funds are used for their intended purposes.

## Budgetary Highlights of Major Funds

On or before September 15 of each year, the Board is required to prepare and submit to the state superintendent of education the annual budget adopted by the Board. The Board adopted budgeted amounts on September 10, 2019. On June 11, 2020, an amendment to the budget were passed.

**General Fund** - The comparison of general fund original budget to the final amended budget is on page 43. The differences between the original budget and the final amended budget of the Board were relatively minor (\$3.20 million increase in overall revenue appropriations and a \$1.82 million increase in budgeted expenditures). Overall, the final amended budget reflected our best forecast of actual operations.

**Special Revenue Fund** - The comparison of special revenue fund original budget to the final amended budget is on page 44. The differences between the original budget and the final amended budget of the Board were a \$0.19 million increase in overall revenue appropriations and a \$0.27 million increase in budgeted expenditures. The final amended budget reflected our best forecast of actual operations.

## MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)

### Capital Assets and Debt Administration

**Capital Assets** - The Board's investment in capital assets for its governmental activities for the year ended September 30, 2020, amounted to \$46.08 million, net of accumulated depreciation and debt related to the acquisition of the assets. The Board's investment in capital assets includes land at estimated historical cost, buildings and improvements at estimated historical cost, equipment and furniture at estimated historical cost, buildings under capital lease, equipment under capital lease, and construction in progress, and is shown in *Table 4*.

**Table 4: Capital Assets (net of accumulated depreciation)**  
September 30, 2020 and 2019 (in millions)

	Governmental Activities	
	2020	2019
Land and land improvements	\$5.55	\$5.65
Buildings and improvements	79.96	80.03
Equipment and furniture	1.92	1.71
Vehicles	3.67	4.34
Construction in progress	6.99	3.24
	<u>\$98.09</u>	<u>\$94.97</u>

**Long-Term Debt** -At year-end the Board had \$173.37 million in refunding warrants, capital outlay warrants and other long-term debt outstanding, including \$65.65 million in net pension liability and \$30.23 in net OPEB liability. Of this amount, \$1.96 million is due within one year. Note 12 Long Term Debt in the Notes to the Financial Statements provides a detailed summary of the general long-term debt transactions for the Board for the year ended September 30, 2020.

### Economic Factors and Next Year's Budget

The following are currently known Morgan County economic factors considered going into FY 2021.

At September 30, 2020, the Board has committed to various contracts, including a contract for a new cafeteria addition for Union Hill School. This contract amount is \$2,885,000, and \$2,388,930 is included in construction in progress at year end. In addition, the Board is committed to a \$16,577,000 contract for the construction of the new West Morgan High School. At year-end, \$262,120 is in construction in progress.

- ✓ The unemployment rate for Morgan County was 2.4% (March 2021), compared to the state (3.8%) and national (6.0%).
- ✓ The latest annual population estimate, published by the Census Bureau July 1, 2010, shows a population of 119,490 for Morgan County, a 7.6% increase over the April 1, 2000, census report of 111,064.
- ✓ In 2018, the median age for Morgan County was 40.4 with an estimated median income of \$49,751.

MANAGEMENT’S DISCUSSION & ANALYSIS (CONTINUED)

**Economic Factors and Next Year's Budget, continued**

At the time these financial statements were prepared and audited, the Board was aware of the following circumstances that could significantly affect the Board's financial health in the future:

**Proration of State Appropriations** - Applicable provisions of the Constitution of Alabama effectively prohibit the State from engaging in deficit financing--that is to say, state expenditures during any fiscal year may not exceed available revenues. State law provides procedures for delaying or, if necessary, reducing (or "prorating") appropriations of state revenues in order to maintain and enforce the constitutional ban on deficit financing. The Board’s General Fund receives the largest share of its annual revenue from the State. Although the State revenues provided for the payment of employee salaries and benefits are prorated, State law prohibits the Board from reducing salaries and benefits paid to employees. The postponement or reduction of State appropriations to the Board as a consequence of proration may therefore result in reductions of expenditures by the Board for certain budget items other than salaries (e.g. instructional materials, supplies and maintenance).

Proration of State funds did not occur in fiscal year 2020 and is not projected for fiscal year 2021. The Board has financial resources that meet and exceed the required one-month operating balance.

**Estimated Capital Needs** – The Board’s five-year capital plan submitted for fiscal year 2020 is based on facility assessments and enrollment needs and includes \$62.1 million in estimated capital needs throughout the system. \$40.4 million will be funded with state and local bond proceeds and the remaining \$21.7 million was unfunded at the time the plan was prepared.

**Student Enrollment** – The Board’s current enrollment figure based on the Average Daily Membership (ADM) as of the 20 days after Labor Day report for the 2019 - 2020 scholastic year was 7,601 students, an increase of 214 from the previous year. The school systems enrollment for the current and previous four years is as follows:

School Year	Enrollment	Increase / (Decrease)
2019 - 2020	7,601	214
2018 - 2019	7,387	(28)
2017 - 2018	7,415	(159)
2016 - 2017	7,574	(86)
2015 – 2016	7,660	(43)

**Medical and Retirement Costs** - Employee health insurance is provided through the Public Education Employees' Health Insurance Program (PEEHIP). Premiums for PEEHIP insurance in FY 2021 are \$800 per month, or \$9,600 per year, per employee, which is the same as FY 2020. Employer contributions to the Teachers Retirement System (TRS) decreased from 12.43 percent to 12.36 percent for fiscal year 2021. Employer contributions to TRS for Tier 2 employees decreased from 11.34 percent to 11.22 percent for FY 2021.

**Contacting the School Board’s Financial Management** – This financial report is designed to provide citizens, taxpayers, investors and creditors with a general overview of the Board’s finances and to show the Board’s accountability for the money it receives. Any questions or requests for additional information should be directed as follows Monday – Friday during the hours of 8:00 a.m. – 4:00 p.m. central time.

Brian Bishop, Chief School Financial Officer, [bsbishop@morgank12.org](mailto:bsbishop@morgank12.org)  
Morgan County Board of Education  
235 Highway 67 South  
Decatur, Alabama 35603-5438  
(256) 309-2138

**MORGAN COUNTY BOARD OF EDUCATION  
STATEMENT OF NET POSITION  
GOVERNMENTAL ACTIVITIES  
SEPTEMBER 30, 2020**

<b>Assets</b>			
Cash and Cash Equivalents		\$	52,089,051
Ad Valorem Property Taxes Receivable			13,020,000
Receivables			2,984,778
Inventories			257,362
Capital Assets			
Nondepreciable	\$	11,263,479	
Depreciable, Net		<u>86,826,298</u>	
Total Capital Assets, Net of Depreciation			<u>98,089,777</u>
<b>Total Assets</b>			<u><u>166,440,968</u></u>
 <b>Deferred Outflows of Resources</b>			
Loss on Refunding of Debt		598,017	
Employer Pension Contribution		5,227,140	
Proportionate Share of Collective Deferred Outflows Related to Net Pension Liability		5,416,000	
Employer OPEB Contribution		1,360,310	
Proportionate Share of Collective Deferred Outflows Related to OPEB Liability		<u>6,040,035</u>	
<b>Total Deferred Outflows of Resources</b>			<u>18,641,502</u>
 <b>Liabilities</b>			
Accounts Payable and Accrued Liabilities			54,438
Unearned Revenue			121,940
Salaries and Benefits Payable			5,340,778
Accrued Interest Payable			229,449
Long-Term Liabilities:			
Current Portion of Long-Term Obligations			
Warrants Payable		1,729,548	
Unamortized Issuance Premiums/Discounts		187,233	
Compensated Absences		<u>39,925</u>	1,956,706
Noncurrent Portion of Long-Term Obligations			
Warrants Payable		73,191,415	
Add: Unamortized Issuance Premiums		2,022,671	
Compensated Absences		323,025	
Net Pension Liability		65,646,000	
Net OPEB Liability		<u>30,225,643</u>	<u>171,408,754</u>
<b>Total Liabilities</b>			<u><u>179,112,065</u></u>
 <b>Deferred Inflows of Resources</b>			
Unavailable Revenue - Property Taxes		13,020,000	
Proportionate Share of Collective Deferred Inflows Related to Net Pension Liability		4,220,000	
Proportionate Share of Collective Deferred Inflows Related to Net OPEB Liability		<u>37,432,547</u>	
<b>Total Deferred Inflows of Resources</b>			<u>54,672,547</u>
 <b>Net Position</b>			
Net Investment in Capital Assets			46,082,241
Restricted for:			
Restricted for Capital Projects			1,306,422
Restricted for Debt Service			345,396
Restricted for Other Purposes			719,742
Unrestricted			<u>(97,155,943)</u>
<b>Total Net Position</b>			<u><u>\$ (48,702,142)</u></u>

