

FORT PAYNE CITY BOARD OF EDUCATION

(A Component Unit of The City of Fort Payne)

Fort Payne, Alabama

AUDITED FINANCIAL STATEMENTS

September 30, 2023

MDA PROFESSIONAL GROUP, P.C.

Certified Public Accountants and Business Consultants

Fort Payne, Alabama

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MDA PROFESSIONAL GROUP, P.C.

MISSION DRIVEN ADVISORS

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Fort Payne City Board of Education
Fort Payne, Alabama

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Fort Payne City Board of Education, a component unit of the City of Fort Payne, Alabama, as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

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

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

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Members of the Board of Education
Fort Payne City Board of Education

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension related schedules, other postemployment benefit schedules, and the budgetary comparison information on pages A – I, 41 – 47, and 48 – 49, respectively, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

Members of the Board of Education
Fort Payne City Board of Education

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2024, on our consideration of the Fort Payne 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 Fort Payne 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 Fort Payne City Board of Education's internal control over financial reporting and compliance.

MDA Professional Group, P.C.

Fort Payne, Alabama
March 21, 2024

Management's Discussion and Analysis

Introduction

This section of the Fort Payne City Board of Education's ("the Board") annual financial report presents Management's Discussion and Analysis ("MD&A") of the Board's financial performance and provides an overall review of the Board's financial activities for the fiscal year ended September 30, 2023. This report should be read in conjunction with the Board's financial statements and the accompanying notes which follow this section.

Financial Highlights

- As of September 30, 2023, the Board's unrestricted cash balances were \$12,791,090. This represents a decrease of \$841,888 from the 2022 year. As of September 30, 2023, the Board's net position was \$39,921,236.
- For the year ended September 30, 2023, funding received from the state of Alabama foundation program, which is the primary source of revenue from the state, was \$28,697,806.
- Total revenues for the year ending September 30, 2023, were \$48,213,377. Total expenditures exceeded total revenues by \$953,353.
- The school system's 2022-2023 K-12 Average Daily Membership was 3,354 students, which is approximately the same number of students compared to the 2021-2022 school year.

Overview of the Financial Statements

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

Government-wide financial statements

The first two statements are government-wide financial statements — the *Statement of Net Position* and the *Statement of Activities*. These provide both long-term and short-term information about the Board's overall financial status. Although other governments may report governmental activities and business-type activities, the Board has no business-type activities.

Overview of the Financial Statements (Continued)

The *Statement of Net Position* presents information on all of the Board's assets and deferred outflows of resources less liabilities and deferred inflows of resources, which results in net position. The statement is designed to display the financial position of the Board and includes all of the Board's services including instruction, support, transportation and maintenance, and food services. Over time, increases and decreases in net position helps to determine whether the Board's financial position is improving or deteriorating.

The *Statement of Activities* provides information which shows how the Board's net position changed as a result of the year's activities. The statement uses the accrual basis of accounting, which is similar to the accounting used by private-sector businesses. All of the revenues and expenses are reported regardless of the timing of when cash is received or paid. The statement identifies the extent to which each expenditure function draws from general revenues of the Board (primarily local taxes) or is financed through charges for services (such as lunchrooms) and intergovernmental aid (primarily federal programs and state appropriations).

The government-wide financial statements are on pages 5 - 7 of this report.

Fund financial statements

The fund financial statements provide more detailed information about the Board's most significant funds — not the Board as a whole. A fund is a grouping of related accounts that is used to keep track of specific sources of funding and spending for particular purposes. The Board uses fund accounting to ensure and demonstrate fiscal accountability. Two kinds of funds — governmental funds and fiduciary funds — are presented in the fund financial statements.

Governmental funds - Most of the Board's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. The governmental funds statements — the *Balance Sheet* and the *Statement of Revenues, Expenditures and Changes in Fund Balances* — are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Board's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided that explains the relationship (or differences) between them.

Fiduciary funds - Fiduciary funds are used to account for assets held by the Board in a trustee capacity or as an agent for others. Activities from fiduciary funds are not included in the government-wide financial statements because the Board cannot use these assets for its operations.

Fiduciary funds of the Board consist of agency funds that are reported in the *Statement of Fiduciary Assets and Liabilities* using an accrual basis of accounting. Agency funds held by the Board involve only the receipt, temporary investment, and remittance of resources to individuals, private organizations, or other governments in a purely custodial capacity (assets equal liabilities). The agency funds reported by the Board consist of student organization accounts such as clubs and classes.

The fund financial statements are on pages 8, 10, and 12 of this report.

Notes to the financial statements

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements follow the basic financial statements and are located on pages 13 – 39 of this report.

In addition to the basic financial statements and the accompanying notes, this report also presents certain *Required Supplementary Information* (“RSI”) other than the MD&A consisting of a budgetary comparison schedule for the general fund and each major special revenue fund that has a legally adopted annual budget. It also includes the pension related schedules and OPEB related schedules.

