

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2023
with
INDEPENDENT AUDITOR'S REPORT

CONTENTS

| | Page |
|---|-------|
| <u>Independent Auditor's Report</u> | 1-3 |
| <u>Management's Discussion and Analysis</u> | 4-10 |
| <u>Financial Statements</u> | |
| <u>Government-wide Financial Statements</u> | |
| Statement of Net Position | 11-12 |
| Statement of Activities | 13 |
| <u>Fund Financial Statements</u> | |
| Balance Sheet Governmental Funds | 14 |
| Reconciliation of the Governmental Fund Balances to Net Position of Governmental Activities | 15 |
| Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds | 16 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities | 17 |
| Notes to Financial Statements | 18-40 |
| <u>Required Supplementary Information</u> | |
| Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual, General Fund | 41 |
| Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual, Special Revenue Fund | 42 |

CONTENTS (continued)

| | Page |
|--|-------|
| Schedule of the Proportionate Share of the Net Pension Liability - Teachers' Retirement Plan of Alabama | 43 |
| Schedule of School Contributions - Teacher's Retirement Plan of Alabama | 44 |
| Schedule of Proportionate Share of Net OPEB Liability - Alabama Retired Education Employees' Health Care Trust | 45 |
| Schedule of Contributions - Alabama Retired Education Employees' Health Care Trust | 46 |
| Notes to Required Supplementary Information - Alabama Retired Education Employees' Health Care Trust | 47-48 |
| <u>Supplementary Information</u> | |
| Schedule of Expenditures of Federal Awards | 49 |
| Notes to Schedule of Expenditures of Federal Awards | 50 |
| 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 | 51-52 |
| Independent Auditor's Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required by the Uniform Guidance | 53-55 |
| Schedule of Findings and Questioned Costs | 56-58 |
| Corrective Action Plan | 59 |

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Independent Auditor's Report

Board of Directors
Alabama Aerospace and Aviation Schools Inc.
Bessemer, Alabama

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of Alabama Aerospace and Aviation Schools Inc. (the "School"), as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the School, as of September 30, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the School and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Independent Auditor's Report (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 – 10, budgetary comparison information on pages 41 – 42, schedules of proportionate share of the net pension liability and school contributions on pages 43 – 44, and schedules of proportionate share of net OPEB liability and contributions on pages 45 – 46 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Independent Auditor's Report (continued)

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's basic financial statements. The accompanying statements of net position and activities and the schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of net position and activities and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 16, 2024, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's 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 School's internal control over financial reporting and compliance.

*Abston, Lee, Bennett, Peacock,
Cleveland & Swain, P.C.*

Birmingham, Alabama
July 16, 2024

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2023

INTRODUCTION

The Alabama Aerospace and Aviation Schools Inc. (the "School") discussion and analysis presents the overall financial position and operating results of the fiscal year that ended September 30, 2023. The Management's Discussion and Analysis ("MD&A") reflects an element of the reporting model adopted by the Governmental Accounting Standards Board ("GASB") in their statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

FINANCIAL HIGHLIGHTS

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

- The School's net position decreased by \$168,651 in FY 2023. The activities revenues overall were \$3,538,271 in FY 2023 and \$1,904,529 in FY 2022, resulting in an increase of \$1,633,742 or 86% over the prior year. The increase is due to the School opening for its first year in Fall 2022 and receiving local, state, and federal revenues throughout the full fiscal year to fund the first year of operations.
- Overall, the School's revenues and other financing sources were less than expenditures and other financing uses by \$168,651.

OVERVIEW OF THE FINANCIAL STATEMENTS AND USE OF THIS REPORT

This discussion and analysis serves as an introduction to the School's basic financial statements, which are the government-wide financial statements, fund financial statements, and the notes to the financial statements. This report also includes supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The first two statements are government-wide financial statements, the *Statement of Net Position* and the *Statement of Activities*. These provide both long-term and short-term information about the School's overall financial status. The focus of the *Statement of Net Position* is designed to be similar to bottom line results for the School and its activities.

The *Statement of Net Position* presents information on all of the School's assets less liabilities which results in net position. The statement is designed to display the financial position of the School. Over time, increases and decreases in net position help determine whether the School's financial position is improving or deteriorating.

The *Statement of Activities* provides information which shows how the School's net position changed as a result of the year's activities. The statement uses the full accrual basis of accounting. All of the revenues and expenses are reported regardless of the timing of when cash is received or paid. The statement identifies the extent to which each expenditure function draws from general revenues of the School or is financed through intergovernmental aid (primarily federal programs and state appropriations).

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2023

Fund Financial Statements

The fund financial statements provide more detailed information about the School's most significant funds, not the School as a whole. A fund is a grouping of related accounts that is used to keep track of specific sources of funding and spending for particular purposes. The School uses fund accounting to ensure and demonstrate fiscal accountability. All of the funds the School uses can be classified into one category: governmental funds.

Governmental funds – Most of the School's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. The governmental funds statements, the *Balance Sheet* and the *Statement of Revenues, Expenditures and Changes in Fund Balances*, are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. The relationship between government activities (reported in the *Statement of Net Position* and *Statement of Activities*) and governmental funds is described in a reconciliation that is an integral part of the fund financial statements.

Notes to the Financial Statements

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements follow the basic financial statements and are an integral part of the basic financial statements.

Required Supplementary Information

In addition to the basic financial statements and the accompanying notes, this report also presents certain *Required Supplementary Information* other than the MD&A consisting of a budgetary comparison schedule for the general fund and each major special revenue fund that has a legally adopted annual budget. If necessary, the schedule includes an accompanying note explaining the differences between actual amounts as reported on the basis of budgeting and the GAAP basis of reporting.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

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 School's total assets and deferred outflows of resources were greater than total liabilities and deferred inflows of resources by \$231,374 at September 30, 2023.

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2023

Table 1: Summary of Net Position

| | <u>FY 2023</u> | <u>FY 2022</u> | <u>Variance</u> |
|--|---------------------|---------------------|-----------------|
| Current and other assets | \$ 881,955 | \$ 877,966 | 0.45% |
| Capital assets, net | <u>459,949</u> | <u>245,427</u> | 87.41% |
| Total assets | <u>1,341,904</u> | <u>1,123,393</u> | 19.45% |
| Deferred outflows of resources | <u>1,936,929</u> | <u>86,721</u> | 2133.52% |
| Total assets and deferred outflows of resources | <u>\$ 3,278,833</u> | <u>\$ 1,210,114</u> | 170.95% |
| Current and other liabilities | \$ 666,172 | \$ 298,796 | 122.95% |
| Long-term liabilities, net | <u>2,052,098</u> | <u>511,293</u> | 301.35% |
| Total liabilities | <u>2,718,270</u> | <u>810,089</u> | 235.55% |
| Deferred inflows of resources | <u>329,189</u> | <u>-</u> | 100.00% |
| Total liabilities and deferred inflows of resources | <u>\$ 3,047,459</u> | <u>\$ 810,089</u> | 276.19% |
| Net investment in capital assets | \$ (65,266) | \$ (324,934) | -79.91% |
| Restricted for: | | | |
| Education | 135,331 | - | 100.00% |
| Unrestricted | <u>161,309</u> | <u>724,959</u> | -77.75% |
| Total net position | <u>\$ 231,374</u> | <u>\$ 400,025</u> | -42.16% |

Analysis of significant variances:

- The increase in capital assets, net, is due to the construction of leasehold improvements and acquisition of equipment and furniture during the year.
- The increases in deferred outflows of resources, deferred inflows of resources, and long-term liabilities are a result of the School opening for its first year in Fall 2022. The School's proportionate shares of the net pension liability and net other post-employment ("OPEB") liability and the related deferred outflows of resources and deferred inflows of resources are measured based on the prior year activities and contributions to the Teachers Retirement System of Alabama (the "pension") and the Alabama Retired Education Employees' Health Care Trust (the "trust"). As the School opened in Fall 2022, the School held no proportionate share of the net pension liability or net OPEB liability or related deferred outflows of resources and deferred inflows of resources at September 30, 2022.
- The significant increase in current and other liabilities is due to an increase in accounts payable and outstanding cash disbursements in excess of available cash deposits at year end. The increase in accounts payable is and is largely due to increases in activity with the start of the second school year in Fall 2023.