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

**MORGAN COUNTY BOARD OF EDUCATION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
<b>Governmental Activities</b>				<b>Total Governmental Activities</b>	
Instruction	\$ 42,397,915	\$ 713,202	\$ 31,395,082	\$ 1,166,296	\$ (9,123,335)
Instructional Support	14,027,025	462,379	9,671,896	-	(3,892,750)
Operation and Maintenance	7,272,156	122,268	4,081,722	681,615	(2,386,551)
Student Transportation Services	4,456,981	70,171	3,869,754	674,406	157,350
Food Services	5,144,412	3,372,389	286,596	-	(1,485,427)
General Administration and Central Support	3,014,858	-	1,486,757	-	(1,528,101)
Interest and Fiscal Charges	2,579,154	-	-	-	(2,579,154)
Other	2,340,990	187,688	1,500,673	-	(652,629)
Total Governmental Activities	<u>\$ 81,233,491</u>	<u>\$ 4,928,097</u>	<u>\$ 52,292,480</u>	<u>\$ 2,522,317</u>	<u>(21,490,597)</u>
General Revenues					
Taxes:					
					13,872,513
					10,197,741
					99,470
					2,169,603
					436,206
					296
					2,776,169
					<u>29,551,998</u>
					8,061,401
					<u>(56,763,543)</u>
					<u>\$ (48,702,142)</u>

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

**MORGAN COUNTY BOARD OF EDUCATION  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2020**

	General Fund	Special Revenue Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and Cash Equivalents	\$ 23,769,147	\$ 2,142,772	\$ 25,831,736	\$ 345,396	\$ 52,089,051
Ad Valorem Property Taxes Receivable	13,020,000	-	-	-	13,020,000
Receivables	1,234,768	1,750,010	-	-	2,984,778
Due from Other Funds	110,272	4,338	328,212	-	442,822
Inventories	-	257,362	-	-	257,362
Total Assets	<u>\$ 38,134,187</u>	<u>\$ 4,154,482</u>	<u>\$ 26,159,948</u>	<u>\$ 345,396</u>	<u>\$ 68,794,013</u>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>					
<b>Liabilities</b>					
Accounts Payable	\$ 5,872	\$ 48,566	\$ -	\$ -	\$ 54,438
Due to Other Funds	4,338	110,272	328,212	-	442,822
Unearned Revenue	-	121,940	-	-	121,940
Salaries and Benefits Payable	5,066,960	273,818	-	-	5,340,778
Total Liabilities	<u>5,077,170</u>	<u>554,596</u>	<u>328,212</u>	<u>-</u>	<u>5,959,978</u>
<b>Deferred Inflows of Resources</b>					
Unavailable Revenue - Property Taxes	<u>13,020,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,020,000</u>
<b>Fund Balances</b>					
Nonspendable	-	257,362	-	-	257,362
Restricted	-	719,742	25,831,736	345,396	26,896,874
Committed	-	-	-	-	-
Assigned	231,145	2,622,782	-	-	2,853,927
Unassigned	19,805,872	-	-	-	19,805,872
Total Fund Balances	<u>20,037,017</u>	<u>3,599,886</u>	<u>25,831,736</u>	<u>345,396</u>	<u>49,814,035</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 38,134,187</u>	<u>\$ 4,154,482</u>	<u>\$ 26,159,948</u>	<u>\$ 345,396</u>	<u>\$ 68,794,013</u>

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

**MORGAN COUNTY BOARD OF EDUCATION  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
SEPTEMBER 30, 2020**

Total Fund Balances - Governmental Funds		\$ 49,814,035
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because		
Capital Assets Used in Governmental Activities are Not Financial Resources and Therefore are Not Reported as Assets in Governmental Funds. These Assets Consist of:		
Cost of Capital Assets	\$ 145,532,715	
Accumulated Depreciation	<u>(47,442,938)</u>	
Total Capital Assets, Net of Depreciation		98,089,777
Losses on refunding of debt are reported as deferred outflows of resources and are not available to pay for current-period expenditures and therefore, are deferred on the statement of net position.		598,017
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds		6,423,140
Deferred outflows and inflows of resources related to OPEB obligations are applicable to future periods and, therefore, are not reported in the governmental funds		(30,032,202)
Current portion of long-term debt	1,956,706	
Non-current portion of long-term debt	<u>171,408,754</u>	(173,365,460)
Interest on Long-term Debt is Not Accrued in the Funds but Rather is Recognized as an Expenditure When Due		
Accrued Interest Payable		<u>(229,449)</u>
Total Net Position - Governmental Activities		<u>\$ (48,702,142)</u>

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

**MORGAN COUNTY BOARD OF EDUCATION  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	General Fund	Special Revenue Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
State	\$ 46,902,934	\$ -	\$ 2,522,317	\$ -	\$ 49,425,251
Federal	180,078	7,553,923	-	-	7,734,001
Local	27,205,583	4,130,982	147,727	3,525	31,487,817
Other	51,407	189,068	-	-	240,475
Total Revenues	<u>74,340,002</u>	<u>11,873,973</u>	<u>2,670,044</u>	<u>3,525</u>	<u>88,887,544</u>
<b>Expenditures</b>					
Instruction	36,686,222	4,689,947	350,220	-	41,726,389
Instructional Support Services	11,344,029	2,626,679	-	-	13,970,708
Operation and Maintenance	6,949,073	234,322	129,871	-	7,313,266
Auxiliary Services:					
Student Transportation	4,100,099	96,976	-	-	4,197,075
Food Service	273	5,661,768	-	-	5,662,041
General Administration and Support	2,792,123	187,387	-	-	2,979,510
Other Expenditures	1,643,102	647,477	-	-	2,290,579
Capital Outlay	856,780	417,774	5,130,078	-	6,404,632
Debt Service:					
Principal Retirement	89,273	-	-	1,605,000	1,694,273
Interest and Fiscal Charges	52,760	-	425,000	1,906,705	2,384,465
Debt Issuance Costs/Other Debt Service	8,250	-	241,674	6,128	256,052
Total Expenditures	<u>64,521,984</u>	<u>14,562,330</u>	<u>6,276,843</u>	<u>3,517,833</u>	<u>88,878,990</u>
Excess (deficiency) of revenues over expenditures	9,818,018	(2,688,357)	(3,606,799)	(3,514,308)	8,554
<b>Other Financing Sources (Uses)</b>					
Indirect Cost	430,442	-	-	-	430,442
Long-Term Debt Issued	-	-	24,030,000	-	24,030,000
Transfers In	303,742	3,060,815	5,057,756	3,658,782	12,081,095
Other Financing Sources	407,051	-	-	-	407,051
Sale of Capital Assets	13,695	-	-	-	13,695
Transfers Out	(6,532,284)	(464,716)	(5,084,095)	-	(12,081,095)
Premiums on Long-Term Debt Issued	-	-	1,188,466	-	1,188,466
Total Other Financing Sources (Uses)	<u>(5,377,354)</u>	<u>2,596,099</u>	<u>25,192,127</u>	<u>3,658,782</u>	<u>26,069,654</u>
Net Changes in Fund Balances	4,440,664	(92,258)	21,585,328	144,474	26,078,208
Fund Balances at Beginning of Year	<u>15,596,353</u>	<u>3,692,144</u>	<u>4,246,408</u>	<u>200,922</u>	<u>23,735,827</u>
Fund Balances at End of Year	<u>\$ 20,037,017</u>	<u>\$ 3,599,886</u>	<u>\$ 25,831,736</u>	<u>\$ 345,396</u>	<u>\$ 49,814,035</u>

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

**MORGAN COUNTY BOARD OF EDUCATION  
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**

Total Net Change in Fund Balances - Governmental Funds	\$ 26,078,208
Amounts reported for Governmental Activities in the Statement of Activities are Different Because:	
Capital Outlays to purchase or build capital assets are reported in Governmental Funds as Expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$6,404,632) exceed depreciation (\$3,270,627) in the period.	3,134,005
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	1,694,273
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.	(24,030,000)
Premiums on debt issuance are recorded as other financing sources in the governmental funds, but are deferred and amortized in the Statement of Activities	(1,188,466)
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:	(67,005)
Compensated Absences, Current Year (Increase)/Decrease:	(41,958)
Amortization of Discounts/Premiums/Gain or Loss on Refunding:	128,368
Pension Expense, Current Year (Increase)/Decrease:	(1,282,513)
OPEB Expense, Current Year (Increase)/Decrease:	3,649,888
In the Statement of Activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. The change in net position differs from the change in fund balances by this amount.	
Proceeds from Sale of Capital Assets:	(13,695)
Gain/(Loss) on Disposal of Assets:	296
Change in Net Position of Governmental Activities	\$ 8,061,401

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

**MORGAN COUNTY BOARD OF EDUCATION  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
SEPTEMBER 30, 2020**

	<b>Private-Purpose Trust</b>	<b>Agency Funds</b>
<b><u>Assets</u></b>		
Cash and Cash Equivalents	\$ 3,009	\$ 18,880
Receivables	-	-
<b>Total Assets</b>	<b>\$ 3,009</b>	<b>\$ 18,880</b>
<b><u>Liabilities</u></b>		
Due to External Organizations	\$ -	\$ 18,880
<b>Total Liabilities</b>	<b>-</b>	<b>\$ 18,880</b>
<b><u>Net Position</u></b>		
Held in Trust for Other Purposes	<b>\$ 3,009</b>	

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

**MORGAN COUNTY BOARD OF EDUCATION  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	<b>Private-Purpose Trust</b>
<b><u>Additions</u></b>	
Earnings on investments	\$ -
Other sources	-
<b>Total Additions</b>	-
<b><u>Deductions</u></b>	
Other uses	-
<b>Total Deductions</b>	-
<b>Change in net position</b>	-
Net Position - Beginning of Year	3,009
<b>Net Position - End of Year</b>	<b>\$ 3,009</b>

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

**MORGAN COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

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

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

The Governmental Accounting Standards Board established a financial reporting model for state and local governments that includes the management's discussion and analysis, government-wide financial statements, required supplementary information and the elimination of internal service activities and the use of account groups to the required fund financial statements and notes.

