

HARTSELLE CITY BOARD OF EDUCATION
HARTSELLE, ALABAMA
BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2021
Together With Independent Auditor's Report

HARTSELLE CITY BOARD OF EDUCATION

SEPTEMBER 30, 2021

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hartselle City Board of Education, a component unit of the City of Hartselle, Alabama, as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hartselle City Board of Education as of September 30, 2021, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-11, the budgetary comparison information, pension information and postemployment benefits other than pensions (OPEB) information on pages 44-50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2022 on our consideration of Hartselle City Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hartselle City Board of Education's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hartselle City Board of Education's internal control over financial reporting and compliance.

Byrd, Smalley & Adams, P.C.

Decatur, Alabama
February 23, 2022

Hartselle City Board of Education

Management's Discussion and Analysis (MD&A)

September 30, 2021

The Management's Discussion and Analysis (MD&A) of the Hartselle City Board of Education's (the Board's) financial performance provides an overview of the Board's financial activities for the fiscal year ended September 30, 2021. The intent of this discussion and analysis is to look at the Board's financial performance as a whole. Please read in conjunction with the Board's financial statements and notes to the financial statements, which immediately follow this analysis.

The MD&A is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34; *Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999.

Financial Highlights

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

- The total costs of the Board's programs for the year were \$42.53 million. After taking away a portion of these costs paid for with Program Revenue (Charges for Services, Operating and Capital Grants, and Contributions) the net cost that required funding from Hartselle City and Morgan County taxpayers was \$11.84 million. The state's Foundation Program provided \$21.77 million toward the cost of programs. The Foundation Program requires a 10-mill equivalency local match that is derived from locally collected ad valorem taxes. The amount for the year was \$1.29 million.
- For the current year the General Fund's revenues and other fund sources exceeded expenditures and other sources by \$1,212,481. At the end of the current fiscal year, unreserved fund balance for the General Fund is \$7,588,096, which is equivalent to a 2.82 months operating balance.

Using the Financial Statements – An Overview for the User

As a result of the implementation of the GASB 34 reporting model, the financial section now consists of five parts – *Management's Discussion and Analysis* (this section), *the Independent Auditors' Report*, *the Basic Financial Statements*, *Required Supplemental Information*, and *Other Supplemental Information*.

The Board's basic financial statements are comprised of three components: 1) *Government-wide Financial Statements*, 2) *Fund Financial Statements*, and 3) *Notes to the Basic Financial Statements*.

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

- Instruction includes teacher salaries and benefits, teacher aides, substitute teachers, textbooks, depreciation of instructional buildings, professional development, and classroom instructional materials, supplies and equipment.
- Instructional support includes salaries and benefits for school principals, assistant principals, librarians, counselors, school secretaries, school bookkeepers, speech therapists, and school nurses, and professional development expenses.
- Operation and maintenance includes utilities, security services, janitorial services, maintenance services, and depreciation of maintenance vehicles.

- Auxiliary services includes student transportation expenses, such as bus driver salaries and benefits, mechanics, bus aides, vehicle maintenance and repair expenses, vehicle fuel, depreciation of buses and bus shops, fleet insurance; and food service expenses such as lunchroom managers, cooks, cashiers and servers' salaries and benefits as well as donated and purchased food, food preparation and service supplies, kitchen and lunchroom equipment and depreciation of food service equipment and facilities.
- General administration and central support includes salaries and benefits for the superintendent, assistants, clerical and financial staff, and other personnel that provide system-wide support for the schools. Also included are legal expenses, liability insurance, training for board members and general administrative staff, printing costs, and depreciation of central office equipment and facilities.
- Interest and fiscal charges include interest, but not principal payments, on long-term debt issues and other expenses related to the issuance and continuance of debt issues.
- Other includes the salaries and benefits for adult and continuing education teachers, preschool teachers and aides, extended day personnel, and community education instructors. Also included are the materials, supplies, equipment, related depreciation, and other expenses for operating programs outside of those for educating students in the kindergarten through 12th grade instructional programs.

Government-wide Statements report the capitalization of capital assets and depreciation of all exhaustible capital assets and the outstanding balances of long-term debt and other obligations, which has not been the case in the past. These statements report all assets and liabilities perpetuated by these activities using the accrual basis of accounting. The accrual basis takes into account all of the Board's current year revenues and expenses regardless of when received or paid. This approach moves the financial reporting method for governmental entities closer to the financial reporting methods used in the private sector. The following *government-wide financial statements* report on all of the governmental activities of the Board as a whole.

The *Statement of Net Position* (page 12) is most closely related to a balance sheet. It presents information on all of the board's assets (what it owns) and liabilities (what it owes), with the difference between the two reported as net position. The net position reported in this statement represent the accumulation of changes in net position for the current fiscal year and all fiscal years in the past combined. Over time, the increases or decreases in net position reported in this statement may serve as a useful indicator of whether the financial position of the school board is improving or deteriorating.

The *Statement of Activities* (page 13) is most closely related to an income statement. It presents information showing how the Board's net position changed during the current fiscal year only. All of the current year's revenues and expenses are accounted for in the *Statement of Activities* regardless of when cash is received or paid. This statement shows gross expenses and offsetting program revenues to arrive at net cost information for each major expense function or activity of the Board. By showing the change in net position for the year, the reader may be able to determine whether the Board's financial position has improved or deteriorated over the course of the current fiscal year. The change in net position may be financial or non-financial in nature. Non-financial factors which may have an impact on the Board's financial condition include: age and condition of facilities, mandated educational programs for which little or no funding is provided, and increases or decreases in funding from state and federal governments, to name a few.

Fund Financial Statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Board uses fund accounting to ensure and demonstrate compliance with finance-related statements on a fund basis, but with some modifications. All of the funds of the Board can be classified into the governmental fund category.

Governmental Fund Financial Statements begin on page 14. These statements account for basically the same governmental activities reported in the *Government-wide Financial Statements*. The *Fund Financial Statements* display information on each of the Board's most important governmental funds or *major funds*.

This is required in order to better assess the Board's accountability for significant governmental programs or certain dedicated revenue. The Board's *major funds* are the General Fund and the Debt Service Fund.

The *Fund Financial Statements* are still measured on the modified-accrual basis of accounting as reported in the previous fiscal years, where revenues and expenditures are recorded when they become measurable and available. As a result, the *Fund Financial Statements* focus more on the near-term use and availability of spendable resources. The information provided in these statements is useful in determining the Board's immediate financial needs. This is in contrast to the accrual-based *Government-wide Financial Statements* which focus more on overall long-term availability of spendable resources. The relationship between governmental activities reported in the *Government-wide Financial Statements* and the governmental funds reported in the *Fund Financial Statements* are reconciled on page 15 and page 17 of these financial statements. These reconciliations are useful to readers in understanding the long-term impact of the Board's short-term financing decisions.

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

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

Financial Analysis of the Board 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 Board's assets exceeded liabilities by \$3,511,371 at September 30, 2021.

- Of this figure, \$27,401,914, reflects the Board's net investment in capital assets. Since these capital assets represent investment in land, buildings, school buses, furniture and equipment, this portion of the net position is not available for future spending or funding of operations.
- Restricted net position is reported separately to show external legal constraints from debt covenants and enabling legislation that limit the Board's ability to use net position for day-to-day operations. Approximately \$13,819,961 is restricted for debt service and \$316,712 is restricted for capital projects at September 30, 2021.

TABLE 1: SUMMARY OF NET POSITION (Table 1) As Of September 30, 2017 - 2021					
	2021 Governmental Activities	2020 Governmental Activities	2019 Governmental Activities	2018 Governmental Activities	2017 Governmental Activities
Current Assets	\$17,049,656	\$14,931,014	\$13,479,881	\$13,411,265	\$11,590,049
Noncurrent Assets	88,674,992	76,490,200	72,897,493	68,681,330	67,495,692
Total Assets	105,724,648	91,421,214	86,377,374	82,092,595	79,085,741
Current Liabilities	3,738,430	3,760,016	3,347,787	3,839,326	6,522,854
Noncurrent Liabilities	98,474,847	89,068,633	86,789,829	83,325,203	54,756,137
Total Liabilities	102,213,277	92,828,649	90,137,616	87,164,529	61,278,991
Net Position					
Net Investment in Capital Assets	27,401,914	24,855,235	25,937,243	26,174,925	26,950,153
Restricted for:					
Capital Projects	316,712	137,382	106,145	804,110	176,593
Debt Service	13,819,961	12,218,145	10,669,653	9,172,817	7,725,596
Other Purposes					199,714
Unrestricted	(38,027,216)	(38,618,197)	(40,473,283)	(41,223,786)	(17,245,307)
Total Net Position	\$3,511,371	(\$1,407,435)	(\$3,760,242)	(\$5,071,934)	\$17,806,749

The results of this year's operations as a whole are reported in detail in the *Statement of Activities*. **Table 2** condenses the results of the operations for the fiscal year into a format where the reader can easily see the total revenues and expenses of the Board for the year. **Table 2** also shows the breakdown by function for total revenues and expenditures in percentages and the impact operations had on net position as of September 30, 2020 and September 30, 2021.