Financial Analysis of the Board as a Whole

As noted earlier, the Board has no business-type activities. Consequently, all of the Board's net position is reported as Governmental Activities.

Summary of Net Position

| | 2023 | 2022 |
|-------------------------------------|----------------------|----------------------|
| Current Assets | \$ 26,689,319 | \$ 26,343,155 |
| Capital Assets | 60,044,738 | 54,997,426 |
| Deferred Outflows of Resources | 25,062,901 | 13,073,395 |
| Total Assets | 111,796,958 | 94,413,976 |
| Current Liabilities | 5,540,994 | 4,804,082 |
| Long-Term Liabilities | 44,747,767 | 35,205,171 |
| Deferred Inflows of Resources | 21,586,961 | 19,198,299 |
| Total Liabilities | 71,875,722 | 59,207,552 |
| Net Position | | |
| Invested in Capital Assets - Net of | | |
| Related Debt | 60,017,437 | 54,938,394 |
| Restricted | 2,701,674 | 5,000,124 |
| Unrestricted | (22,797,875) | (24,732,094) |
| Total Net Position | \$ 39,921,236 | \$ 35,206,424 |

The Board's assets exceeded liabilities by \$39,921,236 at September 30, 2023. The majority of the Board's net position is invested in capital assets (land, buildings, and equipment) owned by the Board. These assets are not available for future expenditures since they will not be sold. Unrestricted net position — the part of net position that can be used to finance day-to-day operations without constraints established by enabling legislation, debt covenants, or other legal requirements is a deficit of \$22,797,875. This figure is a deficit because of the requirements of GASB 68 that requires all participating units of The Retirement Systems of Alabama to record their proportionate share of collective net pension liability GASB 75 that requires recording a liability for other postemployment benefits provided to retirees.

The Board's total revenues and expenditures are reflected in the following chart:

Change in Net Position

| | 2023 | 2022 |
|----------------------------------|-----------------------------|-----------------------------|
| REVENUES | | |
| Program Revenues | | |
| Charges for Services | \$ 965,697 | \$ 732,785 |
| Operating Grants | 36,619,523 | 32,958,218 |
| Capital Grants | 1,384,778 | 1,390,969 |
| General Revenues | | |
| Local Property Taxes | 4,851,199 | 4,355,998 |
| Local Sales Taxes | 1,740,990 | 1,669,862 |
| Other Taxes | 333,656 | 405,790 |
| Other General Revenues | 2,865,033 | 2,772,725 |
| | <u>48,760,876</u> | <u>44,286,347</u> |
| EXPENSES | | |
| Instructional Services | 25,800,922 | 21,999,021 |
| Instructional Support Services | 6,332,975 | 4,906,460 |
| Operation and Maintenance | 3,161,765 | 3,152,230 |
| Student Transportation Services | 1,486,885 | 1,373,185 |
| Food Services | 3,561,146 | 3,293,685 |
| General Administrative Services | 1,689,063 | 1,398,020 |
| Other Expenses | 2,013,308 | 1,929,655 |
| | <u>44,046,064</u> | <u>38,052,256</u> |
| CHANGE IN NET POSITION | 4,714,812 | 6,234,091 |
| NET POSITION - BEGINNING OF YEAR | <u>35,206,424</u> | <u>28,972,333</u> |
| NET POSITION - END OF YEAR | <u><u>\$ 39,921,236</u></u> | <u><u>\$ 35,206,424</u></u> |

Revenue by Source

| | 2023 | | 2022 | |
|---------|----------------------|-----------------|----------------------|-----------------|
| | Amount | Percent | Amount | Percent |
| State | \$ 28,697,806 | 59.35 % | \$ 24,854,957 | 57.62 % |
| Federal | 9,163,909 | 18.95 | 8,567,660 | 19.87 |
| Local | 9,968,542 | 20.62 | 9,065,409 | 21.02 |
| Other | 524,948 | 1.09 | 641,179 | 1.49 |
| | <u>\$ 48,355,205</u> | <u>100.01 %</u> | <u>\$ 43,129,205</u> | <u>100.00 %</u> |

Program revenues are comprised of charges for services, operating grants and contributions, and capital grants and contributions. These revenues are the largest component (approximately 80% and 79% in 2023 and 2022, respectively) of total revenues. Charges for services include federal reimbursement for meals, student meal purchases, and local school revenues. Operating grants and contributions are approximately 94% and 94% of program revenues in 2023 and 2022, respectively, and 75% and 70% of total revenues in 2023 and 2022, respectively. The major source of revenue in this category is State Foundation program funds. Capital grants and contributions include state capital outlay funds and state funds to replace buses.

General revenues, primarily property and sales taxes, were \$9,968,542 and are used to provide for expenses not covered by program revenues.

The Board's total revenue increased by \$4,474,529 in fiscal year 2023.

Instructional services expenses, primarily salaries and benefits for classroom teachers, are the largest expense function of the Board (approximately 62%).