The GASB determined that fund accounting has been and will continue to be essential in helping governments to achieve fiscal accountability and should, therefore, be retained. The GASB also determined that government-wide financial statements are needed to allow users of financial reports to assess a government's operational accountability. The GASB model integrates fund-based financial reporting and government-wide financial reporting as complementary components of a single comprehensive financial reporting model.

Reporting Entity

The Board is governed by a separately elected board composed of seven 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.

Government-Wide and Fund Financial Statements

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the Board's nonfiduciary activities with most interfund activities removed. *Governmental* activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. The Board has no business type activities that rely, to a significant extent, on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The Board does not allocate indirect expenses to the various functions. Program revenues include 1) charges to customers or applicants to purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Interfund activities between governmental funds appear as due to/due from on the Governmental Fund Balance Sheet and as other resources and other uses on the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance. Interfund activities between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due from on the government-wide statements.

The fund financial statements provide reports on the financial condition and results of operations for three fund categories – governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for Board operations, they are not included in the government-wide statements. The Board considers some governmental funds major and reports their financial condition and results of operations in a separate column.

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

#### Fund Accounting

The Board reports the following major governmental funds:

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Special Revenue Funds - Special Revenue Funds account for 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, the Child Nutrition Program, CARES Act, and Coronavirus Relief 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.

Capital Projects Funds - Capital Projects Funds are used to account for financial resources that are restricted, committed, or assigned to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary and trust funds).

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

Debt Service Funds - Debt Service Funds are used to account for financial resources that are restricted, committed, or assigned to expenditure for principal and interest and the accumulation of resources for principal and interest payments maturing in future years.

The Board reports the following fiduciary fund types:

Private-Purpose Trust Funds – These funds are used to report all trust agreements under which principal and income benefit individuals, private organizations, or other governments.

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.

#### Deposits and Investments

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. 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.

#### Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

#### Advertising

Advertising costs, if any, are expensed as incurred.

#### Restricted Assets

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Receivables due from other governments include amounts due from grantors for grants issued for specific programs and capital projects.

#### Budgets

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America, 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. Annual appropriated budgets are adopted for the general, special revenue and debt service funds. All annual appropriations lapse at fiscal year end. Project-length financial plans are adopted for all capital projects funds.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting -- under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation -- is utilized in the governmental funds financial statements throughout the fiscal year. Encumbrances outstanding at year-end are reported as assigned fund balance in the governmental fund financial statements and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

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.

#### 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. Unused leave days may be carried over to the next year. The Board will pay for a maximum of 12 days-unused vacation leave upon resignation or retirement.

#### Long-Term Obligations

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

In the fund financial statements, governmental fund types recognize premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums and discounts on debt issuances are reported as other financing sources and uses.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Cash and Investments

Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the Board.

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

Investments, if any, are stated at cost or amortized cost.

#### Short-term Interfund Receivable/Payable

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

#### Receivables

Receivables due from other governments include amounts due from grantors for grants issued for specific purposes.

#### Advances to Other Funds

Currently, there are no advances to other funds.

#### Inventories

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

#### Deferred Outflows/Inflows of Resources

The Board has deferred outflows and inflows of resources. Deferred outflows of resources is a consumption of assets that is applicable to a future reporting period and consist of pension-related deferred outflows, OPEB-related deferred outflows, and loss on refunding of debt. Deferred inflows of resources is an acquisition of assets that is applicable to a future reporting period and consist of pension-related deferred inflows, OPEB-related deferred inflows, and unavailable property tax revenue.

#### Payments or Services Furnished by Other Agencies

Certain payments are furnished by the State government on behalf of the Board. Included in these items are employee benefits, textbooks and capital outlay by the Alabama Public School and College Authority. These payments are reflected as revenues and expenditures on the Board's financial statements in the applicable funds for which they apply.

#### Capital Assets

Capital assets, which include property, equipment, and infrastructure assets (e.g. parking lots, stadium lights, and similar items), are reported in the applicable governmental activities column 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. The estimates were based upon research in the original acquisition of the assets. Many estimates were based upon the selling prices of real property near the school during the time they were acquired. Estimation is limited to donated assets. Donated fixed assets are valued at their estimated fair market value on the date received.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized, and are expensed as incurred. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. 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-exhaustible	\$ 50,000	20 years
Buildings	\$ 50,000	25-50 years
Building improvements	\$ 50,000	7-30 years
Equipment and furniture	\$ 5,000	5-20 years
Vehicles	\$ 5,000	8-15 years
Equipment under capital lease	\$ 5,000	5-20 years

**Net Position and Fund Balance**

**Government-Wide Financial Statements** – Net position on the Statement of Net Position includes:

**Net Investment in Capital Assets** – The component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt that is directly attributable to the acquisition, construction or improvement of these capital assets. Any significant unspent related debt proceeds and any deferred outflows or inflows at year-end related to capital assets are not included in this calculation.

**Restricted** – The component of net position that represents amounts restricted by third parties.

**Unrestricted** – The net amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not reported in Net Investment in Capital Assets or Restricted.

**Governmental Fund Financial Statements** – In the fund financial statements, governmental funds report fund balances as follows:

**Non-spendable** – That portion of fund balance that is not in spendable form (e.g. inventories, prepaids) or that is legally or contractually required to be maintained intact (e.g. principal balance of permanent funds). The Board’s non-spendable fund balance is comprised of inventory.

**Restricted** – The portion of fund balance, if any, that has externally imposed restrictions by creditors, laws, or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

**Committed** – The portion of fund balance, if any, that may be used for specific purposes pursuant to constraints imposed by formal action of the Board. These funds can be used for an alternative purpose if due approval process is followed (i.e., a commitment is not legally enforceable.)

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assigned – The portion of fund balance, if any, constrained by the Board's intent, but not restricted or committed. The Board authorizes the Superintendent or Chief School Financial Officer to make a determination of the assigned amounts of fund balance. Such assignments may not exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. Assigned fund balances require the same level of authority to remove the constraint.

Unassigned – The residual fund balance that is not non-spendable, restricted, committed, or assigned. This portion of the total fund balance in the General Fund is available to finance operating expenditures.

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it is 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 is the policy of the Board that committed amounts be reduced first, followed by assigned amounts and then unassigned amounts.

#### Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

#### Operating Transfers

Routine transfers of resources between funds that are not intended to be repaid are classified separately from fund revenues and expenditures. Such routine interfund transfers are identified as Operating Transfers In/Out in the Board's operating statements.

#### Estimates

Preparation of financial statements in conformity with generally accepted accounting principles requires use of management's estimates. Management has made estimates related to accruals of revenues and expenses.

#### Pensions

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 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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Postemployment Benefits Other Than Pensions (OPEB)

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

**NOTE 2 - LEGAL COMPLIANCE**

Budgets

On or before September 15 of each year, the Board is required to prepare and submit to the state superintendent of education the annual budget to be adopted by the Board. The city superintendent of education or Board cannot approve any budget for operations of the school system for any fiscal year, which shows expenditures in excess of income estimated to be available, plus any balances on hand. The superintendent with the approval of the Board has the authority to make changes within the approved budget provided that a deficit is not incurred by such changes. The superintendent may approve amendments to program budgets without Board approval.

The Board adopted budgeted amounts on September 10, 2019. On June 11, 2020, an amendment to the budget was passed.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

At September 30, 2020, unrestricted deposits on hand at banks and in certificates of deposit were fully collateralized by banks qualifying under the Security for Alabama Funds Enhancement Act (SAFE) as qualified public depositories. Certain funds held by the banks' trust departments or agents relating to the Board's bond issues are invested in U.S. Government securities.