SUMMARY OF CHANGES IN NET POSITION – STATEMENT OF ACTIVITIES (Table 2)				
Fiscal Years Ended September 30, 2020 and 2021				
	2021 Governmental Activities	2021 Percent of Total	2020 Governmental Activities	2020 Percent of Total
Revenues:				
Program Revenues:				
Charges for Services	\$4,254,637	8.97%	\$3,284,740	8.12%
Operating Grants and Contributions	27,114,181	57.15%	25,248,725	62.39%
Capital Grants and Contributions	4,236,748	8.92%	1,130,290	2.79%
General Revenues:				
Property Taxes	3,738,340	7.88%	3,646,337	9.01%
Sales and Use Taxes	3,528,877	7.43%	3,168,425	7.83%
Alcohol Beverage Tax	-	0.00%	46,320	0.11%
Other Taxes	726,237	1.53%	33,684	0.08%
Grants and Contributions not				
Restricted for Specific Purposes	1,564,255	3.30%	1,564,255	3.87%
Interest	466,809	0.99%	511,489	1.26%
Gain on Disposition of Capital Assets	-	0.00%	-	0.00%
Miscellaneous	1,818,736	3.83%	1,833,073	4.53%
Total Revenue	<u>47,448,820</u>		<u>40,467,338</u>	
Expenses:				
Instruction	\$22,628,921	53.21%	\$21,028,731	55.17%
Instructional Support	8,620,206	20.27%	7,187,941	18.86%
Operation and Maintenance	3,693,142	8.69%	3,078,927	8.08%
Auxiliary Services:				
Transportation	1,443,089	3.39%	1,302,691	3.42%
Food Service	1,794,436	4.22%	1,541,098	4.04%
General Administration	2,199,854	5.17%	1,869,720	4.91%
Interest and Fiscal Charges	644,202	1.51%	676,189	1.77%
Other	1,506,164	3.54%	1,429,234	3.75%
Total Expenses	<u>42,530,014</u>		<u>38,114,531</u>	
Change in Net Position	4,918,806		2,352,807	
Beginning Net Position	<u>(1,407,435)</u>		<u>(3,760,242)</u>	
Ending Net Position	<u>\$3,511,371</u>		<u>(\$1,407,435)</u>	

Governmental Activities – As shown in **Table 2** above, the Board's net position increased by \$4,918,806. The total cost of services rendered by the Board was \$42,530,014, and its revenues were \$47,448,820, for the year that ended September 30, 2021. It is important to note that not all of these costs were borne by the taxpayers of Hartselle City and Morgan County.

- Some of the cost, \$4,254,637, were paid by users of the services provided during the year, such as school lunches, summer school, and participation in extracurricular activities in the local schools.
- State and federal governments subsidized certain programs with grants and contributions totaling \$27,114,181.
- Other program revenue sources, such as capital grants, donations, etc. provided \$4,236,748 in revenues.

Table 3 is a condensed statement taken from the *Statement of Activities* (page 13) showing the total cost for providing services for the board's activities. Total cost of services is compared to the net cost of providing these services. The net cost of services is the remaining cost of services after subtracting grants and charges for services that the board used to offset the program's total cost. In other words, the net cost shows the financial burden that was placed on all taxpayers for each of these activities. This information allows citizens to consider the cost of each program in comparison to the benefits they believe are provided.

NET COST OF GOVERNMENTAL ACTIVITIES (Table 3)		
Fiscal Year Ended September 30, 2021		
	Total Cost of Services	Net Cost of Services
Instruction	\$22,628,921	\$1,806,091
Instructional Support	8,620,206	2,130,882
Operation and Maintenance	3,693,142	1,066,859
Auxiliary Services:		
Transportation	1,443,089	76,512
Food Service	1,794,436	(155,999)
General Administration	2,199,854	991,783
Interest and Fiscal Charges	644,202	644,602
Other	1,506,164	364,118
Total Expenses	\$42,530,014	\$6,924,448

Performance of School Board Funds

As noted earlier, the Board uses fund accounting to control and manage resources in order to ensure compliance with finance-related legal requirements. Using funds to account for resources for particular purposes helps the reader to determine whether the Board is being accountable for the resources provided by the taxpayers and other entities, and it may also help provide more insight into the Board's overall financial health. The following analysis of the Board's funds should be read in reference to the fund financial statements, which begin on page 14.

- **Governmental Funds** – The focus of the Board's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Board's financial requirements (note that the fund relationship between the *Fund Financial Statements* and the *Government-wide Financial Statements* are reconciled on pages 15 and 17, the financial performance of the Board as a whole is reflected in its governmental funds as well. At the end of the fiscal year, the Board's governmental funds reported combined ending fund balances of \$24,042,283.
- **General Fund** – The general fund is the primary operating fund of the Board. The net change in fund balance for the fiscal year as a result from operations was an increase of \$1,212,481. The Board used a portion of its local support for approximately 33 locally funded instructional units. These units are teachers and administrators that the board chooses to employ above the number allocated by the SDE.
- **Debt Service Fund** – This fund is used to accumulate and account for financial resources in anticipation of debt service payments. These resources are restricted and not available to fund the Board's daily operations.
- **Other Governmental Funds** – This is a combined total of several funds, none of which are considered major funds. This includes the special revenue fund, capital project fund and several other small funds.

Budgets

On or before October 1 of each year, the Board is mandated by State law to prepare and submit to the State Superintendent of Education the annual budget adopted by the Board. The State Department of Education normally requires such budgets to be submitted by September 30th of each year. The fiscal year 2021 Original Budget was adopted by the Board on September 8, 2020. Over the course of the year, the Board revised the annual budget one time to include many federal grants and state allocations that were not available at the time of the original budget approval.

Capital Assets

The Board's investment in capital assets for its governmental activities for the year ended September 30, 2021, amounted to \$54,131,171, net of accumulated depreciation. The Board's investment in capital assets includes: land, land improvements, buildings, building improvements, equipment, vehicles, and construction in progress (shown in **Table 4**).

CAPITAL ASSETS (Table 4) Fiscal Year Ended September 30, 2021	
	Governmental Activities
Land	\$1,096,439
Construction in Progress	260,410
Land Improvements	423,788
Buildings and Improvements	74,170,337
Equipment and Furniture	1,671,223
Vehicles	2,848,531
Less: Accumulated Depreciation	(26,339,557)
Total Capital Assets	\$54,131,171

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

Long-Term Debt

At the end of the fiscal year the Board had \$26,711,473 in long-term debt payable. **Table 5** provides a synopsis of the Board's activities with respect to long-term debt. Additional information on long term-debt is located in the Notes to the Financial Statements.

LONG-TERM DEBT (Table 5) Fiscal Year Ended September 30, 2021					
	Debt Outstanding 10/01/20	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 09/30/21	Amounts Due Within One Year
Notes Payable – Series 2018	3,987,196		132,288	3,854,908	138,050
Warrants Payable:					
Series 2009-D	22,128,000			22,128,000	
Series 2011-B	44,517		44,517		
Series 2013-A	490,385		357,077	133,308	31,388
Series 2014-A	289,883		52,326	237,557	55,050
Series 2018	1,650,000		1,650,000		
Series 2020-C		366,212	8,512	357,700	5,908
Total Long-Term Debt	28,589,981	366,212	2,244,720	26,711,473	230,396

Economic Factors and Next Year's Budget

The following currently known Hartselle City and Morgan County economic factors were considered as we move into the 2021-2022 fiscal year.

Population - The latest annual population estimate published by the Census Bureau as of April 1, 2020 reports Hartselle City at 15,455, an 8.4% increase over the last official census year 2010 population of 14,255. Hartselle City Schools' enrollment figures have remained steady during the last 10 years but have trended upward in the last few years.

Property Taxes - The 2021 fiscal year will continue the annual property tax reappraisal for Morgan County; consequently, property tax revenues for the 2022 budget year were estimated with a conservative increase.

Unemployment - The unemployment rate in Morgan County for December 2021 was 2.1%, which is a decrease from the December 2020 of 2.6%. Morgan County's unemployment rate was lower than the state's average unemployment rate of 3.1% and lower than the national rate of 6.0% for December 2021.

Medical Costs – Employee health insurance is provided through the Public Education Employees' Health Insurance Program (PEEHIP). PEEHIP health insurance costs statewide have risen dramatically during the past several years. PEEHIP employer costs were \$6,996 in 2005, \$8,016 in 2006, \$8,604 in 2007, \$9,300 in 2008, \$9,024 in 2009, \$9,024 in 2010, 9,024 in 2011 and were reduced to \$8,568 per employee during the fiscal years 2012, 2013 and 2014. For the 2015 and 2016 fiscal year the cost remained stable at \$9,360 per employee. For 2017 through 2022 the employer cost is \$9,600 and is expected to remain the same for 2023.

School Year	Enrollment	Increase/Decrease
2021	3,636	108
2020	3,528	53
2019	3,475	145
2018	3,330	124
2017	3,206	126
2016	3,080	20
2015	3,060	-19
2014	3,079	-40
2013	3,119	-20
2012	3,139	15
2011	3,124	-60
2010	3,184	5
2009	3,179	53
2008	3,126	-40
2007	3,166	64
2006	3,102	47
2005	3,055	

Contacting the School Board's Financial Management

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Board's finances and to show the Board's accountability for the money it receives. If you have questions about this report or need additional financial information, Contact Bradley Colburn, Chief School Finance Officer, by mail at Hartselle City Board of Education, 305 College Street NE, Hartselle, Alabama 35640, by e-mail at bradley.colburn@hartselletigers.org, or by calling (256)773-5419 during regular business hours, Monday through Friday, from 8:00 AM to 4:30 PM.