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2023

The School's total revenues and expenditures are reflected in the following table:

| | <u>FY 2023</u> | <u>FY 2022</u> | <u>Variance</u> |
|------------------------------------|-------------------|-------------------|-----------------|
| Revenues | | | |
| Program revenues: | | | |
| Operating grants and contributions | \$ 3,505,931 | \$ 1,903,133 | 84.22% |
| Miscellaneous | 32,340 | 1,396 | 2216.62% |
| Total revenues | <u>3,538,271</u> | <u>1,904,529</u> | <u>85.78%</u> |
| Expenditures | | | |
| Instructional services | 1,506,569 | 543,609 | 177.14% |
| Instructional support | 1,091,234 | 596,543 | 82.93% |
| Operation and maintenance | 328,496 | 194,786 | 68.64% |
| Auxiliary services | 165,557 | 16,831 | 883.64% |
| General administrative | 448,494 | 109,945 | 307.93% |
| Other | 131,241 | 21,545 | 509.15% |
| Capital outlay | - | 52,022 | -100.00% |
| Interest and fiscal charges | 35,331 | 3,684 | 859.04% |
| Total expenditures | <u>3,706,922</u> | <u>1,538,965</u> | <u>140.87%</u> |
| Changes in net position | (168,651) | 365,564 | -146.13% |
| Net position, beginning of year | <u>400,025</u> | <u>34,461</u> | <u>1060.80%</u> |
| Net position, end of year | <u>\$ 231,374</u> | <u>\$ 400,025</u> | <u>-42.16%</u> |

Analysis of changes in net position:

- The increase in all revenues and expenditures is due to the School opening in Fall 2022, thereby receiving contributions from ALSDE and incurring school related expenses throughout the year. In the prior year, a majority of the contributions received and expenses incurred were to support the startup of the school in preparation for opening.
- Instructional services, primarily salaries and benefits for the classroom teachers, are the largest expense function of the School (41%). In addition to teacher salaries and benefits, instructional services includes teacher aides, substitute teachers, textbooks, professional development, and classroom instructional materials, supplies, and equipment.
- Instructional support services include salaries and benefits for school principals, assistance principals, librarians, counselors, school secretaries, school bookkeepers, speech therapists, and school nurses and professional development expenses.

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2023

Analysis of changes in net position (continued):

- Operation and maintenance services include utilities, security services, janitorial services and maintenance services.
- Auxiliary services include food services and transportation services. Food service expenditures include purchased food, food preparation and service supplies, and kitchen equipment.
- General administrative services include salaries and benefits for the principal, assistants, clerical and financial staff, and other personnel that provide system-wide support for the School. The expense function also includes legal expenses, liability insurance, training for board members and general administrative staff, printing costs, and depreciation of equipment and facilities.
- Interest and fiscal charges include interest on long-term debt issues and other expenses related to the issuance and continuance of debt issues.
- Other expenses include the salaries and benefits for extended day personnel, materials, supplies, equipment, and other expenses for operating programs outside of those for educating students in the 9 through 12 instructional programs.
- Capital outlay includes expenditures for leasehold improvements and equipment.

Table 3 is a condensed statement taken from the *Statement of Activities* showing the total cost for providing identified services for eight major school activities. Total cost of services is compared to the net cost providing these services. The net cost of services is the remaining cost of services after subtracting grants and charges for services that the School 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

| | FY 2023 | | FY 2022 | |
|---------------------------------|---------------------------|-------------------------|---------------------------|-------------------------|
| | Total Cost of Services | Net Cost of Services | Total Cost of Services | Net Cost of Services |
| Governmental activities: | | | | |
| Instructional services | \$ 1,506,569 | \$ 1,999,362 | \$ 543,609 | \$ 1,359,524 |
| Instructional support | 1,091,234 | (1,091,234) | 596,543 | (596,543) |
| Operation and maintenance | 328,496 | (328,496) | 194,786 | (194,786) |
| Auxiliary services | 165,557 | (165,557) | 16,831 | (16,831) |
| General administrative | 448,494 | (448,494) | 109,945 | (109,945) |
| Other | 131,241 | (131,241) | 21,545 | (21,545) |
| Capital outlay | - | - | 52,022 | (52,022) |
| Interest and fiscal charges | 35,331 | (35,331) | 3,684 | (3,684) |
| Total expenditures | \$ 3,706,922 | \$ (200,991) | \$ 1,538,965 | \$ 364,168 |

Financial Analysis of the School's Funds

The School 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 help the reader to determine whether the School is being held accountable for the resources provided by taxpayers and other entities, and it may also help to provide more insight into the School's overall financial health.

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2023

The following analysis of the School's major governmental funds should be read in reference to the fund financial statements.

- General fund – The general fund is the primary operating fund for the School. After these twelve months of operations, the general fund has a positive fund balance of \$112,602, a decrease of \$141,071, from the prior period. The decrease in fund balance is related to the increase in expenses in the current period.
- Special revenue fund – The special revenue fund is used primarily to account for federal program grants and awards, whether received directly or through a passthrough organization. The special revenue fund balance at the end of the year was \$119,167, an increase of \$5,970 from the prior period. The increase in the fund balance is related to the increase in revenue in the current period.
- Capital projects fund – The capital projects fund accounts for all financial resources to be used for acquisition or construction of major capital facilities. The capital projects fund balance at the end of the year was \$195,709, a decrease of \$153,368 from the prior period. The decrease in the fund balance is related to an increase in expenses in the current period.

Overall, the School's governmental funds reflected a net decrease in fund balances of \$287,965 in the current fiscal year.

Capital Assets and Debt Administration

Capital assets – Alabama Aerospace and Aviation Schools Inc.'s investment in capital assets for its governmental activities as of September 30, 2023 totals \$459,949, net of depreciation. Capital assets include leasehold improvements and equipment and furniture. Table 4 presents a summary of the School's capital assets.

Table 4: Capital Assets

| | <u>FY 2023</u> | <u>FY 2022</u> |
|--|--------------------------|--------------------------|
| Capital assets being depreciated | | |
| Leasehold improvements | \$ 403,352 | \$ 245,427 |
| Equipment and furniture | <u>56,597</u> | <u>-</u> |
| Total capital assets, net of depreciation | <u>\$ 459,949</u> | <u>\$ 245,427</u> |

Depreciation is required by GASB 34. Additional information about the School's capital assets can be found in the notes to the basic financial statements.

Long-term debt – As of September 30, 2023, Alabama Aerospace and Aviation Schools Inc.'s long-term debt, less net pension liability and net OPEB liability, totaled \$540,860, of which \$132,853 is due within one year. Unamortized debt issuance cost related to the acquisition of the long-term debt totaled \$15,645. This debt was for the improvements of the School's facilities and acquisition of equipment and furniture. At September 30, 2023, the School also had a \$100,000 line of credit with a maturity date of June 27, 2024. As of September 30, 2023, the line of credit had a balance of \$76,889. Additional information about the School's long-term debt can be found in the notes to the basic financial statements.

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2023

Economic Factors and Next Year's Budget

The following key economic indicators reflect the growth and prosperity of the School:

- State revenues are expected to increase slightly for public schools in the state of Alabama.
- Federal revenues are expected to increase due to additional appropriations by the U.S. Congress.
- Alabama Aerospace and Aviation Schools Inc. Board of Directors will continue planning on how to operate efficiently during the current year.

At the time the financial statements were prepared and audited, the Board was unaware of any circumstances that could significantly affect the School's financial health in the future.

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

STATEMENT OF NET POSITION

September 30, 2023

ASSETS

Current assets:

| | |
|----------------------|----------------|
| Accounts receivable | \$ 881,154 |
| Prepaid expenses | 801 |
| Total current assets | <u>881,955</u> |

Capital assets, net

459,949

Total assets

1,341,904DEFERRED OUTFLOWS OF RESOURCES

| | |
|---|------------------|
| Employer pension contribution | 143,762 |
| Employer OPEB contribution | 183,960 |
| Proportionate share of collective deferred outflows | |
| Related to net pension liability | 1,235,000 |
| Related to net OPEB liability | <u>374,207</u> |
| Total deferred outflows of resources | <u>1,936,929</u> |

LIABILITIES

Current liabilities:

| | |
|-----------------------------------|----------------|
| Checks in excess of deposits | 62,245 |
| Accounts payable | 391,732 |
| Accrued liabilities | 2,453 |
| Line of credit | 76,889 |
| Current portion of long-term debt | <u>132,853</u> |
| Total current liabilities | <u>666,172</u> |

Long-term liabilities:

| | |
|---|------------------|
| Long-term debt, net of debt issuance cost | <u>2,052,098</u> |
| Total long-term liabilities | <u>2,052,098</u> |

Total liabilities

2,718,270

See accompanying notes.

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

STATEMENT OF NET POSITION (continued)

September 30, 2023

DEFERRED INFLOWS OF RESOURCES

| | |
|--|----------------|
| Proportionate share of collective deferred inflows | |
| Related to net pension liability | \$ 38,000 |
| Related to net OPEB liability | <u>291,189</u> |
| Total deferred inflows of resources | <u>329,189</u> |

NET POSITION

| | |
|----------------------------------|-------------------|
| Net investment in capital assets | (65,266) |
| Restricted for: | |
| Education | 135,331 |
| Unrestricted | <u>161,309</u> |
| Total net position | <u>\$ 231,374</u> |

See accompanying notes.