**NOTE 4 – RECEIVABLES**

Receivables at September 30, 2020 consist of the following:

Receivables:	General Fund	Special Revenue Fund	Total
Accounts	\$ 0	\$ 0	\$ 0
Intergovernmental	<u>1,234,768</u>	<u>1,750,010</u>	<u>2,984,778</u>
Total	<u>\$ 1,234,768</u>	<u>\$ 1,750,010</u>	<u>\$ 2,984,778</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 5 - CAPITAL ASSET ACTIVITY**

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

	Balance October 1, 2019	Additions	Retirements and Reclassifications	Balance September 30, 2020
Governmental Activities:				
Capital assets not being depreciated				
Land	\$ 4,252,919	\$ 25,528	\$ 0	\$ 4,278,447
Construction in progress	3,238,972	5,902,484	(2,156,423)	6,985,032
Capital assets being depreciated				
Land improve.-exhaustible	2,637,499	0	0	2,637,499
Buildings	104,114,203	472,636	0	104,586,839
Building improvements	10,445,289	1,711,493	0	12,156,782
Equipment and furniture	4,258,769	448,914	(176,035)	4,531,649
Vehicles	10,356,467	0	0	10,356,467
Assets under capital lease	47,962	0	(47,962)	0
Total at historic cost:	<u>139,352,080</u>	<u>8,561,055</u>	<u>(2,380,420)</u>	<u>145,532,715</u>
Less Accumulated Depreciation for:				
Land improve.-exhaustible	1,232,582	128,990	0	1,361,572
Buildings	28,142,124	1,835,363	0	29,977,487
Building improvements	6,387,877	419,651	0	6,807,528
Equipment and furniture	2,591,142	217,469	(196,209)	2,612,402
Vehicles	6,014,796	669,154	0	6,683,949
Assets under capital lease	14,388	0	(14,388)	0
Total accum. depr.	<u>44,382,909</u>	<u>3,270,627</u>	<u>(210,597)</u>	<u>47,442,938</u>
Governmental Capital Capital Assets, Net	\$ <u>94,969,171</u>	\$ <u>5,290,428</u>	\$ <u>(2,169,822)</u>	\$ <u>98,089,777</u>

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

Instructional services	\$ 1,757,104
Instructional support services	387,011
Operation and maintenance services	106,471
Student transportation	608,793
Food services	204,330
General administrative	74,499
Other expenditures	<u>132,419</u>
Total governmental activities depreciation expense	\$ <u>3,270,627</u>

**NOTE 6 – UNEARNED REVENUES**

Governmental funds report unearned revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At September 30, 2020, governmental funds reported unearned revenue of \$121,940.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 7 - 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 purchased as fleet insurance from a commercial insurance agency. 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). PEEHIF was established to provide a uniform plan of health insurance for current and retired employees of state educational institutions and is self-sustaining. Monthly premiums for employee and dependent coverage are 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.

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

### NOTE 8 - DONATED FOOD PROGRAM

The value of the commodities received from the Federal government during the year ended September 30, 2020 amounted to \$286,596 and are reflected in the accompanying financial statements.

### NOTE 9 - COMMITMENTS AND CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Board expects such amounts, if any, to be immaterial. The Board is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Board's attorney the resolution of these matters will not have a material adverse effect on the financial condition of the Board.

At September 30, 2020, the Board has committed to various contracts, including a contract for a new cafeteria addition for Union Hill School. This contract amount is \$2,885,000, and \$2,388,930 is included in construction in progress at year end. In addition, the Board is committed to a \$16,577,000 contract for the construction of the new West Morgan High School. At year-end, \$262,120 is in construction in progress.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 10 - DEFINED BENEFIT PENSION PLAN

#### General Information about the Pension Plan

##### Plan description

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

##### Benefits provided

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

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 Plan 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 Plan 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 credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits equal to the annual earnable compensation of the member as reported to the Plan for the preceding year ending June 30 are paid to a qualified beneficiary.

##### Contributions

Covered members of the Plan contributed 5% of earnable compensation to the Plan as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, covered members of the TRS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the TRS are required by statute to contribute 7.50% of earnable compensation.

Tier 2 covered members of the Plan contribute 6% of earnable compensation to the Plan as required by statute.

Participating employers' contractually required contribution rate for the year ended September 30, 2019 was 12.41% of annual pay for Tier 1 members and 11.35% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the Board were \$5,227,140 for the year ended September 30, 2020.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 10 - DEFINED BENEFIT PENSION PLAN (CONTINUED)**

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

At September 30, 2020, the Board reported a liability of \$65,646,000 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 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 0.593712%, which was an increase (decrease) of (0.017669%) from its proportion measured as of September 30, 2018.

For the year ended September 30, 2020, the Board recognized pension expense of \$6,510,000. 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	\$971,000	\$2,177,000
Changes of assumptions	2,023,000	0
Net difference between projected and actual earnings on pension plan investments	2,286,000	0
Changes in proportion and differences between employer contributions and proportionate share of contributions	136,000	2,043,000
Employer contributions subsequent to the measurement date	5,227,140	0
Total	\$10,643,140	\$4,220,000

\$5,227,140 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:

<b>Year ended September 30:</b>	
2021	(\$418,000)
2022	(232,000)
2023	853,000
2024	1,055,000
2025	(62,000)
Thereafter	0

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 10 - DEFINED BENEFIT PENSION PLAN (CONTINUED)**

Actuarial assumptions

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

Inflation	2.75%
Investment rate of return*	7.70%
Projected salary increases	3.25% - 5.00%

\*Net of pension plan investment expense

The actuarial assumptions used in the actuarial valuation as of September 30, 2018, were based on the results of an investigation of the economic and demographic experience for the TRS based upon participant data as of September 30, 2015. The Board of Control accepted and approved these changes in September 2016, which became effective at the beginning of fiscal year 2016.

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

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

	Target Allocation	Long-Term Expected Rate Return *
Fixed income	17.00%	4.4%
U.S. large stocks	32.00%	8.0%
U.S. mid stocks	9.00%	10.0%
U.S. small stocks	4.00%	11.0%
International developed market stocks	12.00%	9.5%
International emerging market stocks	3.00%	11.0%
Alternatives	10.00%	10.1%
Real estate	10.00%	7.5%
Cash Equivalents	3.00%	1.5%
<b>Total</b>	<b>100.00%</b>	

\* Includes assumed rate of inflation of 2.50%

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 10 - DEFINED BENEFIT PENSION PLAN (CONTINUED)**

Discount rate

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

Sensitivity of the Board's proportionate share of the net pension liability to changes in the discount rate

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

	1% Decrease (6.70%)	Current Rate (7.70%)	1% Increase (8.70%)
Board's proportionate share of collective net pension liability	\$89,119,000	\$65,646,000	\$45,783,000

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 No. 67 Report for the TRS prepared as of September 30, 2019. The auditor's report on the Schedule of Employer Allocations and Pension Amounts by Employer and accompanying notes detail by employer and in aggregate information needed to comply with GASB 68. The additional financial and actuarial information is available at <http://www.rsa-al.gov/index.php/employers/financial-reports/gasb-68-reports/>.

**NOTE 11 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS**

Plan description

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

The PEEHIP was established in 1983 pursuant to the provisions of the *Code of Alabama 1975, Title 16, Chapter 25A* (Act 83-455) to provide a uniform plan of health insurance for active and retired employees of state and local educational institutions which provide instruction at any combination of grades K-14 (collectively, eligible employees), and to provide a method for funding the benefits related to the plan. The four-year universities participate in the plan with respect to their retired employees, and are eligible

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 11 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (CONTINUED)

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 PEEHIB. PEEHIB is a corporate body for purposes of management of the health insurance plan. The *Code of Alabama 1975, Section 16-25A-4* provides 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 PEEHIB are held in trust for the payment of health insurance benefits. The Teachers' Retirement System of Alabama has been appointed as the administrator of the PEEHIB and, consequently, serves as the administrator of the Trust.

#### Benefits provided

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

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

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

**NOTE 11 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (CONTINUED)**

Contributions

The *Code of Alabama 1975, Section 16-25A-8* and the *Code of Alabama 1975, Section, 16-25A-8.1* provide 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, 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 PEEHIB for each retiree class is reduced by 2% for each year of service less than 25 and increased by 2% percent for each year of service over 25, subject to adjustment by 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 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 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 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 PEEHIB. This reduction in the employer contribution ceases upon notification to PEEHIB of the attainment of Medicare coverage.

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

At September 30, 2020, the Board reported a liability of \$30,225,643 for its proportionate share of the net OPEB liability. The 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 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 0.801153% percent, which was an increase/(decrease) of 0.037136% from its proportion measured as of September 30, 2018.

For the year ended September 30, 2020, the Board recognized OPEB expense of (\$2,288,215) 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	\$ 1,000,798	\$ 23,175,716
Changes of assumptions	1,444,967	12,519,639
Net difference between projected and actual earnings on OPEB plan investments	62,351	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,531,919	1,737,192
Employer contributions subsequent to the measurement date	1,360,310	-
Total	\$ 7,400,345	\$ 37,432,547

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 11 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (CONTINUED)**

\$1,360,310 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 ended September 30:	
2021	(\$6,609,777)
2022	(6,609,777)
2023	(6,530,574)
2024	(5,178,022)
2025	(5,503,153)
Thereafter	(961,209)

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

<sup>1</sup>Includes 3.00% wage inflation.

<sup>2</sup>Compounded annually, net of investment expense, and includes inflation.