HARTSELLE CITY BOARD OF EDUCATION
STATEMENT OF NET POSITION
September 30, 2021

	<u>Governmental Activities</u>
Assets	
Cash and Cash Equivalents	\$ 10,857,809
Investments	348,298
Receivables	2,402,689
Ad Valorem Property Tax Receivable	3,356,718
Inventories	84,142
Restricted Assets, Cash with Fiscal Agents	13,819,961
Capital Assets, Net	<u>54,131,171</u>
Total Assets	<u>85,000,788</u>
Deferred Outflows of Resources	
Deferred Charge on Refunding of Debt	10,112
Employer Pension Contribution	2,511,389
Proportionate Share of Collective Deferred Outflows Related to Net Pension Liability	7,754,000
Employer Other Postemployment Benefits (OPEB) Contribution	540,364
Proportionate Share of Collective Deferred Outflows Related to Net Other Postemployment Benefits (OPEB) Liability	<u>9,907,995</u>
Total Deferred Outflows of Resources	<u>20,723,860</u>
Liabilities	
Accounts Payable	308,270
Unavailable Revenue	55,541
Salaries and Benefits Payable	3,106,805
Accrued Interest Payable	29,810
Noncurrent Liabilities:	
Due Within One Year	238,004
Due in More Than One Year	26,745,173
Net Pension Liability (Board's Share)	35,297,000
Net OPEB Liability (Board's Share)	<u>19,487,754</u>
Total Liabilities	<u>85,268,357</u>
Deferred Inflows of Resources	
Unavailable Revenue - Property Taxes	3,356,718
Proportionate Share of Collective Deferred Inflows Related to Net Pension Liability	703,000
Proportionate Share of Collective Deferred Inflows Related to Net OPEB Liability	<u>12,885,202</u>
Total Deferred Inflows of Resources	<u>16,944,920</u>
Net Position	
Net Investment in Capital Assets	27,401,914
Restricted for:	
Construction of Capital Assets	316,712
Debt Service	13,819,961
Unrestricted (Deficit)	<u>(38,027,216)</u>
Total Net Position	<u>\$ 3,511,371</u>

HARTSELLE CITY BOARD OF EDUCATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2021

Functions	Expenses	Program Revenues			Net (Expenses)
		Charges for	Operating	Capital	Revenues and
		Services	Grants and	Grants and	Changes in Net Position
			Contributions	Contributions	Governmental
					Activities
Instructional services	\$ 22,628,921	\$ 369,499	\$ 18,203,402	\$ 2,249,929	\$ (1,806,091)
Instructional support services	8,620,206	1,105,909	5,383,415	-	(2,130,882)
Operation and maintenance services	3,693,142	163,444	615,320	1,847,519	(1,066,859)
Student transportation services	1,443,089	69,488	1,157,789	139,300	(76,512)
Food services	1,794,436	1,859,168	91,267	-	155,999
General administrative services	2,199,854	432,130	775,941	-	(991,783)
Interest and fiscal charges	644,202	-	-	-	(644,202)
Other expenses	1,506,164	254,999	887,047	-	(364,118)
Total	\$ 42,530,014	\$ 4,254,637	\$ 27,114,181	\$ 4,236,748	(6,924,448)
General Revenues:					
Taxes:					
Property taxes					3,738,340
Local sales tax					3,528,877
Other taxes					726,237
Grants and contributions not restricted for specific programs					1,564,255
Investment earnings					466,809
Miscellaneous					1,818,736
Total general revenues					11,843,254
Change in Net Position					4,918,806
Net Position--beginning					(1,407,435)
Net Position--ending					\$ 3,511,371

HARTSELLE CITY BOARD OF EDUCATION
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2021

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 9,602,520	\$ -	\$ 1,255,289	\$ 10,857,809
Cash with fiscal agents	-	13,819,961	-	13,819,961
Investments	-	-	348,298	348,298
Receivables	973,039	-	1,429,650	2,402,689
Ad valorem property tax receivable	3,356,718	-	-	3,356,718
Due From Other Funds	117,722	-	3,344	121,066
Inventories, at cost	-	-	84,142	84,142
TOTAL ASSETS	<u>\$ 14,049,999</u>	<u>\$ 13,819,961</u>	<u>\$ 3,120,723</u>	<u>\$ 30,990,683</u>
LIABILITIES				
Accounts payable	\$ 208,656	\$ -	\$ 99,614	\$ 308,270
Due to Other Funds	3,344	-	117,722	121,066
Unearned revenues	-	-	55,541	55,541
Salaries and benefits payable	2,893,185	-	213,620	3,106,805
TOTAL LIABILITIES	<u>3,105,185</u>	<u>-</u>	<u>486,497</u>	<u>3,591,682</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	<u>3,356,718</u>	<u>-</u>	<u>-</u>	<u>3,356,718</u>
FUND BALANCES				
Nonspendable	-	-	84,142	84,142
Restricted	-	13,819,961	316,712	14,136,673
Unassigned	7,588,096	-	2,233,372	9,821,468
TOTAL FUND BALANCES	<u>7,588,096</u>	<u>13,819,961</u>	<u>2,634,226</u>	<u>24,042,283</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 14,049,999</u>	<u>\$ 13,819,961</u>	<u>\$ 3,120,723</u>	<u>\$ 30,990,683</u>

HARTSELLE CITY BOARD OF EDUCATION
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
September 30, 2021

Total fund balances--governmental funds [page 14] **\$ 24,042,283**

Amounts reported for governmental activities in the statement of net position are different because:

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

The cost of capital assets is	\$ 80,470,728	
Accumulated depreciation is	<u>(26,339,557)</u>	54,131,171

Deferred charges on refunding of debt are reported as deferred inflows of resources and are not available to pay for current period expenditures and therefore, are deferred on the statement of net position.

10,112

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

10,265,389

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

(703,000)

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

10,448,359

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

(12,885,202)

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.

Current portion of long-term debt	(238,004)	
Non-current portion of long-term debt	<u>(81,529,927)</u>	<u>(81,767,931)</u>

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

(29,810)

Total net position--governmental activities [page 12] **\$ 3,511,371**

HARTSELLE CITY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the fiscal year ended September 30, 2021

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
State sources	\$23,887,017	\$ 412,687	\$ 3,821,531	\$ 28,121,235
Federal sources	1,863	-	4,895,588	4,897,451
Local sources	10,110,660	1,601,816	2,622,957	14,335,433
Other sources	<u>55,622</u>	<u>-</u>	<u>18,563</u>	<u>74,185</u>
TOTAL REVENUES	34,055,162	2,014,503	11,358,639	47,428,304
Expenditures:				
Instructional services	18,588,502	-	1,813,506	20,402,008
Instructional support services	5,742,922	-	2,653,784	8,396,706
Operation and maintenance services	3,194,257	-	478,170	3,672,427
Student transportation services	1,385,581	-	138,090	1,523,671
Food services	-	-	1,909,640	1,909,640
General administrative services	2,259,643	-	341,077	2,600,720
Other	1,035,317	-	441,390	1,476,707
Capital outlay	122,398	-	1,787,756	1,910,154
Debt service:				
Principal retirement	-	-	1,917,519	1,917,519
Interest and fiscal charges	<u>-</u>	<u>412,687</u>	<u>211,170</u>	<u>623,857</u>
TOTAL EXPENDITURES	<u>32,328,620</u>	<u>412,687</u>	<u>11,692,102</u>	<u>44,433,409</u>
Excess (deficiency) of revenues over expenditures	1,726,542	1,601,816	(333,463)	2,994,895
Other financing sources (uses)				
Indirect cost	426,717	-	-	426,717
Refunding bonds	-	-	366,212	366,212
Interfund transfers in	305,121	-	1,250,748	1,555,869
Other financing sources	4,849	-	1,993	6,842
Payments to refunding escrow agent	-	-	(365,260)	(365,260)
Interfund transfers out	<u>(1,250,748)</u>	<u>-</u>	<u>(305,121)</u>	<u>(1,555,869)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(514,061)</u>	<u>-</u>	<u>948,572</u>	<u>434,511</u>
NET CHANGE IN FUND BALANCES	1,212,481	1,601,816	615,109	3,429,406
FUND BALANCES, BEGINNING OF YEAR	<u>6,375,615</u>	<u>12,218,145</u>	<u>2,019,117</u>	<u>20,612,877</u>
FUND BALANCES, END OF YEAR	<u>\$ 7,588,096</u>	<u>\$ 13,819,961</u>	<u>\$ 2,634,226</u>	<u>\$ 24,042,283</u>

HARTSELLE CITY BOARD OF EDUCATION
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
September 30, 2021

Total net change in fund balances--governmental funds [page 16] **\$ 3,429,406**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeds depreciation in the period:

Capital outlays	\$ 2,389,506	
Depreciation expense	<u>(1,726,185)</u>	663,321

Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.		1,917,519
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Payments to refunding escrow agent are recorded as expenditures or other financing uses in the governmental funds, but reduces long-term liabilities in the statement of net position and does not affect the statement of activities.		365,260
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Proceeds from the issuance of debt are reported as financing sources in governmental funds, and thus contribute to the change in fund balance. Issuing long-term debt increases liabilities in the statement of net position but does not affect the statement of activities.		(366,212)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Accrued interest payable, current year increase/(decrease)	(12,864)	
Compensated absences, current year increase/(decrease)	41,740	
Amortization of bond discounts/premiums/issuance costs	33,209	
Pension expense, current year increase/(decrease)	1,805,608	
OPEB expense, current year increase/(decrease)	<u>(777,205)</u>	<u>(1,090,488)</u>

Total change in net position--governmental activities [page 13] **\$ 4,918,806**

HARTSELLE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Governmental Accounting Standards Board establishes standards for defining and reporting on the financial reporting entity. The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for agencies that make up its legal entity. It is also financially accountable for a legally separate agency if its officials appoint a voting majority of that agency's governing body and either it is able to impose its will on that agency or there is a potential for the agency to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. There are no component units which should be included as part of the financial reporting entity of the Hartselle City Board of Education.