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

STATEMENT OF ACTIVITIES

Year Ended September 30, 2023

| Functions/Programs | Expenses | Program Revenues | | | Net (Expenses) Revenues and Changes in Net Position Governmental Activities |
|----------------------------------|---------------------|-------------------------|--|--|--|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Instructional services | \$ 1,506,569 | \$ - | \$ 3,505,931 | \$ - | \$ 1,999,362 |
| Instructional support | 1,091,234 | - | - | - | (1,091,234) |
| Operation and maintenance | 328,496 | - | - | - | (328,496) |
| Auxiliary services | 165,557 | - | - | - | (165,557) |
| General administrative | 448,494 | - | - | - | (448,494) |
| Other | 131,241 | - | - | - | (131,241) |
| Interest and fiscal charges | 35,331 | - | - | - | (35,331) |
| Total governmental activities | \$ <u>3,706,922</u> | \$ <u>-</u> | \$ <u>3,505,931</u> | \$ <u>-</u> | (200,991) |
| General revenues: | | | | | |
| Other income | | | | | <u>32,340</u> |
| Total change in net position | | | | | (168,651) |
| Net position - beginning of year | | | | | <u>400,025</u> |
| Net position - end of the year | | | | | \$ <u><u>231,374</u></u> |

See accompanying notes.

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

BALANCE SHEET -

GOVERNMENTAL FUNDS

September 30, 2023

| | General Fund | Special Revenue Fund | Capital Projects Fund |
|--------------------------------------|-------------------|----------------------------|-----------------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| <u>ASSETS</u> | | | |
| Cash and cash equivalents | \$ - | \$ 71,240 | \$ 270,620 |
| Accounts receivable | 600,000 | 281,154 | - |
| Prepaid expenses | 801 | - | - |
| | <u> </u> | <u> </u> | <u> </u> |
| Total assets | \$ <u>600,801</u> | \$ <u>352,394</u> | \$ <u>270,620</u> |
| <u>LIABILITIES AND FUND BALANCES</u> | | | |
| Liabilities | | | |
| Checks in excess of deposits | \$ 404,605 | \$ - | \$ - |
| Accounts payable | 83,594 | 233,227 | 74,911 |
| Accrued liabilities | 0 | - | - |
| | <u> </u> | <u> </u> | <u> </u> |
| Total liabilities | <u>488,199</u> | <u>233,227</u> | <u>74,911</u> |
| Fund balances | | | |
| Restricted for: | | | |
| Education | 135,331 | - | - |
| Unrestricted | (22,729) | 119,167 | 195,709 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total fund balances | <u>112,602</u> | <u>119,167</u> | <u>195,709</u> |
| Total liabilities and fund balances | \$ <u>600,801</u> | \$ <u>352,394</u> | \$ <u>270,620</u> |

See accompanying notes.

| Other Governmental Funds | Total Governmental Funds |
|--------------------------------|--------------------------------|
| \$ 500 | \$ 342,360 |
| - | 881,154 |
| - | 801 |
| <u>500</u> | <u>1,224,315</u> |
| <u>500</u> | <u>1,224,315</u> |
| \$ - | \$ 404,605 |
| - | 391,732 |
| 2,453 | 2,453 |
| <u>2,453</u> | <u>798,790</u> |
| - | 135,331 |
| (1,953) | 290,194 |
| <u>(1,953)</u> | <u>425,525</u> |
| <u>500</u> | <u>1,224,315</u> |
| <u>500</u> | <u>1,224,315</u> |

See accompanying notes.

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES

September 30, 2023

| | | | |
|---|----|------------------|--------------------|
| Total fund balances - Governmental funds | | \$ | 425,525 |
| 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. | | | 459,949 |
| Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds. | | | |
| Deferred outflows of resources related to pensions | \$ | 1,378,762 | |
| Deferred inflows of resources related to pensions | | <u>(38,000)</u> | |
| Net deferred outflows and inflows of resources related to pensions. | | | 1,340,762 |
| Deferred outflows and inflows of resources related to OPEB are applicable to future periods and, therefore, are not reported in the governmental funds. | | | |
| Deferred outflows of resources related to OPEB | | 558,167 | |
| Deferred inflows of resources related to OPEB | | <u>(291,189)</u> | |
| Net deferred outflows and inflows of resources related to pensions. | | | 266,978 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. | | | |
| Line of credit | | (76,889) | |
| Notes payable, net of debt issuance cost | | (525,215) | |
| Net pension liability | | (1,576,000) | |
| Net OPEB liability | | <u>(83,736)</u> | |
| Total long-term liabilities | | | <u>(2,261,840)</u> |
| Total net position - governmental activities | | \$ | <u>231,374</u> |

See accompanying notes.

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -

GOVERNMENTAL FUNDS

September 30, 2023

| | General Fund | Special Revenue Fund | Capital Projects Fund |
|--------------------------------------|-----------------------------|-----------------------------|-----------------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| Revenues | | | |
| State | \$ 1,138,654 | \$ - | \$ 26,684 |
| Federal | - | 807,900 | - |
| Local | 1,530,983 | 1,210 | - |
| Other | 15,425 | 16,915 | - |
| | <u> </u> | <u> </u> | <u> </u> |
| Total revenues | <u>2,685,062</u> | <u>826,025</u> | <u>26,684</u> |
| Expenditures | | | |
| Current | | | |
| Instructional services | 1,091,629 | 276,225 | - |
| Instructional support | 771,080 | 320,154 | - |
| Operation and maintenance | 312,234 | 12,805 | 3,457 |
| Auxiliary services | 99,432 | 66,125 | - |
| General administrative | 400,526 | 14,433 | - |
| Other | 6,462 | 124,779 | - |
| Capital outlay | - | - | - |
| Debt service | | | |
| Principal | - | - | - |
| Interest and fiscal charges | 7,538 | - | 684 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total expenditures | <u>2,688,901</u> | <u>814,521</u> | <u>4,141</u> |
| Other financing sources (uses) | | | |
| Transfers (to) from other funds | (137,232) | (5,534) | (175,911) |
| Proceeds from long-term debt | - | - | - |
| | <u> </u> | <u> </u> | <u> </u> |
| Total other financing sources (uses) | <u>(137,232)</u> | <u>(5,534)</u> | <u>(175,911)</u> |
| Net change in fund balance | (141,071) | 5,970 | (153,368) |
| Fund balances - beginning of year | <u>253,673</u> | <u>113,197</u> | <u>349,077</u> |
| Fund balances - end of year | <u>\$ 112,602</u> | <u>\$ 119,167</u> | <u>\$ 195,709</u> |

See accompanying notes.

| Other Governmental Funds | Total Governmental Funds |
|--------------------------------|--------------------------------|
| \$ - | \$ 1,165,338 |
| - | 807,900 |
| 500 | 1,532,693 |
| - | 32,340 |
| <u>500</u> | <u>3,538,271</u> |
| - | 1,367,854 |
| - | 1,091,234 |
| - | 328,496 |
| - | 165,557 |
| 528 | 415,487 |
| - | 131,241 |
| 243,535 | 243,535 |
| 49,140 | 49,140 |
| 27,109 | 35,331 |
| <u>320,312</u> | <u>3,827,875</u> |
| 318,677 | - |
| 1,639 | 1,639 |
| <u>320,316</u> | <u>1,639</u> |
| 504 | (287,965) |
| <u>(2,457)</u> | <u>713,490</u> |
| <u>\$ (1,953)</u> | <u>\$ 425,525</u> |

See accompanying notes.

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES

September 30, 2023

| | | |
|--|-----------------|---------------------|
| Net change in fund balances - total governmental funds | | \$ (287,965) |
| Amounts reported for governmental activities in the statement of activities that 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 exceeded depreciation expense in the period. | | |
| Capital outlays | \$ 243,535 | |
| Depreciation | <u>(29,013)</u> | 214,522 |
| Costs related to the issuance of long-term debt are reported in governmental funds as expenditures. However, in the statement of activities, the cost of debt issuance is allocated over the life of the debt as amortization expense. | | |
| Amortization expense | | (3,994) |
| Contributions to the pension plan in the current fiscal year are not included on the statement of activities. | | |
| | | 143,762 |
| Contributions to the OPEB plan in the current fiscal year are not included on the statement of activities. | | |
| | | 183,960 |
| The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. | | |
| Issuance of long-term debt | (1,639) | |
| Repayment of long-term debt principal | <u>49,140</u> | 47,501 |
| 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. | | |
| Pension expense | | (418,519) |
| OPEB expense | | <u>(47,918)</u> |
| Change in net position of governmental activities | | <u>\$ (168,651)</u> |

See accompanying notes.