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 11 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (CONTINUED)**

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

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

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

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

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

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

	Target Allocation	Long-Term Expected Real Rate of Return *
Fixed income	30.00%	4.4%
U.S. large stocks	38.00%	8.0%
U.S. mid stocks	8.00%	10.0%
U.S. small stocks	4.00%	11.0%
International developed market stocks	15.00%	9.5%
Cash	5.00%	1.5%
Total	<u>100.00%</u>	

\* Geometric mean, includes 2.50% inflation

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 11 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (CONTINUED)**

Discount Rate

The discount rate (also known as the Single Equivalent Interest Rate (SEIR), as described by GASB 74) used to measure the total OPEB liability at September 30, 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. 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.

Sensitivity of the Board's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates

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

	1% Decrease (5.75% decreasing to 3.75% for pre- Medicare, known decreasing to 3.75% for Medicare Eligible)	Current Healthcare Trend Rate (6.75% decreasing to 4.75% for pre- Medicare, known decreasing to 4.75% for Medicare Eligible)	1% Increase (7.75% decreasing to 5.75% for pre- Medicare, known decreasing to 5.75% for Medicare Eligible)
Net OPEB liability	\$24,235,529	\$30,225,643	\$37,769,920

Sensitivity of the Board's proportionate share of the net OPEB liability to changes in discount rate

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

	1 % Decrease (4.50%)	Current Rate (5.50%)	1% Increase (6.50%)
Net OPEB liability	\$36,534,695	\$30,225,643	\$25,073,228

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 No. 74 Report for PEEHIP prepared as of September 30, 2019. Additional financial and actuarial information is available at [www.rsa-al.gov](http://www.rsa-al.gov).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 12 - LONG-TERM OBLIGATIONS

During fiscal year 2012, the Board issued Capital Outlay School Warrants, Series 2012 to provide funds for the acquisition and renovation of school facilities as well as for the purpose of advance refunding its Capital Outlay Warrants, Series 2003. The bonds bear interest at 2.00% - 5.00%.

During fiscal year 2013, the Board entered into Capital Outlay Pool Warrants, Series 2013 with the Alabama Public School and College Authority (the Authority), which was approved by the State Superintendent of Education, pursuant to the provisions of Act Number 2012-562, Acts of Alabama, enacted at the 2012 Regular Session of the Legislature of Alabama. The Authority issued Capital Improvement Pool Bonds, Series 2013-A in the amount of \$3,328,064 of which the Board is required to repay one half of the principal, \$1,664,032. The bonds bear interest at 3.25% - 5.00%.

During fiscal year 2017, the Board issued School Tax Warrants, Series 2016, to provide funds for acquiring, constructing and installing certain capital improvements to the school facilities as well as for the purpose of refunding a portion of its Capital Outlay Warrants, Series 2012. The bonds bear interest at 2.00% - 3.00%.

During fiscal year 2018, the Board issued School Tax Warrants, Series 2017, to provide funds for acquiring, constructing and installing certain capital improvements to the school facilities as well as for the purpose of refunding a portion of its Capital Outlay Warrants, Series 2012, and paying the costs of issuance of the Series 2017 Warrants. The bonds bear interest at 2.00% - 3.00%.

During fiscal year 2019, the Board issued School Tax Warrants, Series 2019-A, to provide funds for acquiring, constructing and installing certain capital improvements to the school facilities as well as paying the costs of issuance of the Series 2019-A Warrants. The bonds bear interest at 1.75% - 3.125%.

During fiscal year 2020, the Board issued School Tax Warrants, Series 2019-B, to provide funds for acquiring, constructing and installing certain capital improvements to the school facilities as well as paying the costs of issuance of the Series 2019-B Warrants. The bonds bear interest at 1.75% - 3.125%.

Remedies of default available to the registered owners of the Series 2012, 2013, 2016, 2017, 2019-A and 2019-B warrants payable are in many respects dependent upon regulatory and judicial actions, and enforcement thereof may be limited or restricted.

The board has entered into a lease agreement to finance an equipment purchase of \$47,712, the remainder of which was paid in the year ended September 30, 2020. The lease payments included interest at 3.80%.

Payments on the Series 2012, 2013, 2016, 2017, 2019-A and 2019-B warrants payable are made by the debt service fund with property taxes and sales taxes.

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 12 - LONG-TERM OBLIGATIONS (CONTINUED)**

Long-term liability balances and activity for the year ended September 30, 2020 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Capital Outlay Pool Warrants:</b>					
Series 2019-B	\$ 0	\$ 24,030,000	\$ 0	\$ 24,030,000	\$ 0
Series 2019-A	5,185,000	0	105,000	5,080,000	110,000
Series 2017	9,775,000	0	130,000	9,645,000	130,000
Series 2016	9,995,000	0	0	9,995,000	0
Series 2013	1,297,018	0	71,055	1,225,963	74,548
Capital Outlay Sch. Warrants, Ser. 2012	26,315,000	0	1,370,000	24,945,000	1,415,000
	<u>52,567,018</u>	<u>24,030,000</u>	<u>1,676,055</u>	<u>74,920,963</u>	<u>1,729,548</u>
Unamortized Issuance Premium/Discount	1,198,490	1,188,467	177,053	2,209,904	187,233
Sub-Total Warrants Payable	53,765,508	25,218,467	1,853,108	77,130,867	1,916,781
Capital Lease Contracts Payable	18,218	0	18,218	0	0
Net Pension Liability	60,787,000	4,859,000	0	65,646,000	0
Net OPEB Liability	62,792,467	0	32,566,824	30,225,643	0
Est. Liability for Compensated Absences	320,992	41,958	0	362,950	39,925
	<u>\$ 177,684,185</u>	<u>\$ 30,119,425</u>	<u>\$ 34,438,150</u>	<u>\$ 173,365,460</u>	<u>\$ 1,956,706</u>

The Board has implemented *GASB No. 68- Accounting and Financial Reporting for Pensions*. Due to the implementation of this statement, a net pension liability in the amount of \$65,646,000 has been recorded. See Note 10 - Defined Benefit Pension Plan for details of this liability. The Board has also implemented *GASB No. 75- Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*. Due to the implementation of this statement, a net OPEB liability of \$30,225,643 was recorded. See Note 11 - Post-employment Benefits Other Than Pension Benefits for details of this liability.

Fiscal Year	Series 2012		Series 2013		Series 2016	
	Principal	Interest	Principal	Interest	Principal	Interest
2021	\$ 1,415,000	\$ 1,014,069	\$ 74,548	\$ 47,990	\$ 0	\$ 255,290
2022	1,465,000	961,525	78,321	44,263	1,005,000	245,240
2023	1,540,000	886,400	82,234	40,347	1,100,000	223,640
2024	1,620,000	807,400	84,679	37,880	1,135,000	199,321
2025	1,140,000	738,400	87,404	35,128	1,165,000	171,990
2026	2,180,000	655,400	90,408	32,178	880,000	145,988
2027	780,000	581,400	93,692	28,900	865,000	122,870
2028	2,385,000	526,125	97,186	25,387	935,000	98,336
2029	845,000	469,225	101,028	21,500	910,000	72,740
2030	2,590,000	404,394	102,495	17,458	985,000	45,225
2031	2,680,000	315,462	107,596	13,359	1,015,000	15,225
2032	2,770,000	223,493	111,788	9,055		
2033	985,000	152,125	114,584	4,583		
2034	1,030,000	101,750				
2035	1,520,000	38,000				
<b>Total</b>	<u>\$ 24,945,000</u>	<u>\$ 7,875,168</u>	<u>\$ 1,225,963</u>	<u>\$ 358,028</u>	<u>\$ 9,995,000</u>	<u>\$ 1,595,865</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 12 - LONG-TERM OBLIGATIONS (CONTINUED)**

Fiscal Year	Series 2017		Series 2019-A	
	Principal	Interest	Principal	Interest
2021	\$ 130,000	\$ 259,145	\$ 110,000	\$ 138,346
2022	150,000	254,945	235,000	135,034
2023	155,000	251,145	240,000	130,284
2024	155,000	248,045	245,000	125,311
2025	795,000	238,148	220,000	120,374
2026	175,000	227,722	225,000	115,478
2027	1,690,000	204,519	230,000	110,359
2028	130,000	181,769	235,000	104,834
2029	1,835,000	156,059	195,000	99,337
2030	185,000	129,431	175,000	94,371
2031	185,000	124,344	180,000	89,445
2032	1,195,000	103,875	210,000	83,775
2033	1,415,000	64,725	1,805,000	52,422
2034	1,450,000	21,750	775,000	12,109
<b>Total</b>	<b>\$ 9,645,000</b>	<b>\$ 2,465,622</b>	<b>\$ 5,080,000</b>	<b>\$ 1,411,479</b>