The Hartselle City Board of Education is a legally separate agency of the State of Alabama. However, for financial reporting, the board is considered a component unit of the City of Hartselle, Alabama (the City) due primarily to the following:

The City issues bonds to meet the financing needs related to various capital projects undertaken by the Board. The City services the bond debt and is obligated for it.

B. Basis of Presentation, Basis of Accounting

Basis of Presentation

Government-wide Financial Statements: The statement of net position and the statement of activities display information about the Board as a whole. These statements include the financial activities of the primary government. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange transactions. Although other governments may report both governmental and business-type activities, the Board has no business-type activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Board's governmental activities. Direct expenses are those that are specifically associated with a program or function and therefore are clearly identifiable to a particular function. The Board allocates indirect expense to the various functions. Program revenues include (a) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and (b) charges to recipients of goods or services offered by the program. Revenues which are not classified as program revenues, including all local taxes are presented as general revenues of the Board.

HARTSELLE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Fund Financial Statements: The fund financial statements provide information about the Board's funds. Separate statements for each fund category are presented. The emphasis of fund financial statements is on major governmental funds, each presented in a separate column. All remaining governmental funds are aggregated and presented in a single column. The Board reports the following major governmental funds:

General Fund – This is the Board's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund. The Hartselle City Board of Education General Fund primarily received revenues from the Education Trust Fund (ETF), appropriated by the Alabama legislature, and local taxes. Amounts appropriated from the Education Trust Fund are allocated to the Board on a formula basis.

Debt Service Fund – Debt service funds are used to account for the accumulation of resources for the Board's payments of principal and interest on long-term debt.

The Board reports the following governmental funds in the "Other Governmental Funds" column:

Special Revenue Funds – Special revenue funds account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative action.

Debt Service Funds – Debt service funds account for the accumulation of resources for and for the payment of the Board's principal and interest payments on long-term debt that are not included in a major fund.

Capital Projects Fund – Capital projects are used to account for financial resources to be used for the acquisition or construction of major capital facilities that are not included in the major fund.

Basis of Accounting (Measurement Focus)

Government-wide financial statements: 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 when the related cash flows take place. Nonexchange transactions, in which the Board gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

Revenue from grants, entitlements, and donations 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.

HARTSELLE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Measurement Focus) (Continued)

Governmental Fund Financial Statements:

Governmental funds are reported using a current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues reported in the governmental funds (excluding state and federal reimbursements) to be available if the revenues are collected within sixty days after year-end. Revenues from state and federal funds are considered available if transactions eligible for reimbursement have taken place. Expenditures generally are recorded when the related fund liability is incurred. Principal and interest on long-term debt are recorded when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

When both restricted and unrestricted resources are available for use, it is the Board's policy to use restricted resources first, then unrestricted resources as they are needed.

Recently Issued and Adopted Accounting Pronouncements

GASB Statement No. 84, *Fiduciary Activities* – This statement addresses the identification of the fiduciary activities for accounting and financial reporting purposes and how these activities should be reported. The Board implemented GASB 84, *Fiduciary Activities* effective October 1, 2020. The Board determined they have administrative control over all the assets and therefore no separate fiduciary fund financials statements are required. All activities are reported in the Board's fund financial statements.

GASB Statement No. 87, *Leases* – This statement changes the recognition requirements for certain lease assets and liabilities for leases that are currently classified as operating leases. This statement will become effective for the Board in fiscal year 2022.

GASB Statement No. 91, *Conduit Debt Obligations* – This statement clarifies the existing definition of a conduit debt obligation. This statement will become effective for the Board in fiscal year 2023.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* – This statement provides guidance on the accounting and financial reporting for subscription-based technology arrangements for government end users. This statement will become effective for the Board in fiscal year 2023.

The Board will analyze the effects of these pronouncements and plans to adopt them as applicable by their effective date.

HARTSELLE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities, Deferred Outflows / Inflows of Resources and Net Position / Fund Balance

Deposits and Investments

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity date within three months of the date acquired by the Board. Investments are stated at fair value.

Receivables

Receivables include *Due from other governments* in the government-wide financial statements and in the fund financial statements. Receivables due from other governments include amounts due from grantors for grants issued for specific programs and local taxes. No allowances are made for uncollectible amounts because the amounts are considered immaterial.

Property Tax Calendar - The Morgan County Commission levies property taxes for all jurisdictions including the school boards and municipalities within the county. Millage rates for property taxes are levied at the first regular meeting of the County Commission in February of each year. Property taxes are assessed for property as of October 1 of the preceding year based on the millage rates established by the County Commission. Property taxes are due and payable the following October 1 and are delinquent after December 31.

Inventories

In the government-wide financial statements, inventories are recorded on an accrual basis using the consumption method. Expenses reflect the amount of materials and supplies consumed applicable to the current period.

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than capitalized as an asset. GAAP require only material balances of inventories accounted for using the purchases method to be reported as an asset in the appropriate governmental fund.

Capital Assets

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Board maintains a capitalization threshold of \$5,000 for furniture and equipment and \$50,000 for buildings. The Board does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

HARTSELLE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities, Deferred Outflows / Inflows of Resources and Net Position / Fund Balance (Continued)

Capital Assets (Continued)

All reported capital assets except for land and land improvements are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	25-50 years
Furniture and Equipment	5-20 years
Vehicles	8-10 years

Deferred Outflows / Inflows of Resources

In addition to assets, the statement of financial 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(s) and so will *not* be recognized as an outflow of resources (expense / expenditure) until then. The Board has several items that qualify for reporting in this category. They are the deferred charge on refunding of debt, the deferred pension contributions made to the pension plan subsequent to the measurement date, the proportionate share of collective deferred outflows related to the net pension liability, the deferred OPEB contributions made to the trust subsequent to the measurement date and the proportionate share of collective deferred outflows related to the net OPEB liability.

In addition to liabilities, the statement of financial 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(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has three types of items, *unavailable revenue*, is reported in the statement of net position and also in the governmental funds balance sheet, the proportionate share of collective deferred inflows related to the net pension liability and the proportionate share of collective deferred inflows related to the net OPEB liability.

Long-term Obligations

In the government-wide financial statements, the unmatured principal long-term debt, capital leases, and compensated absences are reported in the statement of net position. Interest expense for long-term debt, including accrued interest payable, is reported in the statement of activities. Premiums and discounts for warrants (bonds) and other long-term debt are amortized under accrual accounting and the annual amortization of these accruals is included in the statement of activities. Bond issuance costs, except for prepaid insurance costs, are expensed in the period incurred. Prepaid insurance costs are expensed over the life of the debt.

In the fund financial statements, bond premiums and the face amount of debt issued during the year are reported as another financing source. Any discount resulting from a disparity between the market rate and the stated rate of interest is reported as another financing use. Expenditures

HARTSELLE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities, Deferred Outflows / Inflows of Resources and Net Position / Fund Balance (Continued)

Long-term Obligations (Continued)

for debt principal, interest and related costs are reported in the fiscal year payment is made. At the inception of a capital lease, an amount equal to the present value of the net minimum lease payment is reported as another financing source and as an expenditure. The governmental funds balance sheet does not reflect a liability for long-term debt.

Compensated Absences

For vacation leave and other compensated absences with similar characteristics, a liability is recognized as the benefits are earned by the employees if both of the following conditions are met:

- a. The employees' rights to receive compensation are attributable to services already rendered.
- b. It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

An accrual for earned sick leave is made only to the extent it is probable that the benefits will result in termination payments, rather than be taken as absences due to illness or other contingencies, such as medical appointments and funerals.

Professional and support personnel are provided up to five days of personal leave per year depending on years of service, with pay. The State provides funding, at the substitute rate, for up to two days of personal leave per employee per year. Professional employees are paid, at the Board's substitute rate, for up to two days of unused personal leave. Since unused personal leave cannot be carried over to succeeding years, no liability for unpaid leave is accrued in the financial statements.

Twelve-month employees are allowed up to 15 days of vacation per year with pay depending on years of service. No employee may accrue more than 20 vacation days. Since vacation days can be accrued, a liability for unpaid leave is accrued in the financial statements.

Professional and support employees earn nonvesting sick leave at the rate of one day per month worked. Employees may accumulate an unlimited number of sick days. Employees may use their accrued sick leave as membership service in determining the total years of creditable service in the teachers' retirement system, with no additional cost to the Board. Because employees do not receive compensation for unused sick leave at termination, no liability is recorded in the financial statements of the Board.

The entire compensated absences liability is reported on the government-wide financial statements.

For governmental funds, the current portion of unpaid compensated absences is in the amount expected to be paid using expendable available resources. The noncurrent portion of the liability is not reported.

HARTSELLE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. **Assets, Liabilities, Deferred Outflows / Inflows of Resources and Net Position / Fund Balance (Continued)**

Net Position/Fund Balances

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

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

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

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

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

Nonspendable fund balance – amounts that are not in spendable form (such as inventory) or are required to be maintained intact.

Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance – amounts constrained to specific purposes by the Board itself, using its highest level of decision-making authority. To be reported as committed, amounts cannot be used for any other purpose unless the Board takes the same highest level action to remove or change the constraint.

Assigned fund balance – amounts that are intended to use for a specific purpose. Intent can be expressed by the Board or by an official or body to which the Board delegates authority.

Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported in the general fund

HARTSELLE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities, Deferred Outflows / Inflows of Resources and Net Position / Fund Balance (Continued)

Net Position/Fund Balances (Continued)

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) amounts are available, it shall be the policy of the Board to consider restricted amounts to have been reduced first. When an expenditure is incurred for the purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the Board that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts. The Board of Education along with the Superintendent and Chief School Finance Officer will periodically review all restricted, committed, and assigned fund balances. The Chief School Finance Officer will prepare and submit an annual report of all restricted, committed and assigned funds for the Board of Education.

D. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

E. Pensions

The Teachers' 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 when due and payable in accordance with the terms of the Plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

F. Postemployment Benefits Other Than Pensions (OPEB)

The Alabama Retired Education Employee's Health Care Trust (Trust) financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows 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.

HARTSELLE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2021

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual appropriated budgets are adopted for all governmental funds. All annual appropriations lapse at fiscal year end. State law requires Alabama school boards to prepare and submit to the State Superintendent of Education the annual budget adopted by the local board of education. In accordance with the regulations of the State Board of Education, the due date for submission of the Budget for 2020-2021 fiscal year was September 30, 2020. The Board approved and submitted its original 2020-2021 budget on September 8, 2020.

The city superintendent of education or Board cannot approve any budget for operations of the school system for any fiscal year that shows expenditures in excess of income estimated to be available plus any balances on hand. The superintendent with the approval of the board has the authority to make changes within the approved budget provided that a deficit is not incurred by such changes.

The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years.

The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

While the Board is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances.

NOTE 3 DEPOSITS AND INVESTMENTS

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Board will not be able to cover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Board's deposits at year-end were entirely covered by federal depository insurance or by the Security for Alabama Funds Enhancement Program (SAFE Program).

The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the **Code of Alabama 1975**, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance. All of the Board's investments were in certificates of deposits. These certificates of deposit are classified as "Deposits" in order to determine insurance and collateralization. However, they are classified as "Investments" on the financial statements in the amount of \$348,298.

HARTSELLE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2021

NOTE 3 DEPOSITS AND INVESTMENTS (Continued)

The Board has deposits totaling \$13,819,961 in the debt service fund shown as cash with fiscal agents on the fund financial statements and restricted assets on the government-wide financial statements. Funds are invested with the State of Alabama and in U.S. Treasury Notes. The State Attorney General has issued a legal opinion that boards of education may not put public funds at

risk by investing in companies not insured by the federal government. Amount on deposit with fiscal agents are invested as shown below:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>
QSCB Sinking Fund Account	<u>\$13,819,961</u>	12/15/25
Total	<u>\$13,819,961</u>	

NOTE 4 FIXED ASSETS

The following is a summary of changes in the capital assets during the fiscal year:

	<u>Balance September 30, 2020</u>	<u>Increase/ Reclassifications Additions</u>	<u>Decrease/ Reclassifications Retirements</u>	<u>Balance September 30, 2021</u>
Governmental activities:				
Capital assets not being depreciated:				
Land and land improvements	\$ 1,096,439	\$ -	\$ -	\$ 1,096,439
Construction in progress	-	260,410	-	260,410
Total capital assets not being depreciated	<u>1,096,439</u>	<u>260,410</u>	<u>-</u>	<u>1,356,849</u>
Capital assets being depreciated:				
Buildings & improvements	72,520,593	1,649,744	-	74,170,337
Land improvements--exhaustible	423,788	-	-	423,788
Vehicles	2,607,251	241,280	-	2,848,531
Equipment	1,433,151	238,072	-	1,671,223
Total capital assets being depreciated	<u>76,984,783</u>	<u>2,129,096</u>	<u>-</u>	<u>79,113,879</u>
Less accumulated depreciation for:				
Buildings	20,008,275	1,227,336	-	21,235,611
Building improvements	1,588,371	267,919	-	1,856,290
Land improvements--exhaustible	189,089	21,190	-	210,279
Vehicles	1,793,325	147,366	-	1,940,691
Equipment	1,034,312	62,374	-	1,096,686
Total accumulated depreciation	<u>24,613,372</u>	<u>1,726,185</u>	<u>-</u>	<u>26,339,557</u>
Total capital assets being depreciated, net	<u>52,371,411</u>	<u>402,911</u>	<u>-</u>	<u>52,774,322</u>
Total governmental activities capital assets, net	<u>\$ 53,467,850</u>	<u>\$ 663,321</u>	<u>\$ -</u>	<u>\$ 54,131,171</u>

Depreciation expense was charged to governmental functions as follows:

Instructional services	\$ 1,506,098
Instructional support services	11,535
Operation and maintenance services	15,728
Student transportation services	139,535
Food services	35,589
General administrative services	17,700
Total governmental activities depreciation expense	<u>\$ 1,726,185</u>

HARTSELLE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2021

NOTE 5 RECEIVABLES

Due from other Governments 9/30/21	General Fund	Special Revenue Fund	Capital Projects Fund	Total
State of Alabama	\$ 25,706	\$ 1,420,529	\$ -	\$ 1,446,235
Morgan County	4,011,160	-	-	4,011,160
TVA - in lieu of tax	70,109	-	-	70,109
Commissioner of License	62,785	-	-	62,785
City of Hartselle	-	-	9,121	9,121
Other	159,997	-	-	159,997
Total Governmental Activities	<u>\$ 4,329,757</u>	<u>\$ 1,420,529</u>	<u>\$ 9,121</u>	<u>\$ 5,759,407</u>

NOTE 6 DEFINED BENEFIT PENSION PLAN

A. Plan Description

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

B. Benefits Provided

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the TRS. Benefits for TRS members vest after 10 years of creditable service. TRS members 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 guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the TRS are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. Members are eligible for disability retirement if they have 10 years of 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.

HARTSELLE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2021

NOTE 6 DEFINED BENEFIT PENSION PLAN (Continued)

C. Contributions

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

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

Participating employers' contractually required contribution rate for the year ended September 30, 2021 was 12.36% of annual pay for Tier 1 members and 11.22% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the Board were \$2,511,389 for the year ended September 30, 2021.

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

At September 30, 2021 the Board reported a liability of \$35,297,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2020 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2019. The Board's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2020 the Board's proportion was .285352%, which was an increase (decrease) of .026098% from its proportion measured as of September 30, 2019.

For the year ended September 30, 2021, the Board recognized pension expense of \$4,317,000. At September 30, 2021 the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

HARTSELLE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2021

NOTE 6 DEFINED BENEFIT PENSION PLAN (Continued)

D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,747,000	\$ 612,000
Changes of assumptions	367,000	-
Net difference between projected and actual earnings on pension plan investments	-	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,621,000 3,019,000	91,000
Employer contributions reported subsequent to the measurement date	2,511,389	-
Total	<u>\$ 10,265,389</u>	<u>\$ 703,000</u>

Employer contributions subsequent to the measurement date of \$2,511,389 are reported as deferred outflows of resources related to pensions resulting from system contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended September 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:

2022	\$ 1,562,000
2023	2,145,000
2024	2,115,000
2025	1,229,000
2026	-
Thereafter	-

E. Actuarial Assumptions

The total pension liability as of September 30, 2020 was determined by an actuarial valuation as of September 30, 2019 using the following actuarial assumptions, applied to all periods included in the measurement:

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

*Net of pension plan investment expense

The actuarial assumptions used in the actuarial valuation as of September 30, 2019, were based on the results of an investigation of the economic and demographic experience for the TRS based upon participant data as of September 30, 2015. The Board of Control accepted and

HARTSELLE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2021

NOTE 6 DEFINED BENEFIT PENSION PLAN (Continued)

E. Actuarial Assumptions (Continued)

approved these changes in September 2016, which became effective at the beginning of fiscal year 2016.

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

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

	Target Allocation	Long-Term Expected Rate of Return*
Fixed Income	17.0%	4.4%
U.S. Large Stocks	32.0%	8.0%
U.S. Mid Stocks	9.0%	10.0%
U.S. Small Stocks	4.0%	11.0%
International Developed Market Stocks	12.0%	9.5%
International Emerging Market Stocks	3.0%	11.0%
Alternatives	10.0%	10.1%
Real Estate	10.0%	7.5%
Cash Equivalents	3.0%	1.5%
Total	<u>100.0%</u>	

*Includes assumed rate of inflation of 2.50%.

F. Discount Rate

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

HARTSELLE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2021

NOTE 6 DEFINED BENEFIT PENSION PLAN (Continued)

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

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

	<u>1% Decrease (6.70%)</u>	<u>Current Rate (7.70%)</u>	<u>1% Increases (8.70%)</u>
Board's proportionate share of collective net pension liability	47,094,000	35,297,000	25,316,000

H. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2020. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2020. The auditor's report on the Schedule of Employer Allocations and Pension Amounts by Employer and accompanying notes detail by employer and in aggregate information needed to comply with GASB 68. The additional financial and actuarial information is available at www.rsa-al.gov/index.php/employers/financial-reports/gasb-68-reports/.

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. Plan Description

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

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

HARTSELLE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
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NOTE 7 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

A. Plan Description (Continued)

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 PEEHIP are held in trust for the payment of health insurance benefits. The Teachers' Retirement System of Alabama (TRS) has been appointed as the administrator of the PEEHIP and, consequently, serves as the administrator of the Trust.