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2023

1. ORGANIZATION

Alabama Aerospace and Aviation Schools Inc., DBA Alabama Aerospace and Aviation High School (the "School") was formed under the laws of the state of Alabama in November 2019. The mission of the School is to prepare students for leadership positions in the aerospace and aviation industries through a rigorous, authentic, industry-aligned aerospace and defense education. The School was established to serve students from ninth through twelfth grade in the state of Alabama. The financial statements of the School have been prepared in conformity with the accounting principles generally accepted in the United States of America as specified by the Governmental Accounting Standards Board ("GASB"). Pursuant to Chapter 290-3-6 of the Alabama Code, "The Alabama School Choice and Student Opportunity Act", the School operates under an approved charter granted by the Alabama Public Charter School Commission (the "Commission"), as agency of the State. The Charter was granted for a term of 5 years commencing October 29, 2021 and is subject to annual or more frequent reviews by the Commission.

For financial reporting purposes and in conformance with the criteria set forth by GASB Statement No. 61, the School includes those funds, account groups, agencies, boards, commissions, and authorities for which the School has the ability to exercise its oversight responsibility and provides financial and managerial assistance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation:

Government-wide – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows. Nonexchange transactions, in which the School gives (or receives) value without directly receiving (or giving) equal value in exchange, include 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.

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

Fund level – The government fund level financial statements are reported using the current financial resource 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 School considers revenues to be available if they are collected within 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, 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. Since governmental fund level financial statements are presented on a different basis of accounting and measurement focus than governmental activities in the government-wide presentation, a summary is present to explain adjustments necessary to reconcile fund level statements to the government-wide presentation.

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of presentation (continued):

The accounts of the School are organized on the basis of funds which are each considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue and expenditures, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. All of the School's funds can be classified into one category: governmental funds. The School reports the following major governmental funds:

- General Fund – The General Fund is the primary operating fund of the School. It is used to account for all financial resources except those required to be accounted for in another fund. The School's General Fund primarily received Education revenues from the Education Trust Fund ("ETF"), appropriated by the Alabama Legislature, and from local taxes. The State Department of Education allocated amounts appropriated from the ETF to the School on a formula basis.
- Special Revenue Fund – This fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific 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 in the federal funds for Special Education and Title I, in addition to smaller grants, which are required to be spent for the purposes of the applicable federal grants.
- Capital Projects Fund – Capital project funds are used to account for the financial resources used to construct or acquire major capital items.

Basis of accounting:

Basis of accounting refers to when revenue and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized when they become susceptible to accrual, that is when they become both "measurable" and "available" to finance expenditures of the current period. Expenditures, generally, are recorded at time liabilities are incurred. Revenues susceptible to accrual are federal financial assistance programs, which are measurable and available to finance expenditures of the current period.

Income taxes:

The School is a nonprofit organization exempt from federal, state, and local income taxes under Section 501(c)(3) of the Internal Revenue Code (the "IRC"). Therefore, no provision or liability for income taxes has been included in the financial statements. Income from certain activities of the School not directly related to the School's tax-exempt purpose could subject it to taxation on such unrelated business income. There was no unrelated business income for the year ended September 30, 2023. The School's income tax filings are subject to examination by taxing authorities, generally, for three years after they are filed.

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates; however, in the opinion of management, such differences will not be material to the financial statements.

Cash and cash equivalents:

Cash and cash equivalents include amounts in demand deposits as well as short-term investments. The State Attorney General has issued a legal opinion that schools of education may not put public funds at risk by investing in companies not insured by the federal government.

Net asset and equity classifications:

Government-wide financial statements – The School adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which superseded GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Government*. Equity is classified and displayed in three components:

- Net investment in capital assets – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at year-end, the portion of the debt or deferred inflows of resources attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of the related debt. Rather, that portion of the debt or deferred inflows of resources is included in the same net position as the unspent proceeds.
- Restricted net position – Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.
- Unrestricted net position – The net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Fund financial statements – The fund equity of the governmental fund financial statements is classified as fund balance. In March 2009, GASB adopted a standard that establishes a hierarchy based on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds.

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net asset and equity classifications (continued):

Fund balance is classified into one of the following five components:

- Nonspendable fund balance – Consists of amounts that are not in spendable form or are required to be maintained intact.
- Restricted fund balance – Consists of fund balances with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) the School’s own laws through its enabling legislation and other provisions of its laws and regulations.
- Committed fund balance – Consists of fund balances that are subject to a purpose constraint imposed by formal action or resolution of the School, which is the highest level of decision-making authority, before the end of the fiscal year and that require the same level of formal action to remove or modify the constraint.
- Assigned fund balance – Consists of fund balances that are intended to be used by the School system for specific purposes. The School authorized the Superintendent or Chief School Finance Officer to make a determination on 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 fund balance – All other fund balances that do not meet the definition of “restricted, committed or assigned fund balances.” This portion of the total fund balance in the general fund is available to finance operating expenditures.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be the policy of the School 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 classification could be used, it shall be the policy of the School that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

Encumbrances:

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

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Promises to give:

The School records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques using risk-adjusted discount rates. In subsequent years, amortization of the discounts is included in contribution revenue in the statement of activities.

Accounts receivable:

Receivables are reported as accounts receivable and due from other governments in the government-wide financial statements and as accounts receivable, due from other funds, and due from other governments in the fund financial statements. Receivables due from other governments include amounts due from grantors for grants issued for specific programs. Management has considered the need for an allowance for credit losses and no allowance has been recorded.

Advertising:

Advertising costs are expensed as incurred. There were \$82,088 in advertising expenses for the year ended September 30, 2023.

Deferred outflows/inflows of resources:

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and will be recognized as an outflow of resources (expense/expenditure) in a subsequent period. The School has several items that meet this criterion – pension and other post-employment benefits (“OPEB”) related deferrals and contributions made to the plans subsequent to the measurement date.

Deferred outflows of resources consists of the following at September 30, 2023:

| | | |
|---|----|-------------------------|
| Deferred outflows of resources as related to the net pension liability | \$ | 1,378,762 |
| Deferred outflows of resources as related to the net OPEB liability | | <u>558,167</u> |
| | \$ | <u><u>1,936,929</u></u> |

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The School has several items that meet this criterion – pension and OPEB related deferrals.

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred outflows/inflows of resources (continued):

Deferred inflows of resources consists of the following at September 30, 2023:

| | | |
|--|----|-----------------------|
| Deferred inflows of resources as related to the net pension liability | \$ | 38,000 |
| Deferred inflows of resources as related to the net OPEB liability | | <u>291,189</u> |
| | \$ | <u><u>329,189</u></u> |

Capital assets, net:

Capital assets are recorded at cost and are being depreciated over the estimated useful life of the respective asset. The School capitalizes assets over \$5,000 and having a useful life of one year or more. Depreciation is computed using the straight-line method with estimated useful lives ranging from five to fifteen years. Depreciation expense was \$29,013 for the year ended September 30, 2023.

The School reviews long-lived assets, including equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. As of September 30, 2023, there was no such loss.

Compensated absences:

Compensated absences for sick pay and personal time have not been accrued since they cannot be reasonably estimated. The School's policy is to recognize these costs when actually paid.

Pensions:

The Teacher's Retirement System of Alabama (the "Plan" or "TRS") financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to plan requirements. Benefits and refunds are recognized as revenues when due and payable in accordance with the terms of the plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of 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.

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Postemployment benefits other than pensions:

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

Recently adopted accounting principles:

GASB Statement 96, *Subscription-Based Information Technology Arrangements*, was issued to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements ("SBITAs") for government end by (1) defining a SBITS, (2) establishing that a SBITA results in a right-to-use- subscription asset – an intangible asset – and a corresponding subscription liability, (3) provide the capitalization criteria for outlays other than subscription payments, including implementation cost of a SBITA, and (4) note disclosures regarding a SBITA. The requirements of GASB Statement No. 96 are effective for the fiscal year 2023. The School implemented GASB 96 in fiscal year 2023 with no significant impact on financial statements.

Recently issued accounting principles:

GASB Statement No. 100, *Accounting Changes and Error Corrections* – an amendment of GASB Statement No. 62, was issued to define *accounting changes* as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes, along with the accounting, reporting, and disclosures relating to these changes. The requirements of GASB Statement No. 100 are effective for the reporting periods beginning after June 15, 2023. The School is currently evaluating the impact that this statement may have on the financial statements.

GASB Statement No. 101, *Compensated Absences*, requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. The requirements of GASB Statement No. 101 are effective for reporting periods beginning after December 15, 2023. The School is currently evaluating the impact that this statement may have on the financial statements.

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2023

3. DEPOSITS AND INVESTMENTS

Interest rate risk:

The School does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk:

State statutes authorize the School's investments. The School is authorized to invest in U.S. Government obligations and its agencies or instrumentalities. The School has no investment policy that further limits investment choices.