Fiscal Year	Series 2019-B		Total	
	Principal	Interest	Principal	Interest
2021	\$ 0	\$ 877,700	\$ 1,729,548	\$ 2,592,540
2022	0	877,700	2,933,321	2,518,707
2023	0	877,700	3,117,234	2,409,516
2024	0	877,700	3,239,679	2,295,657
2025	0	877,700	3,407,404	2,181,740
2026	0	877,700	3,550,408	2,054,466
2027	0	877,700	3,658,692	1,925,748
2028	0	877,700	3,782,186	1,814,151
2029	0	877,700	3,886,028	1,696,561
2030	0	877,700	4,037,495	1,568,579
2031	0	877,700	4,167,596	1,435,535
2032	0	877,700	4,286,788	1,297,898
2033	0	877,700	4,319,584	1,151,555
2034	0	877,700	3,255,000	1,013,309
2035	0	877,700	1,520,000	915,700
2036	1,345,000	850,800	1,345,000	850,800
2037	1,400,000	795,900	1,400,000	795,900
2038	1,460,000	738,700	1,460,000	738,700
2039	1,515,000	679,200	1,515,000	679,200
2040	1,570,000	625,350	1,570,000	625,350
2041	1,620,000	577,500	1,620,000	577,500
2042	1,670,000	528,150	1,670,000	528,150
2043	1,720,000	477,300	1,720,000	477,300
2044	1,770,000	424,950	1,770,000	424,950
2045	1,835,000	361,700	1,835,000	361,700
2046	1,910,000	286,800	1,910,000	286,800
2047	1,990,000	208,800	1,990,000	208,800
2048	2,070,000	127,600	2,070,000	127,600
2049	2,155,000	43,100	2,155,000	43,100
<b>Total</b>	<b>\$ 24,030,000</b>	<b>\$ 19,891,350</b>	<b>\$ 74,920,963</b>	<b>\$ 33,597,512</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 12 - LONG-TERM OBLIGATIONS (CONTINUED)**

Premiums and Discounts

The Board has an issuance premium in connection with the issuance of its Capital Outlay Warrants, Series 2012 and Capital Outlay Warrants, Series 2019-B and issuance discounts in connection with the issuance of its Capital Outlay Warrants, Series 2016, Capital Outlay Warrants, Series 2017 and Capital Outlay Warrants, Series 2019-A. The premium is being amortized using the straight-line method over a period of 16 and 12.17 years and the discounts over a period of 14.25, 16 and 15 years.

	Discount		Premium
Balance, beginning of year	\$ 287,675	\$	1,486,165
Current year additions	0		1,188,466
Current year amortized/refunded	<u>(21,759)</u>		<u>(198,811)</u>
Balance, end of year	\$ <u>265,916</u>	\$	\$ <u>2,475,820</u>

Pledged Revenues

Series	Source of Payment	Final Maturity
Series 2019-B Warrants	Pledged tax proceeds	March 1, 2049
Series 2019-A Warrants	Pledged tax proceeds	March 1, 2034
Series 2017 Warrants	Pledged tax proceeds	March 1, 2034
Series 2016 Warrants	Pledged tax proceeds	March 1, 2031
Capital Outlay Sch. Warrants, Ser. 2012	Pledged tax proceeds, other than 1978 County Sales Tax	March 1, 2032
2013 PSCA Loan	Funds from State of Alabama Public School Fund	June 1, 2033

Pledged tax revenues are the proceeds distributed to the Board of (a) District Ad Valorem School Tax and (b) the County Sales and Use School Tax and (c) the County 1978 Sales Tax and (d) any valid tax or taxes which the Board shall validly pledge for the benefit of the Warrants.

**NOTE 13 - INTERFUND TRANSACTIONS**

Interfund Receivables

Interfund accounts receivable are considered available spendable resources.

Interfund Transfers

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

**NOTE 14 - FAIR VALUE MEASURES**

The Board categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable input. The Series 2017 Debt Service Fund, Series 2016 Debt Service Fund, Series 2019-A Debt Service Fund, Series 2019-A Acquisition Fund, 2019-B Warrant Fund and the 2019-B Proceeds Fund are invested in U.S. Treasury obligations and is valued using quoted market prices (Level 1 inputs).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 15 – SUBSEQUENT EVENTS

The date through which subsequent events have been evaluated is June 10, 2021. The financial statements were available to be issued at that time.

On October 9, 2020, Series 2020 Warrants were issued, in the amount of \$41,640,000. The Series 2020 Warrants were issued for the purpose of refunding warrants and paying the costs of issuance of the Series 2020 Warrants.

The World Health Organization declared the COVID-19 outbreak a public health emergency on January 30, 2020. As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively impact the Board's operating results and financial position. It will be extremely difficult for the Board to prepare budgets for the upcoming fiscal year to anticipate the impact of the pandemic. At this time, an estimate of the financial statement effect of the event cannot be made.

**SUPPLEMENTAL SCHEDULE OF REVENUE  
MORGAN COUNTY BOARD OF EDUCATION  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGETARY BASIS TO GAAP BASIS - GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	Budgeted Amounts		Actual (Budgetary Basis)	Budget to GAAP Differences Over (Under)	Actual Amount GAAP Basis
	Original	Final			
<b>Revenues</b>					
State	\$ 44,772,988	\$ 46,730,302	\$ 46,902,934	\$ -	\$ 46,902,934
Federal	12,500	1,271,761	180,078	-	180,078
Local	26,581,030	26,608,582	27,205,583	-	27,205,583
Other	94,900	52,200	51,407	-	51,407
Total Revenues	71,461,418	74,662,845	74,340,002	-	74,340,002
<b>Expenditures</b>					
Instruction	38,722,807	38,969,978	37,068,658	(382,436)	36,686,222
Instructional Support	11,070,214	13,038,961	11,375,420	(31,391)	11,344,029
Operation and Maintenance	7,920,691	7,303,863	6,950,453	(1,380)	6,949,073
Auxiliary Services:					
Student Transportation	4,360,771	4,318,071	4,121,309	(21,210)	4,100,099
Food Service	-	-	273	-	273
General Administrative Services	2,562,932	2,814,582	2,799,031	(6,908)	2,792,123
Other	1,526,403	1,526,403	1,631,130	11,972	1,643,102
Capital Outlay	730,028	740,028	856,780	-	856,780
Debt Service:					
Principal Retirement	71,055	71,055	89,273	-	89,273
Interest and Fiscal Charges	51,543	51,543	52,760	-	52,760
Debt Issuance Costs/Other Debt Service	-	-	8,250	-	8,250
Total Expenditures	67,016,444	68,834,484	64,953,337	(431,353)	64,521,984
Excess (deficiency) of revenues over expenditures	4,444,974	5,828,361	9,386,665	431,353	9,818,018
<b>Other Financing Sources (Uses)</b>					
Indirect Cost	458,413	457,375	430,442	-	430,442
Long-Term Debt Issued	-	-	-	-	-
Transfers In	-	-	303,742	-	303,742
Other	10,000	10,000	407,051	-	407,051
Sale of Capital Assets	-	-	13,695	-	13,695
Transfers Out	(5,776,711)	(6,416,199)	(6,532,284)	-	(6,532,284)
Total Other Financing Sources (Uses)	(5,308,298)	(5,948,824)	(5,377,354)	-	(5,377,354)
Net Change in Fund Balances	(863,324)	(120,463)	4,009,311	431,353	4,440,666
Fund Balances at Beginning of Year	20,993,182	21,069,947	21,069,845	(5,473,492)	15,596,353
Fund Balances at End of Year	\$ 20,129,858	\$ 20,949,484	\$ 25,079,156	\$ (5,042,139)	\$ 20,037,017

**Explanation of differences:**

The Board budgets revenues and expenditures to the extent they are expected to be received or paid in the current fiscal period, rather than on the modified accrual basis.

\$ 431,353

The accompanying Notes to the Budgetary Comparison Schedules are an integral part of this statement.

**SUPPLEMENTAL SCHEDULE OF REVENUE  
MORGAN COUNTY BOARD OF EDUCATION  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGETARY BASIS TO GAAP BASIS - SPECIAL REVENUE FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Budget to GAAP Differences Over (Under)</u>	<u>Actual Amount GAAP Basis</u>
	<u>Original</u>	<u>Final</u>			
<b>Revenues</b>					
State	\$ -	\$ -	\$ -	\$ -	\$ -
Federal	6,689,197	6,859,389	7,553,923	-	7,553.92
Local	4,537,733	4,551,583	4,130,982	-	4,130.98
Other	127,000	130,000	189,068	-	189.06
Total Revenues	<u>11,353,930</u>	<u>11,540,972</u>	<u>11,873,973</u>	<u>-</u>	<u>11,873.97</u>
<b>Expenditures</b>					
Instruction	4,891,655	4,835,386	4,689,947	-	4,689.94
Instructional Support	1,457,425	1,664,087	2,626,679	-	2,626.67
Operation and Maintenance	175,764	175,764	234,322	-	234.32
Auxiliary Services					
Student Transportation	144,485	144,651	96,976	-	96.97
Food Service	6,607,914	6,615,607	5,688,546	(26,778)	5,661.76
General Administrative Services	209,800	209,800	187,387	-	187.38
Other	679,318	675,620	647,477	-	647.47
Capital Outlay	500,200	617,584	417,774	-	417.77
Debt Service:					
Principal Retirement	4,968	4,968	-	-	-
Interest and Fiscal Charges	705	705	-	-	-
Debt Issuance Costs/Other Debt Service	-	-	-	-	-
Total Expenditures	<u>14,672,234</u>	<u>14,944,172</u>	<u>14,589,108</u>	<u>(26,778)</u>	<u>14,562.33</u>
Excess (deficiency) of revenues over expenditures	<u>(3,318,304)</u>	<u>(3,403,200)</u>	<u>(2,715,135)</u>	<u>26,778</u>	<u>(2,688.35)</u>
<b>Other Financing Sources (Uses)</b>					
Indirect Cost	-	-	-	-	-
Long-Term Debt Issued	-	-	-	-	-
Transfers In	2,904,493	2,904,493	3,060,815	-	3,060.81
Other Financing Sources	-	-	-	-	-
Transfers Out	-	-	(464,716)	-	(464.71)
Total Other Financing Sources (Uses)	<u>2,904,493</u>	<u>2,904,493</u>	<u>2,596,099</u>	<u>-</u>	<u>2,596.09</u>
Net Change in Fund Balances	(413,811)	(498,707)	(119,036)	26,778	(92.25)
Fund Balances at Beginning of Year	3,764,868	3,992,740	3,992,740	(300,596)	3,692,144
Fund Balances at End of Year	<u>\$ 3,351,057</u>	<u>\$ 3,494,033</u>	<u>\$ 3,873,704</u>	<u>\$ (273,818)</u>	<u>\$ 3,599,826</u>