- In addition to teacher salaries and benefits, instructional services include teacher aides, substitute teachers, textbooks, depreciation of instructional buildings, professional development, and classroom instructional materials, supplies, and equipment.
- Instructional support services include salaries and benefits for school principals, assistant principals, librarians, counselors, school secretaries, school bookkeepers, speech therapists, school nurses, and professional development expenses.
- Operation and maintenance services include utilities, security services, janitorial services, maintenance services, and depreciation of maintenance vehicles.
- In addition to bus driver salaries and benefits, student transportation services include mechanics, bus aides, vehicle maintenance and repair expenses, vehicle fuel, depreciation of buses and bus shops, and fleet insurance.

- Food services include salaries and benefits for cooks, servers, lunchroom managers, and cashiers, as well as donated and purchased food, food preparation and service supplies, kitchen and lunchroom equipment, and depreciation of equipment and facilities.
- General administrative services include salaries and benefits for the superintendent, assistants, clerical and financial staff, and other personnel that provide system-wide support for the schools. Also included are legal expenses, liability insurance, training for Board members and general administrative staff, printing costs, and depreciation of central office equipment and facilities.
- Debt service includes interest, but not principal payments, on long-term debt issues and other expenses related to the issuance and continuance of debt issues.
- Other expenses include the salaries and benefits for 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 K through 12 instructional programs.

Expenses by Category

| | 2023 | | 2022 | |
|------------------------------------|----------------------|-----------------|----------------------|-----------------|
| | Amount | Percent | Amount | Percent |
| Instruction | \$ 24,638,245 | 50.13 % | \$ 22,844,968 | 51.16 % |
| Instructional Support | 5,727,115 | 11.65 | 4,829,606 | 10.82 |
| Operation and Maintenance | 3,068,586 | 6.24 | 3,084,712 | 6.91 |
| Transportation | 1,334,823 | 2.71 | 1,252,737 | 2.81 |
| Food Services | 3,491,646 | 7.10 | 3,217,219 | 7.21 |
| Administrative | 1,588,453 | 3.23 | 1,336,841 | 2.99 |
| Other | 8,784,366 | 17.86 | 7,546,720 | 16.90 |
| Interest | 1,258 | - | 4,003 | 0.01 |
| Transfer to the City of Fort Payne | 532,238 | 1.08 | 530,238 | 1.19 |
| | <u>\$ 49,166,730</u> | <u>100.00 %</u> | <u>\$ 44,647,044</u> | <u>100.00 %</u> |

In fiscal year 2023, the Board's net position increased by \$4,714,812 from the prior year's position. State foundation funds, the primary source of revenue from the state, were \$28,697,806 and \$24,854,957 in 2023 and 2022, respectively.

Financial Analysis of the Board's Funds

The analysis of governmental funds serves the purpose of looking at what resources came into the funds, how they were spent, and what is available for future expenditures. Did the Board generate enough revenue to pay for current obligations? What is available for spending at the end of the year? 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 \$17,711,604. Of this amount, the unassigned fund balance of the general fund, which is available as of the end of the fiscal year for spending on future operations, was \$15,009,930.

General Fund - The general fund is the primary operating fund of the Board. The general fund balance increased by \$1,749,753. General fund revenues in 2023 increased \$4,453,882 from the prior year. General fund expenditures increased \$3,079,058 from the prior year.

Overall, the Board's governmental funds showed an increase in 2023 revenues from the prior year of approximately \$5,226,000, and an increase in expenditures of approximately \$4,519,686 and reflected a deficiency in revenues under expenditures of \$953,353, before other financing sources and uses.

General Fund Budgetary Highlights

The original 2023 fiscal year budget was adopted on August 25, 2022. The original budget figures are amended when expected changes to revenues or expenditures exceed 10%. The Board amended the budget on May 18, 2023 to budget prior year carryover funds, budget program allocation changes, and to make other minor changes and corrections to the Board's budget.

Capital Assets and Debt Administration

Capital Assets – At September 30, 2023, the Board had approximately \$60 million invested in capital assets including land, buildings, equipment costing \$5,000 or more, vehicles, buildings and equipment under lease, and construction in progress. This amount is net of accumulated depreciation to date. Increases during the year represent additions to those categories, while decreases represent retirements of assets during the year and depreciation of depreciable assets for the year. Capital expenditures only include those expenditures for property and equipment that meet the Alabama State Department of Education's threshold for capitalization. These guidelines require capitalization, and subsequent depreciation, for equipment costing \$5,000 or more per item and for buildings and related improvements costing \$50,000 or more. Purchases of property and equipment costing less than these amounts are neither capitalized nor depreciated. During the year ended September 30, 2023, the school system also spent approximately \$51,500 on property and equipment that did not meet these capitalization thresholds. These expenditures include items such as computers, video equipment, lunchroom equipment, and other furniture and equipment.