Custodial credit risk:

The School maintains a number of bank accounts with multiple service providers. The Federal Deposit Insurance Corporation ("FDIC") insures all of the School's bank accounts up to a maximum of \$250,000. From time to time throughout the year, the School's cash balance may exceed the amount of FDIC coverage. As of September 30, 2023, the School had no uninsured balance.

4. CONTINGENT LIABILITIES

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

5. INTERFUND TRANSACTIONS

During the course of normal operations, the School has numerous transaction between funds to provide services, construct assets, etc. These transactions are generally reflected as operating transfers or receivables and liabilities. Transactions reimbursing a fund for expenditures are recorded as expenditures in the disbursing fund and as revenues in the receiving fund. Remaining fund balances in discontinued funds and non-recurring, non-routine transfers are accounted for as residual equity transfers. The School typically uses transfers to fund ongoing operating subsidies and to recoup certain expenditures.

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2023

6. LONG-TERM LIABILITIES

The following is a summary of changes in debt liabilities for the year ended September 30, 2023:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Amounts Due Within One Year</u> |
|---|------------------------------|---------------------|--------------------|---------------------------|--|
| Governmental activities: | | | | | |
| Notes payable | \$ 590,000 | \$ - | \$ (49,140) | \$ 540,860 | \$ 132,853 |
| Total notes payable | <u>590,000</u> | <u>-</u> | <u>(49,140)</u> | <u>540,860</u> | <u>132,853</u> |
| Other liabilities: | | | | | |
| Net pension liability | - | 1,576,000 | - | 1,576,000 | - |
| Net OPEB liability | - | 83,736 | - | 83,736 | - |
| Total other liabilities | <u>-</u> | <u>1,659,736</u> | <u>-</u> | <u>1,659,736</u> | <u>-</u> |
| Debt issuance cost: | | | | | |
| Loan fees | (19,972) | - | - | (19,972) | - |
| Accumulated amortization | 333 | 3,994 | - | 4,327 | - |
| Total debt issuance cost | <u>(19,639)</u> | <u>3,994</u> | <u>-</u> | <u>(15,645)</u> | <u>-</u> |
| Total governmental activities: | | | | | |
| Long-term liabilities, net of debt issuance cost | <u>\$ 570,361</u> | <u>\$ 1,663,730</u> | <u>\$ (49,140)</u> | <u>\$ 2,184,951</u> | <u>\$ 132,853</u> |

Notes payable at September 30, 2023 were comprised of the following:

| | |
|--|--------------------------|
| Promissory note dated August 16, 2022, payable in various monthly installments, bearing interest at 5%, with a maturity date of August 31, 2027 and secured by assets of the School. | \$ <u>540,860</u> |
| Total notes payable | \$ <u><u>540,860</u></u> |

The following is a schedule of the future minimum promissory note payments at September 30, 2023:

| <u>Year ending September 30,</u> | <u>Principal</u> | <u>Interest</u> |
|----------------------------------|-------------------|------------------|
| 2024 | \$ 132,853 | \$ 26,059 |
| 2025 | 129,223 | 17,466 |
| 2026 | 135,834 | 10,854 |
| 2027 | <u>142,950</u> | <u>3,853</u> |
| | <u>\$ 540,860</u> | <u>\$ 58,232</u> |

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2023

6. LONG-TERM LIABILITIES (continued)

During 2023, the School also had a \$100,000 line of credit with a financial institution secured by the assets of the School. Advances on the line of credit are payable upon maturity. The line of credit carried a variable interest rate based on the U.S. Prime Rate plus 0.5 percent. The line of credit expires June 27, 2024 and is renewable upon mutual agreement of the parties. As of September 30, 2023, the School had a balance of \$76,889 on the line of credit.

7. LEASES

In December 2021, the School entered into a lease agreement with an unrelated party for a building to be used as the new school facility. The initial lease term was for two years, expiring November 2023. Per the terms of the lease agreement, the School has no base rent payments and pays only variable costs consisting of a portion of utilities allocated to the School by the lessor. For the year ended September 30, 2023, variable lease expenses totaled \$57,163.

8. CAPITAL ASSETS

The following is a summary of changes in capital assets for governmental activities for the year ending September 30, 2023:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> |
|---|------------------------------|-------------------|-------------------|---------------------------|
| Governmental activities: | | | | |
| Capital assets being depreciated: | | | | |
| Leasehold improvements | \$ 245,951 | \$ 175,911 | \$ - | \$ 421,862 |
| Equipment and furniture | - | 67,624 | - | 67,624 |
| Total capital assets being depreciated | <u>245,951</u> | <u>243,535</u> | <u>-</u> | <u>489,486</u> |
| Less: accumulated depreciation | | | | |
| Leasehold improvements | (524) | (17,986) | - | (18,510) |
| Equipment and furniture | - | (11,027) | - | (11,027) |
| Total accumulated depreciation | <u>(524)</u> | <u>(29,013)</u> | <u>-</u> | <u>(29,537)</u> |
| Total governmental activity capital assets, net | <u>\$ 245,427</u> | <u>\$ 214,522</u> | <u>\$ -</u> | <u>\$ 459,949</u> |

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2023

9. DEFINED BENEFIT PENSION PLAN

Plan description:

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

Benefits provided:

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

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 TRS members are eligible for retirement after age 62 with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a formula method. Under the formula method, Tier 2 members of the TRS are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service up to 80% of their average final compensation. Members are eligible for disability retirement if they have 10 years of 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.

Act 316 of the Legislature of 2019 established the Partial Lump Sum Option Plan (PLOP) in addition to the annual service retirement benefit payable for life for Tier 1 and Tier 2 members of the TRS and ERS. A member can elect to receive a one-time lump sum distribution at the time that they receive their first monthly retirement benefit payment. The member’s annual retirement benefit is then actuarially reduced based on the amount of the PLOP distribution which is not to exceed the sum of 24 months of the maximum monthly retirement benefit that the member could receive. Members are eligible to receive a PLOP distribution if they are eligible for a service retirement benefit as defined above from the TRS or ERS on or after October 1, 2019. A TRS or ERS member who receives an annual disability retirement benefit or who has participated in the Deferred Retirement Option Plan (DROP) is not eligible to receive a PLOP distribution.

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2023

9. DEFINED BENEFIT PENSION PLAN (continued)

Plan description (continued):

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

Effective October 1, 2021, the covered Tier 2 members contribution rate increased from 6.0% to 6.2% of earnable compensation to the TRS as required by statute. Effective October 1, 2021, the covered Tier 2 certified law enforcement, correctional officers, and firefighters contribution rate increased from 7.0% to 7.2% of earnable compensation to the TRS as required by statute.

Participating employers' contractually required contribution rate for the fiscal year ended September 30, 2022, was 12.36% of annual pay for Tier 1 members and 11.22% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the School were \$143,762 for the year ended September 30, 2023.

Pension liabilities, Pension expense, and deferred outflows & inflows of resources related to pensions:

At September 30, 2023, the School reported a liability of \$1,576,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2021. The School'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, 2022, the School's proportion was 0.010142 percent.

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2023

9. DEFINED BENEFIT PENSION PLAN (continued)

Pension liabilities, Pension expense, and deferred outflows & inflows of resources related to pensions (continued):

For the year ended September 30, 2023, the School recognized pension expense of \$418,519. At September 30, 2023, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual experience | \$ 35,000 | \$ 38,000 |
| Changes of assumptions | 72,000 | - |
| Net difference between projected and actual earnings on pension plan investments | 316,000 | - |
| Changes in proportion and differences between Employer contributions and proportionate share of contributions | 812,000 | - |
| Employer contributions subsequent to the measurement date | <u>143,762</u> | <u>-</u> |
| Total | <u>\$ 1,378,762</u> | <u>\$ 38,000</u> |

Deferred outflows of resources related to pensions resulting from School contributions subsequent to the measurement date was reported at \$143,762 and will be recognized as a reduction to the net pension liability in the year ended September 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending September 30,

| | |
|------|---------------------|
| 2024 | \$ 319,000 |
| 2025 | 295,000 |
| 2026 | 268,000 |
| 2027 | <u>315,000</u> |
| | <u>\$ 1,197,000</u> |

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2023

9. DEFINED BENEFIT PENSION PLAN (continued)

Actuarial assumptions:

The total pension liability as of September 30, 2022 was determined by an actuarial valuation as of September 30, 2021, using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|----------------------------|---------------|
| Inflation | 2.50% |
| Projected Salary Increases | 3.25% - 5.00% |
| Investment Rate of Return* | 7.45% |

*Net of pension plan investment expense.

The actuarial assumptions used in the actuarial valuation as of September 30, 2021, were based on the results of an investigation of the economic and demographic experience for the TRS based upon participant data as of September 30, 2020. The Board of Control accepted and approved these changes in September 2021 which became effective at the beginning of fiscal year 2021.