B. Benefits Provided

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

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

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

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

HARTSELLE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2021

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

B. Benefits Provided (Continued)

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

C. 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.

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.

HARTSELLE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
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NOTE 7 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

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

At September 30, 2021, the Board reported a liability of \$19,487,754 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2020 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2019. The Board's proportion of the net OPEB liability was based on the Board's share of contributions to the OPEB plan relative to the total employer projected contributions of all participating PEEHIP employers. At September 30, 2020, the Board's proportion was .300280%, which was a decrease of (.025318)% from its proportion measured as of September 30, 2019.

For the year ended September 30, 2021, the Board recognized OPEB expense (revenue) of \$(242,810) with no special funding situations. At September 30, 2021, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 494,196	\$ 7,006,314
Changes of assumptions	6,806,920	3,618,698
Net difference between projected and actual earnings on OPEB plan investments	-	822
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,606,879	2,259,368
Employer contributions reported subsequent to the measurement date	540,364	-
Total	<u>\$ 10,448,359</u>	<u>\$ 12,885,202</u>

Employer contributions paid subsequent to the measurement date of \$540,364 are reported as deferred outflows of resources related to OPEB resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2022.

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

Year ended September 30:

2022	\$ (1,248,189)
2023	(1,218,504)
2024	(672,942)
2025	(892,962)
2026	569,296
Thereafter	486,094

HARTSELLE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2021

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

E. Actuarial assumptions

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

Inflation	2.75%
Projected Salary Increases ¹	3.25% - 5.00%
Long-Term Investment Rate of Return ²	7.25%
Municipal Bond Index Rate at the Measurement Date	2.25%
Municipal Bond Index Rate at the Prior Measurement Date	3.00%
Projected Year for Fiduciary Net Position (FNP) to be Depleted	2040
Single Equivalent Interest Rate the Measurement Date	3.05%
Single Equivalent Interest Rate the Prior Measurement Date	5.50%
Healthcare Cost Trend Rate	
Pre-Medicare Eligible	6.75%
Medicare Eligible	**
Ultimate Trend Rate	
Pre-Medicare Eligible	4.75% in 2027
Medicare Eligible	4.75% in 2024

¹Includes 3.00% wage inflation.

²Compounded annually, net of investment expense, and includes inflation.

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

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

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

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) were based on the September 30, 2019 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 rate 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

HARTSELLE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2021

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

E. Actuarial assumptions (Continued)

expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
Fixed Income	30.0%	4.4%
U.S. Large Stocks	38.0%	8.0%
U.S. Mid Stocks	8.0%	10.0%
U.S. Small Stocks	4.0%	11.0%
International Developed Market Stock	15.0%	9.5%
Cash	5.0%	1.5%
Total	100.0%	

* Geometric mean, includes 2.5% inflation

F. Discount Rate

The discount rate (also known as the Single Equivalent Interest Rate (SEIR), as described by GASB 74) used to measure the total OPEB liability at September 30, 2020 was 3.05%. The discount rate used to measure the total OPEB liability at the prior measurement date was 5.50%. Premiums paid to the Public Education Employees' Health Insurance Board for active employees shall include an amount to partially fund the cost of coverage for retired employees. The projection of cash flows used to determine the discount rate assumed that plan contributions will be made at the current contribution rates. Each year, the State specifies the monthly employer rate that participating school systems must contribute for each active employee. Approximately, 14.802% of the employer contributions were used to assist in funding retiree benefit payments in 2020. It is assumed that the 14.802% will increase at the same rate as expected benefit payments for the closed group until reaching an employer rate of 20.000%, at which point this amount will increase by 1.00% in subsequent years. The discount rate determination will use a municipal bond rate to the extent the trust is projected to run out of money before all benefits are paid. Therefore, the projected future benefit payments for all current plan members were projected through 2118. The long-term rate of return is used until the assets are expected to be depleted in 2040, after which the municipal bond rate is used.

HARTSELLE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2021

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

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

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

	Current Healthcare Trend Rate		
	1% Decrease (5.75% decreasing to 3.75% for pre- Medicare, Known decreasing to 3.75% for Medicare Eligible)	(6.75% decreasing to 4.75% for pre- Medicare, Known decreasing to 4.75% for Medicare Eligible)	1% Increase (7.75% decreasing to 5.75% for pre- Medicare, Known decreasing to 5.75% for Medicare Eligible)
Net OPEB Liability	\$ 15,405,133	\$ 19,487,754	\$ 24,801,939

The following table presents the Board's proportionate share of the net OPEB liability of the Trust calculated using the discount rate of 3.05%, as well as what the net OPEB liability would be if calculated using one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (2.05%)	Current Rate (3.05%)	1% Increases (4.05%)
Net OPEB Liability	\$23,902,741	\$19,487,754	\$15,981,298

H. 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, 2020. The supporting actuarial information is included in the GASB Statement No. 74 Report for PEEHIP prepared as of September 30, 2020. Additional financial and actuarial information is available at www.rsa-al.gov.

HARTSELLE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2021

NOTE 8 LONG-TERM OBLIGATIONS

A. Long-term Obligation Activity:

	September 30, 2020			September 30, 2021	
	Balance	Additions	Reductions	Balance	Due Within One Year
Governmental Activities					
PSCA Series 2009-D	\$ 22,128,000	\$ -	\$ -	\$ 22,128,000	\$ -
PSCA Series 2011-B	44,517	-	44,517	-	-
PSCA Series 2013-A	490,385	-	357,077	133,308	31,388
PSCA Series 2014-A	289,883	-	52,326	237,557	55,050
Tax Warrants 2018	1,650,000	-	1,650,000	-	-
PSCA Series 2020-C	-	366,212	8,512	357,700	5,908
Total Warrants Outstanding	24,602,785	366,212	2,112,432	22,856,565	92,346
Plus Premium	35,504	-	7,608	27,896	7,608
Total Warrants Payable	24,638,289	366,212	2,120,040	22,884,461	99,954
City of Hartselle Funding Agreement	3,987,196	-	132,288	3,854,908	138,050
Compensated Absences	202,068	41,740	-	243,808	-
Net Pension Liability	28,665,000	6,632,000	-	35,297,000	-
Net OPEB Liability	12,284,057	7,203,697	-	19,487,754	-
Total Long Term Debt	<u>\$ 69,776,610</u>	<u>\$14,243,649</u>	<u>\$ 2,252,328</u>	<u>\$ 81,767,931</u>	<u>\$ 238,004</u>

The premiums of long-term debt are amortized using the straight-line method over the life of the debt in the government-wide statements.

B. Long-term debt at September 30, 2021 are comprised of the following individual issues:

	Interest Rates %	Issue Date	Maturity Date	Amount Outstanding
Governmental Activities				
<u>Warrants Payable</u>				
PSCA Series 2009-D	1.87	12/15/2009	12/15/2025	\$ 22,128,000
PSCA Series 2013-A	3.00 - 5.00	6/24/2013	6/1/2025	133,308
PSCA Series 2014-A	4.30 - 5.00	8/4/2014	2/1/2025	237,557
PSCA Series 2020-C	0.253 - 2.44	10/20/2020	6/1/2033	357,700
Total Warrants				22,856,565
<u>City of Hartselle Funding Agreement</u>	4.27	6/15/2010	5/15/2040	3,854,908
Total Governmental Activities				<u>\$ 26,711,473</u>

HARTSELLE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2021

NOTE 8 LONG-TERM OBLIGATIONS (Continued)

PSCA Series 2009-D - The Board has participated in the Alabama Public School and College Authority (PSCA) Pool Qualified School Construction Bonds (QSCB). The proceeds were used for construction of the new Hartselle Senior High School. State revenues are pledged for the repayment of the principal and interest. The warrant calls for annual sinking fund deposits of \$1,151,567 which together with investment income will be used to accumulate resources in order to pay the principal due at maturity.

PSCA Series 2011-B Warrants – The Board has participated in the Alabama Public School and College Authority (PSCA) Pool Capital Improvement Refunding Bonds. The proceeds were used for purposes related to new construction. State revenues are pledged for the repayment of the principal and interest.

PSCA Series 2013-A Warrants – The Board has participated in the Alabama Public School and College Authority (PSCA) Pool Warrants. The proceeds were used for purposes related to new construction. State revenues are pledged for the repayment of the principal and interest.

PSCA Series 2014-A Warrants – The Board has participated in the refunding of *PSCA Series 2005-A Warrants*. The initial warrants were used for construction projects. State revenues are pledged for the repayment of the principal and interest.

City of Hartselle Funding Agreement – As part of the issuance of 2010 Warrants by the City of Hartselle used for school construction the repayment of which is supported by a special tax levied by the City for this purpose, the Board agreed to pay \$25,000 per month to the City for the duration of the 2010 Warrants. In June of 2018, the City of Hartselle participated in the refunding of the 2010 Warrants. However, this refunding did not change terms of payments to the City of Hartselle by the Board.

Special Tax Warrants 2018 – The Board has issued Special Tax School Warrants dated May 1, 2018. The proceeds are being used for several improvement projects. The payments will be supported with the 4.0 mill district tax. The Board used funds provided by PSCA to retire these warrants on December 1, 2020.