Capital Assets - Net of Depreciation

| | 2023 | 2022 |
|----------------------------|----------------------|----------------------|
| Land | \$ 1,333,593 | \$ 1,333,593 |
| Land Improvements | 5,200,163 | 4,177,422 |
| Buildings and Improvements | 44,778,765 | 13,458,816 |
| Vehicles and Equipment | 4,292,318 | 3,996,761 |
| Construction in Progress | 4,439,899 | 32,030,834 |
| | <u>\$ 60,044,738</u> | <u>\$ 54,997,426</u> |

Net capital assets increased by \$5,047,312 for the 2023 fiscal year. Total capital expenditures were approximately \$7,164,783 in 2023. These capital additions consisted primarily of building construction, buses, and equipment. These additions are reduced by the current year's depreciation expense of \$2,117,471.

Long-Term Debt - At September 30, 2023, the Board had approximately \$27,243 in warrants, notes, and other long-term debt outstanding. The reduction from the prior year reflected the annual principal requirements under the debt agreements:

Outstanding Long-Term Debt

| | Balance 2022 | Principal Additions | Principal Payments | Balance 2023 |
|-----------------------------------|------------------|------------------------|-----------------------|------------------|
| PSCA Leveraged Funds - 2012 issue | <u>\$ 58,881</u> | <u>\$ -</u> | <u>\$ 31,638</u> | <u>\$ 27,243</u> |

Long-term debt activity for the year consisted of the following:

The Board continued to pay down its leveraged debt issued in 2012, reducing the principal owed on this debt by approximately \$31,638.

Economic Factors and Next Year's Budget

The following are known economic factors related to the City of Fort Payne which were considered going into the 2023 fiscal year.

- Fort Payne's population remains steady. The unemployment rate in DeKalb County remains low. Much of the Board's funding is determined by system student enrollment, so future funding could be impacted by any significant economic changes within the community.
- The primary factor affecting the Board's budget is the amount of funding received under the State of Alabama Department of Education's foundation program, which is based to some extent on student enrollment. Per pupil allocations, as well as the extent of state funding of other programs are influenced by the state of Alabama's economic outlook. For the 2023 fiscal year, the foundation program budget is \$20,919,191, which is an increase of approximately \$1 million for salaries and benefits.

Estimated Capital Needs - As of September 30, 2023, the Board's Five-Year Capital Plan, included approximately \$7 million in estimated capital needs throughout the system. These needs have been prioritized to help determine which projects will receive funding in the near future and include a variety of maintenance, improvement, and construction projects.

Student Enrollment – The latest K-12 student enrollment figure as of the twenty-day report in the 2023-2024 school year was 3,364 students. This represents an increase in enrollment of approximately 10 students over the 2022-2023 school year. Enrollment for each of the last six years is shown below:

| Average Daily Membership | Fiscal Year |
|---------------------------------|--------------------|
| 3,354 | 2022-2023 |
| 3,347 | 2021-2022 |
| 3,361 | 2020-2021 |
| 3,254 | 2019-2020 |
| 3,162 | 2018-2019 |
| 3,173 | 2017-2018 |

Medical and Retirement Costs - Employee health insurance is provided through the Public Education Employees' Health Insurance Program (PEEHIP). PEEHIP employer costs were \$9,600 per employee per month in fiscal years 2022 and 2021. The employer contribution rate to the Teachers' Retirement System (TRS) for fiscal year 2023 was 12.59 percent for Tier 1 Employees and 11.44 percent for Tier 2 employees. The Board must use local funds to pay the salary-related benefit costs not paid by state and federal funds.

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 any questions about this report or need additional financial information please contact the Board's central office by calling 256-845-0915 or write to P.O. Box 681029, Fort Payne, AL 35968.

FORT PAYNE CITY BOARD OF EDUCATION

STATEMENT OF NET POSITION

SEPTEMBER 30, 2023

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| ASSETS | |
| Cash and Cash Equivalents | \$ 12,791,090 |
| Restricted Cash | 1,097,748 |
| Certificate of Deposit | 5,114,068 |
| Investments | 6,376 |
| Receivables | 6,322,854 |
| Restricted Receivables | 1,227,515 |
| Inventories | <u>129,668</u> |
| | 26,689,319 |
| Construction In Progress | 4,439,899 |
| Non-Depreciable Assets | 1,333,593 |
| Depreciable Assets, Net of Accumulated Depreciation | <u>54,271,246</u> |
| | 60,044,738 |
| TOTAL ASSETS | <u>86,734,057</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Pension Deferrals | 15,203,962 |
| OPEB Deferrals | <u>9,858,939</u> |
| TOTAL DEFERRED OUTFLOWS | <u>25,062,901</u> |

| | |
|------------------------------------|------------------------------|
| TOTAL ASSETS AND DEFERRED OUTFLOWS | <u><u>\$ 111,796,958</u></u> |
|------------------------------------|------------------------------|