Mortality rates were based on the Pub-2010 Teacher tables with the following adjustments, projected generationally using scale MP-2020 adjusted by 66-2/3% beginning with year 2019:

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

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2023

9. DEFINED BENEFIT PENSION PLAN (continued)

Actuarial assumptions (continued):

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:

| | <u>Target Allocation</u> | <u>Long - Term Expected Rate of Return*</u> |
|----------------------------|--------------------------|---|
| Fixed Income | 15.00% | 2.80% |
| U.S. Large Stocks | 32.00% | 8.00% |
| U.S. Mid Stocks | 9.00% | 10.00% |
| U.S. Small Stocks | 4.00% | 11.00% |
| Int'l Developed Mkt Stocks | 12.00% | 9.50% |
| Int'l Emerging Mkt Stocks | 3.00% | 11.00% |
| Alternatives | 10.00% | 9.00% |
| Real Estate | 10.00% | 6.50% |
| Cash Equivalents | <u>5.00%</u> | 2.50% |
| Total | <u><u>100.0%</u></u> | |

*Includes assumed rate of inflation of 2.00%

Discount rate:

The discount rate used to measure the total pension liability was 7.45%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2023

9. DEFINED BENEFIT PENSION PLAN (continued)

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

The following table presents the School's proportionate share of the net pension liability calculated using the discount rate of 7.45%, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.45%) or 1-percentage-point higher (8.45%) than the current rate (dollar amounts in thousands):

| | 1% Decrease (6.45%) | Current Discount Rate (7.45%) | 1% Increase (8.45%) |
|--|------------------------|----------------------------------|------------------------|
| School's Proportionate Share of the Collective Net Pension Liability | \$ <u>2,039,000</u> | \$ <u>1,576,000</u> | \$ <u>1,186,000</u> |

Pension plan fiduciary net position:

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Annual Comprehensive Financial Report for the fiscal year ended September 30, 2022. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2022. 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/>.

10. OTHER POST-EMPLOYMENT BENEFITS

Plan description:

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

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2023

10. OTHER POST-EMPLOYMENT BENEFITS (continued)

Plan description (continued):

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

Benefits provided:

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

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

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

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2023

10. OTHER POST-EMPLOYMENT BENEFITS (continued)

Benefits provided (continued):

PEEHIP members may opt to elect the PEEHIP Supplemental Plan as their hospital medical coverage in lieu of the PEEHIP Hospital Medical Plan. The PEEHIP Supplemental Plan provides secondary benefits to the member's primary plan provided by another employer. Only active and non-Medicare retired members and covered dependents are eligible to enroll in the PEEHIP Supplemental Medical Plan. There is no premium required for this plan, and the plan covers most out-of-pocket expenses not covered by the primary plan. Members who are enrolled in the PEEHIP Hospital Medical Plan (Group 14000), VIVA Health Plan (offered through PEEHIP), Marketplace (Exchange) Plans, State Employees Insurance Board (SEIB), Local Government Board (LGB), Medicare, Medicaid, ALL Kids, Tricare, or Champus as their primary coverage, or are enrolled in a Health Savings Account (HSA) or Health Reimbursement Arrangement (HRA), are not eligible to enroll in the PEEHIP Supplemental Plan. The plan cannot be used as a supplement to Medicare. Retired members who become eligible for Medicare are eligible to enroll in the PEEHIP Group Medicare Advantage (PPO) Plan or the Optional Coverage Plans.

Effective January 1, 2020, Medicare eligible members and Medicare eligible dependents covered on a retiree contract were enrolled in the Humana Group Medicare Advantage plan for PEEHIP retirees. Effective January 1, 2023, United Health Care ("UHC") replaced the Humana contract. The MAPDP plan is fully insured by UHC and members are able to have all of their Medicare Part A, Part B, and Part D (prescription drug coverage) in one convenient plan. With the UHC plan for PEEHIP, retirees can continue to see their same providers with no interruption and see any doctor who accepts Medicare on a national basis. Retirees have the same benefits in and out-of-network and there is no additional retiree cost share if a retiree uses an out-of-network provider and no balance billing from the provider.

Contributions:

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

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

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2023

10. OTHER POST-EMPLOYMENT BENEFITS (continued)

Contributions (continued):

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

OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB:

At September 30, 2023, the School reported a liability of \$83,736 for its proportionate share of the Net OPEB liability. The Net OPEB liability was measured as of September 30, 2022 and the total OPEB liability used to calculate the Net OPEB liability was determined by an actuarial valuation as of September 30, 2021. The School's proportion of the Net OPEB liability was based on the School's share of contributions to the OPEB plan relative to the total employer contributions of all participating PEEHIP employers. At September 30, 2022, the School's proportion was 0.004806 percent.

For the year ended September 30, 2023, the System recognized OPEB expense of \$47,918 with no special funding situations. At September 30, 2023, the System reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual experience | \$ 3,840 | \$ 169,307 |
| Changes of assumptions | 67,921 | 121,882 |
| Net difference between projected and actual earnings on OPEB plan investments | 10,531 | - |
| Changes in proportion and differences between Employer contributions and proportionate share of contributions | 291,915 | - |
| Employer contributions subsequent to the measurement date | <u>183,960</u> | <u>-</u> |
| Total | <u>\$ 558,167</u> | <u>\$ 291,189</u> |

Deferred outflows of resources related to OPEB resulting from the School's contributions subsequent to the measurement date was reported as \$183,960 and will be recognized as a reduction of the Net OPEB liability in the year ended September 30, 2024.

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2023

10. OTHER POST-EMPLOYMENT BENEFITS (continued)

OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB (continued):

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

Year ending September 30,

| | | |
|------------|----|----------------------|
| 2024 | \$ | (1,176) |
| 2025 | | (2,842) |
| 2026 | | 27,336 |
| 2027 | | 27,071 |
| 2028 | | 15,167 |
| Thereafter | | <u>17,462</u> |
| | \$ | <u><u>83,018</u></u> |

Actuarial assumptions:

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

| | |
|---|---|
| Inflation | 2.50% |
| Salary increases | 5.00 - 3.25%, including 2.75% wage inflation |
| Long-Term Investment Rate of Return | 7.00% compounded annually, net of investment expense, and including inflation |
| Municipal Bond Index Rate at Measurement Date | 4.40% |
| Municipal Bond Index Rate at Prior Measurement Date | 2.29% |
| Year Fiduciary Net Position (FNP) is Projected to be Depleted | N/A |
| Single Equivalent Interest Rate at Measurement Date | 7.00% |
| Single Equivalent Interest Rate at Prior Measurement Date | 3.97% |
| Healthcare Cost Trend Rate | |
| Initial Trend Rate | |
| Pre-Medicare Eligible | 6.50% |
| Medicare Eligible | ** |
| Ultimate Trend Rate | |
| Pre-Medicare Eligible | 4.50% in 2031 |
| Medicare Eligible | 4.50% in 2027 |

** Initial Medicare claims are set based on scheduled increases through plan year 2025.

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2023

10. OTHER POST-EMPLOYMENT BENEFITS (continued)

Actuarial assumptions (continued):

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

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

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

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) were based on the September 30, 2021 valuation.

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

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

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2023

10. OTHER POST-EMPLOYMENT BENEFITS (continued)

Actuarial assumptions (continued):

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

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

* Geometric mean, includes 2.5% inflation

Discount rate:

The discount rate (also known as the Single Equivalent Interest Rate (SEIR), as described by GASB 74) used to measure the total OPEB liability was 7.00%. Premiums paid to the Public Education Employees' Health Insurance Board for active employees shall include an amount to partially fund the cost of coverage for retired employees. The projection of cash flows used to determine the discount rate assumed that plan contributions will be made at the current contribution rates. Each year, the State specifies the monthly employer rate that participating school systems must contribute for each active employee. Currently, the monthly employer rate is \$800 per active member for participating employers. Approximately, 15.257% of the employer contributions were used to assist in funding retiree benefit payments in 2022 and it is assumed that the 15.257% will increase or decrease at the same rate as expected benefit payments for the closed group with a cap of 20.00%. It is assumed the \$800 rate will increase with inflation at 2.50% starting in 2027. Retiree benefit payments for University members are paid by the Universities and are not included in the cash flow projections. The discount rate determination will use a municipal bond rate to the extent the trust is projected to run out of money before all benefits are paid. Projected future benefit payments for all current plan members were projected through 2120.