**Explanation of differences:**

The Board budgets revenues and expenditures to the extent they are expected to be received or paid in the current fiscal period, rather than on the modified accrual basis.

\$ 26,778

The accompanying Notes to the Budgetary Comparison Schedules are an integral part of this statement.

**MORGAN COUNTY BOARD OF EDUCATION  
NOTES TO THE BUDGETARY COMPARISON SCHEDULES  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**Note A -**

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures:

	<b>General Fund</b>	<b>Special Revenue Fund</b>
<b>Sources/inflows of resources</b>		
Actual amounts (budgetary basis) available for appropriation shown as Total Revenues on the budgetary comparison schedule	\$ 74,340,002	\$ 11,873,973
<b>Differences - Budget to GAAP</b>		
Local taxes are not budgeted as revenues unless receivable in time to pay budgeted expenditures	-	-
	<u>\$ 74,340,002</u>	<u>\$ 11,873,973</u>
<b>Uses/outflows of resources</b>		
Actual amounts (budgetary basis) available for expenditures shown as Total Expenditures on the budgetary comparison	\$ 64,953,337	\$ 14,589,108
<b>Differences - budget to GAAP</b>		
Salaries of teachers and other personnel with contracts of less than 12 months are paid over a 12 month period. Expenditures for salaries (and related fringe benefits) are budgeted based on the amount that will be paid from budgeted revenues. However, salaries earned but not paid are reported as expenditures on financial statements	(431,353)	(26,778)
	<u>\$ 64,521,984</u>	<u>\$ 14,562,330</u>

**Note B -**

Budgetary Comparison Schedules are not presented as Required Supplementary Information for major fund Capital Projects Fund because a legally adopted budget for this fund is not required. The requirement to present Budgetary Comparison Schedules is, therefore, eliminated.

**MORGAN COUNTY BOARD OF EDUCATION  
SCHEDULE OF THE BOARD'S PROPORTIONATE SHARE  
OF THE COLLECTIVE NET PENSION LIABILITY  
FISCAL YEARS ENDED SEPTEMBER 30**

(Dollar Amounts in Thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Board's proportion of the net pension liability	<u>0.593712%</u>	<u>0.611381%</u>	<u>0.617638%</u>	<u>0.614873%</u>	<u>0.622785%</u>	<u>0.619220%</u>
Board's proportionate share of the net pension liability	<u>\$ 65,646</u>	<u>\$ 60,787</u>	<u>\$ 60,704</u>	<u>\$ 66,566</u>	<u>\$ 65,179</u>	<u>\$ 56,253</u>
Board's covered-employee payroll during the measurement period (*)	<u>\$ 42,212</u>	<u>\$ 40,628</u>	<u>\$ 40,562</u>	<u>\$ 38,991</u>	<u>\$ 39,359</u>	<u>\$ 39,246</u>
Board's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>155.52%</u>	<u>149.62%</u>	<u>149.66%</u>	<u>170.72%</u>	<u>165.60%</u>	<u>143.33%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>69.85%</u>	<u>72.29%</u>	<u>71.50%</u>	<u>67.93%</u>	<u>67.51%</u>	<u>71.01%</u>

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

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

**MORGAN COUNTY BOARD OF EDUCATION  
SCHEDULE OF BOARD PENSION CONTRIBUTIONS  
FISCAL YEARS ENDED SEPTEMBER 30**

(Dollar Amounts in Thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 5,227	\$ 5,162	\$ 4,908	\$ 4,821	\$ 4,622	\$ 4,595
Contributions in relation to the contractually required contribution	<u>5,227</u>	<u>5,162</u>	<u>4,908</u>	<u>4,821</u>	<u>4,622</u>	<u>4,595</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Board's covered-employee payroll	<u>\$ 42,816</u>	<u>\$ 42,212</u>	<u>\$ 40,628</u>	<u>\$ 40,562</u>	<u>\$ 38,991</u>	<u>\$ 39,359</u>
Contributions as a percentage of covered-employee payroll	<u>12.21%</u>	<u>12.23%</u>	<u>12.08%</u>	<u>11.89%</u>	<u>11.85%</u>	<u>11.67%</u>

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

**MORGAN COUNTY BOARD OF EDUCATION  
SCHEDULE OF THE BOARD'S PROPORTIONATE  
SHARE OF THE NET OPEB LIABILITY  
FISCAL YEARS ENDED SEPTEMBER 30**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Board's proportion of the net OPEB liability	<u>0.801153%</u>	<u>0.764017%</u>	<u>0.748182%</u>
Board's proportionate share of the net OPEB liability	<u>\$ 30,225,643</u>	<u>\$ 62,792,467</u>	<u>\$ 55,570,685</u>
Board's covered-employee payroll during the measurement period	<u>\$ 42,211,621</u>	<u>\$ 40,627,789</u>	<u>\$ 40,562,489</u>
Board's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	<u>71.61%</u>	<u>154.56%</u>	<u>137.00%</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>28.14%</u>	<u>14.81%</u>	<u>15.37%</u>

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

**MORGAN COUNTY BOARD OF EDUCATION  
SCHEDULE OF BOARD OPEB CONTRIBUTIONS  
FISCAL YEARS ENDED SEPTEMBER 30**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contributions	\$ 1,360,310	\$ 2,277,210	\$ 1,889,937
Contributions in relation to the contractually required contribution	<u>1,360,310</u>	<u>2,277,210</u>	<u>1,889,937</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Board's covered-employee payroll	<u>\$ 42,815,590</u>	<u>\$ 42,211,621</u>	<u>\$ 40,627,789</u>
Contributions as a percentage of covered-employee payroll	<u>3.18%</u>	<u>5.39%</u>	<u>4.65%</u>

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

**MORGAN COUNTY BOARD OF EDUCATION  
NOTES TO REQUIRED OPEB SUPPLEMENTARY INFORMATION  
FISCAL YEARS ENDED SEPTEMBER 30**

**Changes in actuarial assumptions**

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

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

**Recent Plan Changes**

Beginning in plan year 2021, the Medicare Advantage Plan with Prescription Drug Coverage (MAPD) plan premium rates exclude the ACA Health Insurer Fee which was repealed on December 20, 2019.

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

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

**Method and assumptions used in calculations of actuarially determined contributions**

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of September 30, 2019, which is three years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay, closed
Remaining Amortization Period	25 years
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

**MORGAN COUNTY BOARD OF EDUCATION  
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	Pass- Through Grantor's Number	Federal CFDA Number	Revenue Recognized	Expenditures
<b><u>U.S. Department of Education</u></b>				
Passed through State Department of Education:				
IDEA, Part B	052	84.027	\$ 1,592,500	\$ 1,592,500
IDEA - Preschool Program	052	84.173	59,540	59,540
Special Education Cluster			<u>1,652,040</u>	<u>1,652,040</u>
COVID-19 - Education Stabilization Fund Under the CARES Act - Governor's Emergency Education Relief (GEER) Fund	052	84.425C	10,204	10,204
COVID-19 - Education Stabilization Fund Under the CARES Act - Elementary and Secondary School Emergency Relief (ESSER) Fund	052	84.425D	782,329	782,329
			<u>792,533</u>	<u>792,533</u>
Vocational Education - Basic Grant	052	84.048	97,156	97,156
Title I - Part A	052	84.010	1,449,790	1,449,790
Title IV - Part A - School Safety Planning	052	84.184	113,379	113,379
Title III - English Language Acquisition	052	84.365	44,288	44,288
Title II - Part A - Teacher Training	052	84.367	255,393	255,393
Title X - Homeless Education	052	84.196A	10,000	10,000
Total U.S. Department of Education			<u>4,414,579</u>	<u>4,414,579</u>
<b><u>Treasury Department</u></b>				
Passed through State Department of Education:				
COVID-19 - Coronavirus Relief Fund	052	21.019	553,997	553,997
Total Treasury Department			<u>553,997</u>	<u>553,997</u>
<b><u>Department of Defense</u></b>				
ROTC		12.U01	78,251	78,251
Total U.S. Department of Defense			<u>78,251</u>	<u>78,251</u>
<b><u>Social Security Administration</u></b>				
Passed through State Department of Education:				
Disability Determination	052	96.001	1,000	1,000
Total Social Security Administration			<u>1,000</u>	<u>1,000</u>
<b><u>U.S. Department of Agriculture</u></b>				
Passed through State Department of Education:				
National School Lunch Program	052	10.555	1,120,689	1,120,689
COVID-19 - National School Lunch Program	052	10.555	527,495	527,495
National School Breakfast Program	052	10.553	447,558	447,558
COVID-19 - National School Breakfast Program	052	10.553	303,836	303,836
Food Distribution Programs	052	10.555	286,596	286,596
Child Nutrition Cluster			<u>2,686,174</u>	<u>2,686,174</u>
Total U.S. Department of Agriculture			<u>2,686,174</u>	<u>2,686,174</u>
Total			<u>\$ 7,734,001</u>	<u>\$ 7,734,001</u>