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

| | <u>Governmental Activities</u> |
|---|--------------------------------------|
| LIABILITIES | |
| Accounts Payable | \$ 1,639,121 |
| Salaries and Benefits Payable | 3,855,682 |
| Unearned Revenues | 18,890 |
| Accrued Interest | 58 |
| Bonds Payable, Current Maturities | <u>27,243</u> |
| | 5,540,994 |
| Non-Current Liabilities: | |
| Net Pension Liability | 39,422,000 |
| Net OPEB Liability | <u>5,325,767</u> |
| | 44,747,767 |
| TOTAL LIABILITIES | <u>50,288,761</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Pension Deferrals | 1,009,000 |
| OPEB Deferrals | <u>20,577,961</u> |
| TOTAL DEFERRED INFLOWS OF RESOURCES | <u>21,586,961</u> |
| NET POSITION | |
| Net Investment in Capital Assets | 60,017,437 |
| Restricted for: | |
| Capital Projects | 1,352,458 |
| Special Revenue | 1,040,352 |
| Other Purposes | 308,864 |
| Unrestricted | <u>(22,797,875)</u> |
| TOTAL NET POSITION | <u>39,921,236</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION | <u><u>\$ 111,796,958</u></u> |

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

FORT PAYNE CITY BOARD OF EDUCATION

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2023

| Functions/Programs | Expenses | Program Revenues | | | Net (Expenses) Revenues and Changes in Net Position |
|-------------------------------------|----------------------|----------------------------|--|--|--|
| | | Charges For Services | Operating Grants and Contributions | Capital Grants and Contributions | Total Governmental Activities |
| Governmental Activities | | | | | |
| Instruction Services | \$ 25,800,922 | \$ 623,475 | \$ 28,572,931 | \$ 1,202,834 | \$ 4,598,318 |
| Instructional Support | 6,332,975 | 903 | 565,395 | - | (5,766,677) |
| Operation and Maintenance | 3,161,765 | - | - | - | (3,161,765) |
| Student Transportation Services | 1,486,885 | 14,368 | 1,028,804 | 181,944 | (261,769) |
| Food Services | 3,561,146 | 275,128 | 2,624,643 | - | (661,375) |
| General Administrative Services | 1,689,063 | - | 314,018 | - | (1,375,045) |
| Other | 1,489,240 | 51,823 | 3,513,732 | - | 2,076,315 |
| Interest and Fiscal Charges | (8,170) | - | - | - | 8,170 |
| Transfers to the City of Fort Payne | 532,238 | - | - | - | (532,238) |
| Total Governmental Activities | <u>\$ 44,046,064</u> | <u>\$ 965,697</u> | <u>\$ 36,619,523</u> | <u>\$ 1,384,778</u> | <u>(5,076,066)</u> |
| General Revenues: | | | | | |
| Taxes: | | | | | |
| Property Taxes | | | | | 4,851,199 |
| Local Sales Tax | | | | | 1,740,990 |
| Local City Appropriations | | | | | 632,238 |
| Other Sales and Use Taxes | | | | | 333,656 |
| Investment Earnings | | | | | 119,924 |
| Other General Revenues | | | | | 2,112,871 |
| Total General Revenues | | | | | <u>9,790,878</u> |
| Change in Net Position | | | | | 4,714,812 |
| Net Position - Beginning of Year | | | | | <u>35,206,424</u> |
| Net Position - End of Year | | | | | <u>\$ 39,921,236</u> |

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

FORT PAYNE CITY BOARD OF EDUCATION

BALANCE SHEET - GOVERNMENTAL FUNDS

SEPTEMBER 30, 2023

| | General Fund | Special Revenue Fund | Capital Projects Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|--|----------------------|----------------------------|-----------------------------|-----------------------------------|--------------------------------|
| ASSETS | | | | | |
| Cash and Cash Equivalents | \$ 11,628,182 (1) | \$ (102,812) | \$ 956,856 | \$ 308,864 | \$ 12,791,090 |
| Restricted Cash | - | - | 1,097,748 | - | 1,097,748 |
| Certificate of Deposit | 5,114,068 | - | - | - | 5,114,068 |
| Investments | 6,376 | - | - | - | 6,376 |
| Receivables | 5,589,129 | 733,725 | - | - | 6,322,854 |
| Restricted Receivables | - | 1,227,515 | - | - | 1,227,515 |
| Inventory | - | 129,668 | - | - | 129,668 |
| TOTAL ASSETS | <u>\$ 22,337,755</u> | <u>\$ 1,988,096</u> | <u>\$ 2,054,604</u> | <u>\$ 308,864</u> | <u>\$ 26,689,319</u> |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Accounts Payable | \$ 593,169 | \$ 343,806 | \$ 702,146 | \$ - | \$ 1,639,121 |
| Salaries and Benefits Payable | 3,177,684 | 585,048 | - | - | 3,762,732 |
| Unearned Revenues | - | 18,890 | - | - | 18,890 |
| Total Liabilities | <u>3,770,853</u> | <u>947,744</u> | <u>702,146</u> | <u>-</u> | <u>5,420,743</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | | |
| Unavailable Revenue | <u>3,556,972</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>3,556,972</u> |
| Total Deferred Inflows of Resources | <u>3,556,972</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>3,556,972</u> |
| Fund Balances: | | | | | |
| Nonspendable | - | 129,668 | - | - | 129,668 |
| Restricted | - | 910,684 | 1,352,458 | - | 2,263,142 |
| Committed | - | - | - | 308,864 | 308,864 |
| Unassigned | <u>15,009,930</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>15,009,930</u> |
| Total Fund Balances | <u>15,009,930</u> | <u>1,040,352</u> | <u>1,352,458</u> | <u>308,864</u> | <u>17,711,604</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | <u>\$ 22,337,755</u> | <u>\$ 1,988,096</u> | <u>\$ 2,054,604</u> | <u>\$ 308,864</u> | <u>\$ 26,689,319</u> |

(1) The amount does not represent a negative or overdraft bank balance. It represents an allocation of funds among various programs within the Board.