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2023

10. OTHER POST-EMPLOYMENT BENEFITS (continued)

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

The following table presents the School'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:

| | <u>1% Decrease (5.50% decreasing to 3.50% for pre-Medicare, Known decreasing to 3.50% for Medicare eligible)</u> | <u>Current Healthcare Trend Rate (6.50% decreasing to 4.50% for pre- Medicare, Known decreasing to 4.50% for Medicare eligible)</u> | <u>1% Increase (7.50% decreasing to 5.50% for pre-Medicare, Known decreasing to 5.50% for Medicare eligible)</u> |
|--------------------|--|---|--|
| Net OPEB Liability | \$ <u>63,497</u> | \$ <u>83,736</u> | \$ <u>108,557</u> |

The following table presents the School's proportionate share of the Net OPEB liability of the Trust calculated using the discount rate of 7.00%, 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:

| | <u>1% Decrease (6.00%)</u> | <u>Current Discount Rate (7.00%)</u> | <u>1% Increase (8.00%)</u> |
|--------------------|----------------------------|--|----------------------------|
| Net OPEB Liability | \$ <u>103,527</u> | \$ <u>83,736</u> | \$ <u>67,122</u> |

OPEB plan fiduciary net position:

Detailed information about the OPEB plan's Fiduciary Net Position is in the Trust's financial statements for the fiscal year ended September 30, 2023. The supporting actuarial information is included in the GASB Statement No. 74 Report for PEEHIP prepared as of September 30, 2023. Additional financial and actuarial information is available at www.rsa-al.gov.

11. SUBSEQUENT EVENTS

The School has evaluated subsequent events through the date the financial statements were available to be issued, which is the same date as the Independent Auditor's Report.

REQUIRED SUPPLEMENTARY INFORMATION

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL, GENERAL FUND

GENERAL FUND

September 30, 2023

| | Final Budget | Actual | Favorable (Unfavorable) Variance |
|--------------------------------------|-------------------|-------------------|--|
| Revenues | | | |
| State | \$ 973,956 | \$ 1,138,654 | \$ 164,698 |
| Local | 517,000 | 1,530,983 | 1,013,983 |
| Other | 455,000 | 15,425 | (439,575) |
| | <u>1,945,956</u> | <u>2,685,062</u> | <u>739,106</u> |
| Total revenues | | | |
| Expenditures | | | |
| Current | | | |
| Instructional services | 1,007,150 | 1,091,629 | (84,479) |
| Instructional support | 608,338 | 771,080 | (162,742) |
| Operation and maintenance | 202,500 | 312,234 | (109,734) |
| Auxiliary services | 77,980 | 99,432 | (21,452) |
| General administrative | 40,340 | 400,526 | (360,186) |
| Other | - | 6,462 | (6,462) |
| Debt service | | | |
| Interest and fiscal charges | - | 7,538 | (7,538) |
| | <u>1,936,308</u> | <u>2,688,901</u> | <u>(752,593)</u> |
| Total expenditures | | | |
| Other financing sources (uses) | | | |
| Transfers (to) from other funds | 3,002 | (137,232) | (140,234) |
| | <u>3,002</u> | <u>(137,232)</u> | <u>(140,234)</u> |
| Total other financing sources (uses) | | | |
| Net change in fund balance | 12,650 | (141,071) | (153,721) |
| Fund balances - beginning of year | 165,301 | 253,673 | 88,372 |
| Fund balances - end of year | <u>\$ 177,951</u> | <u>\$ 112,602</u> | <u>\$ (65,349)</u> |

See notes to required supplementary information.

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL, SPECIAL REVENUE FUND

SPECIAL REVENUE FUND

September 30, 2023

| | Final Budget | Actual | Favorable (Unfavorable) Variance |
|-----------------------------------|-------------------|-------------------|--|
| Revenues | | | |
| Federal | \$ 756,502 | \$ 807,900 | \$ 51,398 |
| Local | - | 1,210 | 1,210 |
| Other | - | 16,915 | 16,915 |
| | <u>756,502</u> | <u>826,025</u> | <u>69,523</u> |
| Total revenues | | | |
| Expenditures | | | |
| Current | | | |
| Instructional services | 232,917 | 276,225 | (43,308) |
| Instructional support | 267,037 | 320,154 | (53,117) |
| Operation and maintenance | 12,000 | 12,805 | (805) |
| Auxiliary services | 96,000 | 66,125 | 29,875 |
| General administrative | 122,591 | 14,433 | 108,158 |
| Other | 29,578 | 124,779 | (95,201) |
| | <u>760,123</u> | <u>814,521</u> | <u>(54,398)</u> |
| Total expenditures | | | |
| Other financing uses | | | |
| Transfers to other funds | - | (5,534) | (5,534) |
| | <u>-</u> | <u>(5,534)</u> | <u>(5,534)</u> |
| Total other financing uses | | | |
| Net change in fund balance | (3,621) | 5,970 | 9,591 |
| Fund balances - beginning of year | <u>111,674</u> | <u>113,197</u> | <u>1,523</u> |
| Fund balances - end of year | <u>\$ 108,053</u> | <u>\$ 119,167</u> | <u>\$ 11,114</u> |

See notes to required supplementary information.

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.
 SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -
 TEACHERS' RETIREMENT PLAN OF ALABAMA

September 30

| | 2023 |
|---|--------------|
| School's proportion of the net pension liability | 0.010142% |
| School's proportionate share of the net pension liability | \$ 1,576,000 |
| School's covered-employee payroll* | \$ 317,693 |
| School's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 496.08% |
| Plan fiduciary net position as a percentage of the total pension liability | 62.21% |

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

*Employer's covered-employee payroll during the measurement period is the total payroll paid to covered employees (not just pensionable payroll). For FY 2023, the measurement period is October 1, 2021 - September 30, 2022.

See notes to required supplementary information.

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

SCHEDULE OF SCHOOL CONTRIBUTIONS -

TEACHERS' RETIREMENT PLAN OF ALABAMA

September 30

| | <u>2022</u> | <u>2023</u> |
|---|---------------|----------------|
| Contractually required contribution* | \$ 39,521 | \$ 143,762 |
| Contributions in relation to the contractually required contribution* | <u>39,521</u> | <u>143,762</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> |
| School's covered-employee payroll | \$ 317,693 | \$ 1,131,717 |
| Contributions as a percentage of covered-employee payroll | 12.44% | 12.70% |

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

*Amount of employer contributions equal to the amount that would be recognized as additions from the employer's contributions in the pension plan's schedule of changes in fiduciary net position during the period that coincides with employer's fiscal year. This does not include amounts paid for pre-retirement death benefit, term life insurance, or administrative expenses. It does include the amounts paid for the employer's portion of the normal cost and accrued liability.

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY -
 ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST

For the Fiscal Year Ended September 30

| | 2023 |
|--|------------|
| School's proportion of the net OPEB liability | 0.004806% |
| School's proportionate share of the net OPEB liability | \$ 83,736 |
| School's covered-employee payroll* | \$ 317,693 |
| School's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll | 26.36% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 48.39% |

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

*Employer's covered-employee payroll during the measurement period is the total payroll paid to covered employees (not just pensionable payroll). For FY 2023, the measurement period is October 1, 2021 - September 30, 2022.

See notes to required supplementary information.

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

SCHEDULE OF CONTRIBUTIONS

ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST

For the Fiscal Year Ended September 30

| | <u>2022</u> | <u>2023</u> |
|---|-----------------|------------------|
| Contractually required contribution* | \$ 47,200 | \$ 183,960 |
| Contributions in relation to the contractually required contribution* | <u>(47,200)</u> | <u>(183,960)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> |
| School's covered-employee payroll | \$ 317,693 | \$ 1,131,717 |
| Contributions as a percentage of covered-employee payroll | 14.86% | 16.25% |

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

*Amount of employer contributions equal to the amount that would be recognized as additions from the employer's contributions in the pension plan's schedule of changes in fiduciary net position during the period that coincides with employer's fiscal year. This does not include amounts paid for pre-retirement death benefit, term life insurance, or administrative expenses. It does include the amounts paid for the employer's portion of the normal cost and accrued liability.

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST

For the Fiscal Year Ended September 30, 2023

1. CHANGES IN ACTUARIAL ASSUMPTIONS

In 2021, rates of withdrawal, retirement, disability, and mortality were adjusted to reflect actual experience more closely. In 2021, economic assumptions and the assumed rates of salary increases were adjusted to reflect actual and anticipated experience more closely.

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

2. RECENT PLAN CHANGES

Beginning in plan year 2021, the 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 MAPD plan.