PSCA Series 2020-C Warrants – The Board has participated in the Alabama Public School and College Authority (PSCA) Pool Warrants. In October 2020, PSCA refunded the PSCA Series 2013-A Warrants. The Series 2020-C Bonds are being issued for the purpose of paying the cost of advance refunding and retiring the Refunded Pool Bonds. State revenues are pledged for the repayment of the principal and interest. The advance refunding reduced debt service over the next 12 years by \$28,102. This results in an economic gain (difference between the present value of the debt service on the old and new debt) of \$61,942.

In September 2021, the Board entered into a funding agreement with the City of Hartselle, Alabama. The City issued General Obligations School Warrants Series 2021-B for the construction of a new elementary school. Repayment of the bonds is supported by a special tax levied by the City for this purpose. If the special tax collections are not adequate to service the warrants, the Board could be responsible for the remainder of the debt service. However, the likelihood is considered to be remote.

HARTSELLE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2021

NOTE 8 LONG-TERM OBLIGATIONS (Continued)

C. Debt Service Requirements on long-term debt at September 30, 2021 are as follows:

Year Ended September 30,	<u>PSCA Series 2009-D</u>		<u>PSCA Series 2013-A</u>		<u>PSCA Series 2020-C</u>		<u>PSCA Series 2014-A</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2022	\$ -	\$ 412,687	\$ 31,388	\$ 4,843	\$ 5,908	\$ 6,168	\$ 55,050	\$ 10,502
2023	-	412,687	32,956	3,274	5,908	6,147	57,837	7,679
2024	-	412,687	33,936	2,285	5,964	6,115	60,751	4,715
2025	-	412,687	35,028	1,182	5,992	6,069	63,919	1,598
2026	22,128,000	103,172	-	-	39,928	6,013	-	-
2027-2031	-	-	-	-	206,920	21,214	-	-
2032-2036	-	-	-	-	87,080	2,891	-	-
2037-2041	-	-	-	-	-	-	-	-
	<u>\$22,128,000</u>	<u>\$ 1,753,920</u>	<u>\$ 133,308</u>	<u>\$ 11,584</u>	<u>\$ 357,700</u>	<u>\$ 54,617</u>	<u>\$ 237,557</u>	<u>\$ 24,494</u>

Year Ended September 30,	<u>City of Hartselle Funding Agreement</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2022	\$ 138,050	\$ 161,950	\$ 230,396	\$ 596,150
2023	144,062	155,938	240,763	585,725
2024	150,337	149,663	250,988	575,465
2025	156,884	143,116	261,823	564,652
2026	163,717	136,283	22,331,645	245,468
2027-2031	931,958	568,042	1,138,878	589,256
2032-2036	902,622	297,378	989,702	300,269
2037-2041	<u>1,267,278</u>	<u>132,721</u>	<u>1,267,278</u>	<u>132,721</u>
	<u>\$ 3,854,908</u>	<u>\$ 1,745,091</u>	<u>\$26,711,473</u>	<u>\$ 3,589,706</u>

D. Lease Obligations

Operating Leases: The Board is committed under various leases for equipment. These leases are considered for accounting purposes to be operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreements are not reflected as part of the Board's capital assets. The Board has no non-cancelable operating leases.

HARTSELLE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2021

NOTE 9 RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Board purchases commercial insurance for fidelity bonds and its property. Errors and omissions insurance is purchased from Alabama Risk Management for Schools (ARMS), a public entity risk pool. The ARMS collects the premiums and purchases commercial insurance for the amount of coverage requested by pool participants.

The State Board of Adjustments is a state agency with which people can file claims against the Board to collect reimbursement for damages when all other means have been exhausted. The Board does not have insurance coverage for job-related injuries. Claims for employee job-related injuries may be filed with the State Board of Adjustment. The Board of Adjustment determines if a claim is valid and determines the proper amount of compensation. Payments are made from state appropriated funds at no cost to the Board.

NOTE 10 CONTINGENT LIABILITIES

A. Grants

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

NOTE 11 INTERFUND BALANCES AND ACTIVITIES

Interfund transfers for the fiscal year ended September 30, 2021 consist of the following:

Transfers to general fund from special revenue fund	\$ 305,121
Transfers to special revenue fund from general fund	939,348
Transfers to debt service fund from general fund	300,000
Transfers to capital projects fund from general fund	<u>11,400</u>
Total transfers	<u>\$ 1,55,869</u>

NOTE 12 PAYMENTS OF SERVICES FURNISHED BY OTHER AGENCIES

Certain payments or services are furnished by the State and the City of Hartselle on behalf of the Board. Included in these items are payments from bond issue proceeds (Public School and College Authority), and payments on city bond issues for school purposes. These payments or services are reflected as revenues and expenditures on the Board's financial statements in the applicable funds for which they apply.

NOTE 13 ABATEMENTS

Alabama law does not authorize the abatement of property and sales taxes that are required to be paid by law for education purposes. The Board does not levy any taxes and accordingly cannot grant abatements of any type of tax.

HARTSELLE CITY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2021

NOTE 14 COMMITMENTS

The board signed contracts with a project management firm and architect for the initial phase of a new elementary school. The contracts totaled \$1,339,463 at September 30, 2021.

NOTE 15 SUBSEQUENT EVENTS

The board has evaluated subsequent events through February 23, 2022, the date which the financial statements were available to be issued. As a result of the spread of the COVID-19 coronavirus, the operations of federal, state, and local governments including educational institutions have been modified to ensure the safety of its citizenry as well as its employees and students. Due to the coronavirus, economic uncertainties have arisen which could negatively impact the Board's operating results and financial position. At this time, an estimate of the financial effect of the event cannot be made.

REQUIRED SUPPLEMENTARY INFORMATION

HARTSELLE CITY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BASIS) & ACTUAL
GENERAL FUND
For the year ended September 30, 2021

	GENERAL FUND					
	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget-- Positive (Negative)	Budget to GAAP Differences Over (Under)	Actual Amounts GAAP Basis
	Original	Final				
Revenues:						
State sources	\$ 22,574,132	\$ 23,792,691	\$ 23,887,017	\$ 94,326	\$ -	\$ 23,887,017
Federal sources	1,000	1,000	1,863	863	-	1,863
Local sources	9,406,214	9,878,485	10,110,660	232,175	-	10,110,660
Other sources	22,300	23,900	55,622	31,722	-	55,622
TOTAL REVENUES	32,003,646	33,696,076	34,055,162	359,086	-	34,055,162
Expenditures:						
Instructional services	18,254,701	18,406,289	18,502,628	(96,339)	85,874	18,588,502
Instructional support services	5,891,895	6,096,021	5,730,180	365,841	12,742	5,742,922
Operation and maintenance services	2,790,072	3,081,767	3,194,257	(112,490)	-	3,194,257
Student transportation services	1,326,515	1,708,227	1,390,944	317,283	(5,363)	1,385,581
General administrative services	2,081,550	2,292,030	2,259,643	32,387	-	2,259,643
Other expenditures	1,036,830	1,019,324	1,041,042	(21,718)	(5,725)	1,035,317
Capital Outlay	98,613	120,437	122,398	(1,961)	-	122,398
TOTAL EXPENDITURES	31,480,176	32,724,095	32,241,092	483,003	87,528	32,328,620
Excess (deficiency) of revenues over expenditures	523,470	971,981	1,814,070	842,089	(87,528)	1,726,542
Other Financing Sources (Uses)						
Indirect cost	171,297	340,036	426,717	86,681	-	426,717
Transfers in	320,922	326,259	305,121	(21,138)	-	305,121
Other Financing Sources	-	-	4,849	4,849	-	4,849
Transfers out	(1,424,277)	(1,438,230)	(1,250,748)	187,482	-	(1,250,748)
TOTAL OTHER FUND SOURCES (USES)	(932,058)	(771,935)	(514,061)	257,874	-	(514,061)
NET CHANGE IN FUND BALANCE	(408,588)	200,046	1,300,009	1,099,963	(87,528)	1,212,481
FUND BALANCES, BEGINNING OF YEAR	9,141,978	9,181,272	9,181,272	-	(2,805,657)	6,375,615
FUND BALANCES, END OF YEAR	\$ 8,733,390	\$ 9,381,318	\$ 10,481,281	\$ 1,099,963	\$ (2,893,185)	\$ 7,588,096

HARTSELLE CITY BOARD OF EDUCATION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE BUDGET (NON-GAAP BASIS) TO ACTUAL (GAAP)
GENERAL FUND
September 30, 2021

Total net change in fund balances (GAAP Basis) [page 16] \$ 1,212,481

Amounts reported budget are different from GAAP for the following reason:

Salaries of teachers and other personnel with contracts of less than 12 months are paid over a 12 month period. Expenditures for salaries (and related fringe benefits) are budgeted based on the amount that will be paid from budgeted revenues. However, salaries (and related benefits earned but not paid) are reported as expenditures on the financial statements.