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

FORT PAYNE CITY BOARD OF EDUCATION

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION

SEPTEMBER 30, 2023

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

| | |
|--|---------------|
| Total Fund Balances - Governmental Funds | \$ 17,711,604 |
|--|---------------|

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

| | | |
|--------------------------------|---------------------|------------|
| Construction In Progress | \$ 4,439,899 | |
| Non-Depreciable Capital Assets | 1,333,593 | |
| Depreciable Capital Assets | 77,665,030 | |
| Less: Accumulated Depreciation | <u>(23,393,784)</u> | 60,044,738 |

| | |
|---|-----------|
| Unavailable revenue is deferred to future periods are not financial resources and, therefore, are not reported as assets in governmental funds. | 3,556,972 |
|---|-----------|

Deferred outflows of resources are increases in net position that relate to future periods. The deferred outflows of resources not reported in the governmental funds consist of the following:

| | | |
|-------------------|------------------|------------|
| Pension Deferrals | \$ 15,203,962 | |
| OPEB Deferrals | <u>9,858,939</u> | 25,062,901 |

Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities consist of:

| | | |
|-------------------------------|--------------------|--------------|
| Salaries and Benefits Payable | \$ (92,950) | |
| Accrued Interest | (58) | |
| Bonds Payable | (27,243) | |
| Net Pension Liability | (39,422,000) | |
| Net OPEB Liability | <u>(5,325,767)</u> | (44,868,018) |

Deferred inflows of resources are decreases in net position that relate to future periods. The deferred inflows of resources not reported in the governmental funds consist of the following:

| | | |
|-------------------|---------------------|---------------------|
| Pension Deferrals | \$ (1,009,000) | |
| OPEB Deferrals | <u>(20,577,961)</u> | <u>(21,586,961)</u> |

| | |
|--|----------------------|
| Total Net Position - Governmental Activities | <u>\$ 39,921,236</u> |
|--|----------------------|

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

FORT PAYNE CITY BOARD OF EDUCATION

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2023

| | General Fund | Special Revenue Fund | Capital Projects Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|------------------------------------|----------------------|----------------------------|-----------------------------|-----------------------------------|--------------------------------|
| REVENUES | | | | | |
| State of Alabama | \$ 27,446,741 | \$ - | \$ 1,251,065 | \$ - | \$ 28,697,806 |
| Federal Government | 74,007 | 9,089,902 | - | - | 9,163,909 |
| Local Revenues | 7,610,627 | 912,587 | - | 1,445,328 | 9,968,542 |
| Other Revenues | 431,201 | 93,747 | - | - | 524,948 |
| | <u>35,562,576</u> | <u>10,096,236</u> | <u>1,251,065</u> | <u>1,445,328</u> | <u>48,355,205</u> |
| EXPENDITURES | | | | | |
| Instruction Services | 20,011,828 | 3,975,364 | 19,871 | 631,182 | 24,638,245 |
| Instructional Support | 5,099,872 | 568,755 | - | 58,488 | 5,727,115 |
| Operation and Maintenance | 2,465,433 | 397,182 | 183,588 | 22,383 | 3,068,586 |
| Student Transportation Services | 1,300,716 | 33,937 | - | 170 | 1,334,823 |
| Food Services | - | 3,491,646 | - | - | 3,491,646 |
| General Administration Services | 1,218,164 | 360,937 | 9,352 | - | 1,588,453 |
| Capital Outlay | 571,019 | 1,072,778 | 5,520,986 | - | 7,164,783 |
| Debt Service | | | | | |
| Principal Payments | - | - | 22,303 | - | 22,303 |
| Interest Payments | - | - | 1,258 | - | 1,258 |
| Transfer to the City of Fort Payne | - | - | - | 532,238 | 532,238 |
| Other Expenditures | 1,099,723 | 273,701 | - | 223,856 | 1,597,280 |
| | <u>31,766,755</u> | <u>10,174,300</u> | <u>5,757,358</u> | <u>1,468,317</u> | <u>49,166,730</u> |
| Excess (Deficiency) of Revenues | | | | | |
| Over (Under) Expenditures | <u>3,795,821</u> | <u>(78,064)</u> | <u>(4,506,293)</u> | <u>(22,989)</u> | <u>(811,525)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Insurance Loss Recoveries | 11,026 | - | - | - | 11,026 |
| Indirect Cost | 167,136 | - | - | - | 167,136 |
| Proceeds from Long-Term Debt | - | - | 84,666 | - | 84,666 |
| Transfers from Other Funds | 32,282 | 1,019,617 | 1,343,496 | 30,489 | 2,425,884 |
| Transfers to Other Funds | (2,256,512) | (126,733) | - | (42,639) | (2,425,884) |
| | <u>(2,046,068)</u> | <u>892,884</u> | <u>1,428,162</u> | <u>(12,150)</u> | <u>262,828</u> |
| Net Changes In Fund Balances | 1,749,753 | 814,820 | (3,078,131) | (35,139) | (548,697) |
| Fund Balances - Beginning of Year | 13,260,177 | 225,532 | 4,430,589 | 344,003 | 18,260,301 |
| Fund Balances - End of Year | <u>\$ 15,009,930</u> | <u>1,040,352</u> | <u>1,352,458</u> | <u>\$ 308,864</u> | <u>\$ 17,711,604</u> |