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

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST

For the Fiscal Year Ended September 30, 2023

3. METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS:

The actuarially determined contribution rates in the Schedule of OPEB Contributions were calculated as of September 30, 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 |
| Remaining Amortization Period | 22 years, closed |
| Asset Valuation Method | Market Value of Assets |
| Inflation | 2.75% |
| Healthcare Cost Trend Rate: | |
| Pre-Medicare Eligible | 6.75% |
| Medicare Eligible | ** |
| Ultimate Trend Rate: | |
| Pre-Medicare Eligible | 4.75% |
| Medicare Eligible | 4.75% |
| Year of Ultimate Trend Rate | 2027 for Pre-Medicare Eligible 2024 for Medicare Eligible |
| Optional Plans Trend Rate | 2.00% |
| Investment Rate of Return | 5.00%, including inflation |

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

SUPPLEMENTARY INFORMATION

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2023

| <u>Federal Grantor Program Title</u> | <u>Federal CFDA Number</u> | <u>Pass-through Entity Identifying Number</u> | <u>Expenditures</u> |
|---|------------------------------------|---|---------------------|
| Federal Agency Name: | | | |
| U.S. Department of Agriculture: | | | |
| Passed through Alabama State Department of Education | | | |
| Child Nutrition Cluster - | | | |
| National School Lunch Program | 10.555 | N/A | \$ 20,811 |
| School Breakfast Program | 10.553 | N/A | <u>4,821</u> |
| Total Child Nutrition Cluster | | | <u>25,632</u> |
| Total U.S. Department of Agriculture | | | <u>25,632</u> |
| U.S. Department of Education: | | | |
| Passed through Alabama State Department of Education | | | |
| Title I Grants to Local Education Agencies | 84.010 | N/A | 20,353 |
| Special Education - Grants to States | 84.027 | N/A | 49,679 |
| Student Support and Academic Enrichment Grants | 84.424 | N/A | 4,304 |
| Supporting Effective Instruction State Grants | 84.367 | N/A | 3,161 |
| Twenty-First Century Community Learning Centers | 84.287 | N/A | 180,000 |
| Passed through New Schools for Alabama Charter Schools | 84.282A | N/A | <u>524,771</u> |
| Total U.S. Department of Education | | | <u>782,268</u> |
| Total expenditures of Federal awards | | | <u>\$ 807,900</u> |

See notes to schedule of expenditures of federal awards.

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2023

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of Alabama Aerospace and Aviation Schools Inc. (the “School”) under programs of the federal government for the year ended September 30, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the School.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Schedule of Expenditure of Federal Awards is presented based on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A one-year availability period is used for revenue recognition for all governmental fund revenues. Expenditures are recorded when the related liability is incurred. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principals contained in the Uniform Guidance, as well as other applicable provisions of contracts and grant agreements, wherein certain types of expenditures are not allowable or are limited as to reimbursement, as applicable.

3. INDIRECT COST RATE

The School has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.



Horton, Lee, Burnett,
Peacock, Cleveland
& Grainger, P.C.

Partners & Certified Public Accountants

H.B. Lee, Jr., CPA

James Lamar Peacock, Jr., CPA

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(1930-2012)

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*

Board of Directors

Alabama Aerospace and Aviation Schools Inc.

Bessemer, 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, the business-type activities, the major fund, and the aggregate remaining fund information of Alabama Aerospace and Aviation Schools Inc. (the "School"), as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise Alabama Aerospace and Aviation Schools Inc.'s basic financial statements, and have issued our report thereon dated July 16, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2023-001 and 2023-002 that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2023-002 and 2023-003.

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* (continued)

Alabama Aerospace and Aviation Schools Inc. Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Aborton, Lee, Bennett, Peacock,
Cleveland & Hainger, P.C.*

Birmingham, Alabama

July 16, 2024

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

Board of Directors
Alabama Aerospace and Aviation Schools Inc.
Bessemer, Alabama

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Alabama Aerospace and Aviation Schools Inc.'s (the "School") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended September 30, 2023. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the School 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, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

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

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

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the School's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the School's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the School's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of School's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over compliance. Accordingly, no such opinion is expressed.

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2023-002 and 2023-003. Our opinion on each major federal program is not modified with respect to these matters.

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

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM
GUIDANCE (continued)

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2023-001 and 2023-002 to be material weaknesses.

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

Government Auditing Standards requires the auditor to perform limited procedures on the School's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The School's response was not subjected to the other 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.

*Abston, Lee, Bennett, Peacock,
Cleveland & Swinger, P.C.*

Birmingham, Alabama

July 16, 2024

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended September 30, 2023

Section I - Summary of Auditor's ResultsFinancial Statements

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

Internal Control over financial reporting

| | | |
|---|---|---|
| Material weakness(es) identified? | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
| Significant deficiency(ies) identified? | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> None reported |
| Noncompliance material to the financial statements noted? | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |

Federal Awards*Internal Control over major federal programs*

| | | |
|---|---|---|
| Material weakness(es) identified? | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
| Significant deficiency(ies) identified? | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> None reported |

Type of auditors' report issued on compliance for major federal programs: Unmodified

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

Identification of major federal program:

| <u>CFDA Number</u> | <u>Name of Federal Program</u> |
|--------------------|--------------------------------|
| 84.282A | Charter Schools |

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

Auditee qualified as low-risk auditee? Yes No

Section II - Financial Statement Findings

There were no findings related to the financial statements that are required to be reported in accordance with generally accepted government auditing standards.

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Year Ended September 30, 2023

Section III - Federal Award Findings and Questioned CostsFinding 2023-001

Criteria - Management is responsible for establishing and maintaining effective internal controls and for the fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.

Condition - The Data Collection Form for the year ended September 30, 2023 was not filed with the Federal Audit Clearinghouse within nine months after year end.

Cause - The late filing resulted from a lack of internal controls over Federal financial reporting.

Effect - The Data Collection Form for the year ended September 30, 2023 was not filed with the Federal Audit Clearinghouse within nine months after year end.

Recommendation - We recommend that the School should implement controls to complete the timely submission of the Data Collection Form.

Management response - See corrective action plan provided by the CEO.

Finding 2023-002

Compliance Requirement - Allowable Costs/Cost Principles

Criteria - Management is responsible for establishing and maintaining effective internal control over federal awards to provide reasonable assurance that the non-federal entity is managing the federal award in accordance with federal statutes, regulations, and terms and conditions of the awards received.

Condition - During the audit, we noted failure to document approval of purchases prior to disbursement of federal funds.

Cause - The conditions mentioned above were due to failure by the School to comply with established internal control policies over the allowable use of federal funds.

Effect - Without appropriate and effective internal controls over compliance, non-compliance could occur which the entity may not identify.

Recommendation - We recommend that the School review its internal control policies to properly document approval of purchases prior to disbursement of federal funds.

Management response - See corrective action plan provided by the CEO.

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Year Ended September 30, 2023

Section III - Federal Award Findings and Questioned CostsFinding 2023-003

Compliance Requirement - Procurement

Criteria - Per 2 CFR section 200.320 of the Uniform Guidance, the School must obtain price or rate quotations from an adequate number of qualified sources for purchases that exceed \$10,000.

Condition - During the audit, we noted instances in which the School did not obtain price quotations from multiple sources for purchases exceeding \$10,000.

Cause - The conditions mentioned above were due to violation of the requirements of 2 CFR section 200.320 of the Uniform Guidance.

Effect - The conditions mentioned above resulted in a violation of the requirements to comply with 2 CFR section 200.320 of the Uniform Guidance.

Questioned costs - \$208,977

Recommendation - We recommend that the School review its procurement policies to ensure that it obtains price or rate quotations from an adequate number of qualified sources for purchases that exceed \$10,000.

Management response - See corrective action plan provided by the CEO.

ALABAMA AEROSPACE AND AVIATION SCHOOLS INC.

CORRECTIVE ACTION PLAN

Year Ended September 30, 2023

Name of the auditee: Alabama Aerospace and Aviation Schools Inc.

Name of the audit firm: Horton, Lee, Burnett, Peacock, Cleveland and Grainger, P.C.

Period covered by the audit: Year ended September 30, 2023

Current findings on the schedule of findings and questioned costs:

1) Finding 2023-001 - The Data Collection Form for the year ended September 30, 2023 was not filed with the Federal Audit Clearinghouse within nine months after year end.

- a. Implementation of plan of action - Management will work with the auditors for timely completion of the audit and filing of the Data Collection Form.
- b. Implementation date - Anticipated completion July 30, 2024.
- c. Persons responsible for the implementation - The Board of Directors and CEO.

2) Finding 2023-002 - The School failed to document proper approval of purchases prior to disbursement of federal funds.

- a. Implementation of plan of action - Management will review control policies to ensure that approvals of purchases are documented prior to disbursement of federal funds.
- b. Implementation date - Anticipated completion July 30, 2024.
- c. Persons responsible for the implementation - The Board of Directors and CEO.

3) Finding 2023-003 - The School failed to obtain price quotations from multiple sources for purchases that exceeded \$10,000.

- a. Implementation of plan of action - Management will review its procurement policies to ensure that the School complies with 2 CFR 200.320 of the Uniform Guidance.
- b. Implementation date - Anticipated completion July 30, 2024.
- c. Persons responsible for the implementation - The Board of Directors and CEO.