87,528

Net Change in Fund Balance (Budgetary Basis) [page 44] \$ 1,300,009

HARTSELLE CITY BOARD OF EDUCATION
SCHEDULE OF BOARD'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHERS' RETIREMENT SYSTEM OF ALABAMA
September 30,

	FY2021 Plan Year 2020	FY2020 Plan Year 2019	FY2019 Plan Year 2018	FY2018 Plan Year 2017	FY2017 Plan Year 2016	FY2016 Plan Year 2015	FY2015 Plan Year 2014
Board's proportion of the net pension liability	0.285352%	0.259254%	0.250383%	0.244159%	0.247497%	0.249947%	0.249156%
Board's proportionate share of the net pension liability	35,297,000	28,665,000	24,895,000	23,997,000	26,794,000	26,159,000	22,635,000
Board's covered payroll (prior year)	20,223,323	18,448,283	16,661,060	16,085,268	15,701,234	15,808,209	15,799,217
Board's proportionate share of the net pension liability as a percentage of its covered payroll	174.54%	155.38%	149.42%	149.19%	170.65%	165.48%	143.27%
Plan fiduciary net position as a percentage of the total pension liability	67.72%	69.85%	72.29%	71.50%	67.93%	67.51%	71.01%

HARTSELLE CITY BOARD OF EDUCATION
SCHEDULE OF BOARD CONTRIBUTIONS
TEACHERS' RETIREMENT SYSTEM OF ALABAMA
September 30,

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 2,511,389	\$2,460,997	\$2,254,035	\$2,009,822	\$1,911,221	\$1,860,602	\$1,844,103
Contributions in relation to the contractually required contribution	<u>2,511,389</u>	<u>2,460,997</u>	<u>2,254,035</u>	<u>2,009,822</u>	<u>1,911,221</u>	<u>1,860,602</u>	<u>1,844,103</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Board's covered payroll (current year)	20,850,492	20,223,323	18,448,283	16,661,060	16,085,268	15,701,234	15,808,209
Contributions as a percentage of covered payroll	12.04%	12.17%	12.22%	12.06%	11.88%	11.85%	11.67%

HARTSELLE CITY BOARD OF EDUCATION
SCHEDULE OF BOARD'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST
September 30,

	<u>FY 2021</u> <u>Plan Year 2020</u>	<u>FY 2020</u> <u>Plan Year 2019</u>	<u>FY 2019</u> <u>Plan Year 2018</u>	<u>FY 2018</u> <u>Plan Year 2017</u>
Board's proportion of the net OPEB liability	0.300280%	0.325598%	0.292164%	0.276055%
Board's proportionate share of the net OPEB liability	19,487,754	12,284,057	24,012,160	20,503,789
Board's covered payroll (prior year)	20,223,323	18,448,283	16,661,060	16,085,268
Board's proportionate share of the net OPEB liability as a percentage of its covered payroll	96.36%	66.59%	144.12%	127.47%
Plan fiduciary net position as a percentage of the total OPEB liability	19.80%	28.14%	14.81%	15.37%

HARTSELLE CITY BOARD OF EDUCATION
SCHEDULE OF BOARD CONTRIBUTIONS
ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST
September 30,

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually Required Contribution	\$ 540,364	\$ 600,566	\$ 922,435	\$ 721,896
Contributions in relation to the contractually required contribution	<u>540,364</u>	<u>600,566</u>	<u>922,435</u>	<u>721,896</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Board's covered payroll (current year)	20,850,492	20,223,323	18,448,283	16,661,060
Contributions as a percentage of covered payroll	2.59%	2.97%	5.00%	4.33%

HARTSELLE CITY BOARD OF EDUCATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the fiscal year ended September 30, 2021

NOTE A - Budgetary information

The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

While the board is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances.

NOTE B - Changes in actuarial assumptions

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

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

NOTE C - 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 ACA maximum annual out-of-pocket amounts.

NOTE D - 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, 2017, 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

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	24 year, closed
Asset Valuation Method	Market Value of Assets
Inflation	2.75%
Healthcare Cost Trend Rate	
Pre-Medicare Eligible	7.00%
Medicare Eligible*	5.00%
Ultimate Trend Rate:	
Pre-Medicare Eligible	4.75%
Medicare Eligible	4.75%
Year of Ultimate Trend Rate	2026 for Pre-Medicare Eligible 2024 for Medicare Eligible
Investment Rate of Return	5.00%, including inflation

*Initial Medicare claims are set based on scheduled increases through plan year 2019.

SUPPLEMENTARY INFORMATION

HARTSELLE CITY BOARD OF EDUCATION
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the fiscal year ended September 30, 2021

	Federa CFDA Number	Expenditures
<u>U. S. DEPARTMENT OF EDUCATION</u>		
Passed through State Department of Education:		
Special Education Cluster		
Grants to States	84.027	\$ 732,308
Preschool Grants	84.173	19,410
Subtotal Special Education Cluster		<u>751,718</u>
Education Stabilization Cluster		
Governors Emergency Education Relief	84.425C	125,026
Elementary and Secondary School Emergency Relief	84.425D	148,444
Elementary and Secondary School Emergency Relief II	84.425D	517,944
Elementary and Secondary School Emergency Relief III	84.425U	851,800
Elementary and Secondary School Emergency Relief (ARP)	84.425U	11,331
Subtotal Education Stabilization Cluster		<u>1,654,545</u>
Title I Grants to Local Educational Agencies	84.010	301,597
Career and Technical Education - Basic Grants to States	84.048	25,526
Career and Technical Education - Program Improvement	84.048A	5,755
Supporting Effective Instruction State Grants	84.367	67,388
Student Support and Academic Enrichment Program	84.424	22,674
Total Passed Through State Department of Education		<u>2,829,203</u>
<u>U. S. DEPARTMENT OF AGRICULTURE</u>		
Passed through State Department of Education:		
Child Nutrition Cluster		
School Breakfast Program	10.553	530,176
National School Lunch Program	10.555	1,156,946
National School Lunch Program - Covid Relief	10.555	27,884
Food Distribution Program	10.555	53,327
Subtotal Child Nutrition Program		<u>1,768,333</u>
State Administrative Expenses for Child Nutrition	10.560	6,557
Total U. S. Department of Agriculture		<u>1,774,890</u>
<u>U. S. DEPARTMENT OF THE TREASURY</u>		
Passed through State Department of Education:		
Coronavirus Relief Fund	21.019	291,495
Total U. S. Department of the Treasury		<u>291,495</u>
<u>SOCIAL SECURITY ADMINISTRATION</u>		
Passed through State Department of Education:		
Social Security - Disability Insurance	96.001	700
Total Social Security Administration		<u>700</u>
<u>DEPARTMENT OF THE INTERIOR</u>		
Passed through Morgan County Commission:		
National Wildlife Refuge Fund	15.659	1,163
Total U.S. Department of Interior		<u>1,163</u>
TOTAL FEDERAL ASSISTANCE		<u>\$ 4,897,451</u>

See accompanying notes to schedule of expenditures of federal awards.

HARTSELLE CITY BOARD OF EDUCATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the fiscal year ended September 30, 2021

NOTE A - BASIS OF PRESENTATION

The accompany schedule of expenditures of federal awards (the Schedule) includes federal award activity of The Hartselle City Board of Education (Board) under programs of the federal government for the year ended September 30, 2020. The information in this Schedule is presented in accordance with requirements of Title 2 U.S. *Code of Federal Regulations (CFR)* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Board, it is not intended to and does not present the financial position, change of net position, or cash flow of the Board.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Pass-through entity identifying numbers are presented where available.

NOTE C - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the Schedule at the fair market value of commodities received and disbursed. At September 30, 2021, the organization had food commodities totaling \$84,142 in inventory.

NOTE D - FEDERAL ASSISTANCE NOT INCLUDED

The Hartselle City Board of Education has participated in a state-sponsored Build American Bond Program that provides federal subsidies toward the total interest requirements of the debt service on the debt. The value of the benefit of those subsidy amounts has not been reported in the Schedule of Expenditures of Federal Awards.

The Board has also participated in a state-sponsored Base Realignment and Closure Bond Program that provides federal subsidies toward the total interest requirements of the debt service on the debt. The value of the benefit of those subsidy amounts has not been reported in the Schedule of Expenditures of Federal Awards.

NOTE E - INDIRECT COST RATE

The Board has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hartselle City Board of Education, a component unit of the City of Hartselle, Alabama, as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the Hartselle City Board of Education's basic financial statements, and have issued our report thereon dated February 23, 2022.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hartselle City Board of Education's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Byrd, Smalley & Adams, P.C.

Decatur, Alabama
February 23, 2022

**Independent Auditor's Report on Compliance for Each Major Program
and Internal Control over Compliance Required by The Uniform Guidance**

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

Report on Compliance for Each Major Federal Program

We have audited Hartselle City Board of Education, a component unit of the City of Hartselle, Alabama compliance with the types of compliance requirements described in the *(OMB) Compliance Supplement* that could have a direct and material effect on each of Hartselle City Board of Education's major federal programs for the year ended September 30, 2021. Hartselle City Board of Education's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Hartselle City Board of Education complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2021.

Report on Internal Control Over Compliance

Management of Hartselle City Board of Education is responsible for establishing and maintaining effective internal control over compliance with types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Hartselle City Board of Education's internal control over compliance with types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control

over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Hartselle City Board of Education's internal control over compliance.

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

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

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

Byrd, Smalley & Adams, P.C.

Decatur, Alabama
February 23, 2022

HARTSELLE CITY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the fiscal year ended September 30, 2021

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control of financial reporting:

Material weakness(es) identified? yes X no

Reportable condition(s) identified not considered to be material weaknesses? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes X no

Reportable condition(s) identified not considered to be material weaknesses? yes X none reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516a?? yes X no

Identification of major programs:

CFDA #	
84.027	IDEA, Part B
84.173	IDEA, Preschool
84.425C	Governor's Emergency Education Relief Fund
84.027D	Elementary and Secondary Education School Emergency Relief Fund
84.027U	Elementary and Secondary Education School Emergency Relief Fund (ARP)

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

Auditee qualified as low-risk auditee? X yes no

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

No matters were reported.