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

FORT PAYNE CITY BOARD OF EDUCATION

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

FOR THE YEAR ENDED SEPTEMBER 30, 2023

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

| | | |
|---|----|-----------|
| Net Changes in Fund Balances - Total Governmental Funds | \$ | (548,697) |
|---|----|-----------|

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. The amount by which capital outlays exceeded depreciation expense in the current period is as follows:

| | | | |
|----------------------|----|--------------------|-----------|
| Capital Outlay | \$ | 7,164,783 | |
| Depreciation Expense | | <u>(2,117,471)</u> | 5,047,312 |

| | |
|---|--------|
| Long-term debt and capital lease obligations principal payments are reported as expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position and does not affect the statement of activities. | 22,303 |
|---|--------|

Other expenses associated with the issuance of long-term debt, capital lease obligations, accrued salaries and benefits payable, and deferred revenue reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in the governmental funds.

| | | | |
|---|----|-----------|---------|
| Change in Unavailable Revenue | \$ | 142,845 | |
| Change in Accrued Salaries and Benefits Payable | | 10,616 | |
| Amortization on Bond Premiums | | 9,335 | |
| Change in Accrued Interest | | <u>93</u> | 162,889 |

Payments made for employees' pension expense are expenditures in the governmental funds. However, they are considered deferred outflows of resources and deferred inflows of resources in the statement of net position.

| | | | |
|--|----|--------------------|-------------|
| Contributions in the Current Fiscal Year | \$ | 2,628,962 | |
| Contributions in the Prior Fiscal Year | | (2,367,809) | |
| Pension Expense | | <u>(3,126,000)</u> | (2,864,847) |

Payments made for employees' other post-employment benefit expense are expenditures in the governmental funds. However, they are considered deferred outflows of resources and deferred inflows of resources in the statement of net position.

| | | | |
|--|----|------------------|-----------|
| Contributions in the Current Fiscal Year | \$ | 427,685 | |
| Contributions in the Prior Fiscal Year | | (575,036) | |
| OPEB Expense | | <u>3,043,203</u> | 2,895,852 |

| | | |
|---|----|-------------------------|
| Change in Net Position of Governmental Activities | \$ | <u><u>4,714,812</u></u> |
|---|----|-------------------------|

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

FORT PAYNE CITY BOARD OF EDUCATION

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

SEPTEMBER 30, 2023

| | <u>Agency Funds</u> |
|------------------------------|--------------------------------|
| ASSETS | |
| Cash and Cash Equivalents | <u>\$ 97,068</u> |
| TOTAL ASSETS | <u><u>\$ 97,068</u></u> |
| LIABILITIES | |
| Amounts Due to Other Parties | <u>\$ 97,068</u> |
| TOTAL LIABILITIES | <u><u>\$ 97,068</u></u> |

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

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Fort Payne City Board of Education (the Board) is governed by a board composed of five members who are appointed by the City of Fort Payne to five-year terms. The Board is responsible for the general administration and supervision of the public schools for the City of Fort Payne.

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

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, 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 Fort Payne City Board of Education.

The Board 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 Fort Payne, Alabama, due to the following reasons:

- (1) The City appoints the five members of the governing body of the Board.
- (2) The City issued bonds for the construction of facilities for the Board and the City is obligated for the debt.

BASIS OF PRESENTATION

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities display information about the Board. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Although other governments may report both governmental activities and business-type activities, the Board has no business-type activities.

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GOVERNMENT-WIDE FINANCIAL STATEMENTS (Continued)

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Board's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The Board does not allocate indirect expenses to the various functions. Program revenues include (a) 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 programs. Revenues that are not classified as program revenues, including all local taxes, are presented as general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements provide information about the Board's funds, including its fiduciary funds. Separate statements for each fund category (governmental and fiduciary) are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as other governmental funds.

The Board reports the following major governmental fund:

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 Board's general fund primarily receives revenues from the Education Trust Fund (ETF) appropriated by the Alabama legislature, and from local taxes. The State Department of Education allocates amounts appropriated from the ETF to the school board on a formula basis.