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

**MORGAN COUNTY BOARD OF EDUCATION  
NOTES TO THE SUPPLEMENTARY SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS  
SEPTEMBER 30, 2020**

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

**Basis of Presentation**

The Supplemental Schedule of Expenditures of Federal Awards has been prepared on the modified accrual basis of accounting.

The Board did not elect to use the 10% de minimis indirect cost rate.

# Mercer & Associates, PC

a CPA firm

201 Williams Ave., Suite 280  
Huntsville, Alabama 35801  
(256) 536 - 4318  
Fax (256) 533 - 7193

Jerry Mercer, CPA, owner  
Lisa Eaton, CPA  
Misty Whiting, CPA  
Carol Crews, CPA  
Jordan Gibbs, CPA

Members  
Alabama Society of C.P.A.s  
American Institute C.P.A.s

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board Members  
Morgan County Board of Education  
Decatur, Alabama

### Report on Compliance for Each Major Federal Program

We have audited the Morgan County Board of Education's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Morgan County Board of Education's major federal programs for the year ended September 30, 2020. The Morgan County Board of Education's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### Management's Responsibility

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

### Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Morgan 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 Morgan County Board of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

### Opinion on Each Major Federal Program

In our opinion, the Morgan 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.

### Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2020-001. Our opinion on each major federal program is not modified with respect to this matter.

The Morgan County Board of Education's response to the internal control over compliance finding identified in our audit is described in the accompanying Auditee Response/Corrective Action Plan. The Morgan County Board of Education's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### Report on Internal Control Over Compliance

The management of the Morgan 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 Morgan 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 Morgan County Board of Education's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2020-001 that we consider to be a significant deficiency.

The Morgan County Board of Education's response to the internal control over compliance finding identified in our audit is described in the accompanying Auditee Response/Corrective Action Plan. The Morgan County Board of Education's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

*Mercer & Associates, PC*

June 10, 2021

# Mercer & Associates, PC

a CPA firm

201 Williams Ave., Suite 280  
Huntsville, Alabama 35801  
(256) 536 - 4318  
Fax (256) 533 - 7193

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## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board Members  
Morgan County Board of Education  
Decatur, Alabama

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Morgan 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 Morgan County Board of Education's basic financial statements, and have issued our report thereon, dated June 10, 2021.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Morgan County Board of Education's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Morgan County Board of Education's internal control. Accordingly, we do not express an opinion on the effectiveness of the Morgan 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 and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2019-001 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Morgan 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 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*.

Morgan County Board of Education's Response to Findings

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

Purpose of this Report

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

*Mercer & Associates, PC*

June 10, 2021

**MORGAN COUNTY BOARD OF EDUCATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unmodified opinion on whether the financial statements of the Morgan County Board of Education were prepared in accordance with GAAP.
2. One significant deficiency relating to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. No material weaknesses are reported.
3. No instances of noncompliance material to the financial statements of the Morgan County Board of Education, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. One significant deficiency in internal control over major federal award programs disclosed during the audit are reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance. No material weaknesses are reported.
5. The auditor's report on compliance for the major federal award programs for the Morgan County Board of Education expresses an unmodified opinion on all major federal programs.
6. The audit disclosed one audit finding that is required to be reported in accordance with 2 CFR section 200.516(a) in Part C of this schedule.
7. The programs tested as major programs include:

COVID-19 - Education Stabilization Fund Under the CARES Act - Governor's Emergency Education Relief (GEER) Fund	CFDA # 84.425C
COVID-19 - Education Stabilization Fund Under the CARES Act Elementary and Secondary School Emergency Relief (ESSER) Fund	CFDA # 84.425D
IDEA – Part B	CFDA # 84.027
IDEA - Preschool Program	CFDA # 84.173
8. The threshold for distinguishing Types A and B programs was \$750,000.
9. The Morgan County Board of Education was determined to be a low-risk auditee.

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT**

**Reference No.: 2019-001**

Type of Finding: Internal Control

Finding: In February, 2020, a school bookkeeper was charged with theft. The theft was discovered as part of the internal audit process. It was determined that the bookkeeper may have circumvented controls and made fraudulent purchases using school funds. This finding was reported in FY 2019; included in FY 2020 because the theft was discovered in FY 2020 and was occurring at the first of the fiscal year.

Recommendation: Continue strengthened internal control procedures implemented in FY 2020.

View of Responsible Officials: The Board and management agree with this finding.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

### C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

Reference No.: 2020-001

Program: U.S. Department of Education; Passed through Alabama Department of Education; Special Education Cluster, CFDA #84.027 and 84.173, for 10/1/2019 through 9/30/2020.

Criteria: The Uniform Guidance in 2 CFR Section 200.303 requires that non-Federal entities receiving Federal Awards establish and maintain internal control designed to reasonably ensure compliance with Federal Statutes, regulations, and the terms and conditions of the Federal award.

Condition: Two nonpayroll payments selected for testing in the Special Education Cluster did not have a proper authorizing signature.

Questioned Costs: Known questioned costs determined through audit test work totaled \$1,044. Based on the sample size and the total population this amount extrapolates to \$42,180.

Context: This is a condition identified per review of the Board's compliance with specified requirements using a statistically valid sample.

Effect: Without adherence to controls in place to ensure costs are properly reviewed for allowability, the Board could be noncompliant with the allowability requirements and could request funds for costs or activities that are unallowable or outside of the period of performance.

Cause: Policies and procedures were not adhered to ensure transactions are properly authorized.

Repeat of a Prior-Year Finding: No

Recommendation: The Board should strengthen its policies and procedures over the review of appropriate authorization to ensure that expenditures are allowable costs and for allowable activities and incurred during the period of performance.

View of Responsible Officials: The Board and management agree with this finding.

## Summary Schedule of Prior Audit Findings



*Morgan County Schools*

OFFICE OF THE SUPERINTENDENT  
235 HIGHWAY 67 SOUTH

*Locust, Alabama 35663*

TELEPHONE: 256-309-2105

ROBERT L. ELLIOTT, JR.  
SUPERINTENDENT  
rlelliott@morgank12.org

CONNIE GOODE  
Secretary to the Superintendent  
cfgoode@morgank12.org

## Summary Schedule of Prior Audit Findings

### Reference No.: 2019-001

In February, 2020, a school bookkeeper was charged with theft. The theft was discovered as part of the internal audit process. It was determined that the bookkeeper circumvented controls and made fraudulent purchases using school funds. This finding was reported in FY 2019; included in FY 2020 because the theft was discovered in FY 2020 and was occurring at the first of the fiscal year. Strengthened internal control procedures were implemented in FY 2020.

**Auditee Response / Corrective Action Plan**



*Morgan County Schools*

OFFICE OF THE SUPERINTENDENT  
235 HIGHWAY 67 SOUTH

*Dothan, Alabama 35602*

TELEPHONE: 256-309-2105

ROBERT L. ELLIOTT, JR.  
SUPERINTENDENT  
relliott@morgank12.org

CONNIE GOODE  
Secretary to the Superintendent  
cfgoode@morgank12.org

**Auditee Response / Corrective Action Plan**

**For the Year Ended September 30, 2020**

The Morgan County Board of Education has prepared and hereby submits the following Corrective Action Plan for the finding included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2020.

**Finding 2019-001**

**Finding:** In February 2020, a school bookkeeper was charged with theft. The theft was discovered as part of the internal audit process. It was determined that the bookkeeper circumvented controls and made fraudulent purchases using school funds.

**Response:** Strengthened internal control procedures were implemented in FY 2020.

**Finding 2020-001**

**Finding:** Two nonpayroll payments selected for testing in the Special Education Cluster did not have a proper authorizing signature.

**Response:** A strengthened approval process was implemented in FY 2020.

If there are any questions regarding this plan, please call Brian Bishop at 256-309-2138.