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.

Capital Projects Funds

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

The Board reports the following governmental fund types in the "Nonmajor Governmental Funds" column:

Debt Service Funds

Debt Service Funds account for the accumulation of resources for, and the payment of, the Board's principal and interest payments on long-term debt.

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FUND FINANCIAL STATEMENTS (Continued)

Special Revenue Funds – Local Schools Funds

Special Revenue Funds account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative action. Most of the Special Revenue Funds have a Federal revenue source. The local schools funds are also a Special Revenue Fund. These funds are administered by the principal of each school.

Fiduciary funds are used to report assets held in a trust or agency capacity for others and, therefore, cannot be used to support the Board's programs. The Board reports the following fiduciary fund type:

Agency Fund

The Board's agency funds generally account for assets held by the Board in a purely custodial capacity. The Board collects these assets and transfers them to the proper individual or organization.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The *government-wide and fiduciary fund 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 cash flows take place. Non-exchange transactions, in which the Board gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from 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.

Governmental fund statements 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 to be available if the revenues are collected within sixty (60) days after the end of the current fiscal 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 general 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.

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (Continued)

When both restricted and unrestricted resources are available for use, it is the Board's practice to use restricted resources first, then unrestricted resources as they are needed. When an expenditure is incurred for the purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the practice of the Board that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts. No formal policy regarding the order in which resources are used has been approved by the Board.

ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statement and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

ASSETS, LIABILITIES, AND NET ASSETS/FUND BALANCES

CASH, CASH EQUIVALENTS, 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 consist of shares of publicly traded stock that were donated to the Board and are valued at fair value.

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.

RECEIVABLES

Accounts receivable for taxes are shown net of any applicable allowance for uncollectible accounts. Property taxes are assessed for property as of October 1 of each year based on the millage rate established by the DeKalb County Commission. Property taxes are due and payable the following October 1 and are delinquent after December 31. Receivable amounts are recorded for property taxes levied in the current year. However, since the amounts are not available to fund current year operations, the revenue is deferred and recognized in subsequent fiscal years when the taxes are both due and collectible and available to fund operations.

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PENSIONS

The Teachers' Retirement System of Alabama's (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 the 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 Annual Comprehensive Financial Report.

POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

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

INVENTORIES

Inventories consist of food commodities and are valued at cost, which approximates market, using the first-in-first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when purchased except commodities donated by the federal government, which are expensed when consumed.

CAPITAL ASSETS

Capital assets, which include property and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CAPITAL ASSETS (Continued)

Additions, improvements, and other capital outlays that significantly extend the useful life of the asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Major capital outlays for capital assets and improvements are capitalized as projects are completed. Depreciation on all assets is recorded in the statement of activities on the straight-line basis over the assets estimated useful life. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets reported in the government-wide statements are as follows:

| | Capitalization Threshold | Estimated Useful Life |
|---------------------------------|-----------------------------|--------------------------|
| Land Improvements - Exhaustible | \$ 50,000 | 20 years |
| Buildings and Improvements | 50,000 | 50 years |
| Equipment and Furniture | 5,000 | 5-20 years |
| Vehicles | 5,000 | 5-10 years |

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of net position and/or balance sheet 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 five items that qualify for reporting in this category and are reported only in the governmental activities statement of net position. They are differences between expected and actual experience (pension and OPEB), changes of assumptions (pension and OPEB), net difference between projected and actual earnings on plan investments (pension and OPEB), changes in proportion and differences between Employer contributions and proportionate share of contributions (pension and OPEB), employer contributions subsequent to the plan measurement date of September 30, 2022 (pension and OPEB).

In addition to liabilities, the statement of net position and/or balance sheet 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 future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Board has three items that qualify for reporting in this category and are reported in the governmental activities statement of net position. They are the differences between expected and actual experience (pension and OPEB), changes of assumptions (OPEB only), and changes in proportion and differences between Employer contributions and proportionate share of contributions (pension and OPEB).

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other liabilities are reported as liabilities in the applicable governmental activities statement of net position. Premiums and discounts are deferred and amortized over the life of the bonds. The debt is reported net of the applicable discount or premium.

In the fund financial statements, governmental fund types recognize bond premiums, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt are reported as other financing sources. The debt service funds are used to liquidate the annual principal payments on outstanding obligations.

COMPENSATED ABSENCES

The Board has accrued a liability for leave pay which has been earned but not taken by Board employees. Leave that is expected to be liquidated with expendable available resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. All eligible unused leave is accrued when earned by the employee in the government-wide financial statements.

Professional and support personnel are provided two days of personal leave per year 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. Because unused personal leave cannot be carried over to succeeding years, no liability for unpaid leave is accrued in the financial statements.

Certain twelve-month employees are allowed 12 days of vacation per year with pay. Because unused vacation is awarded on a fiscal year of July through June, and vacation days were due to certain twelve-month employees as of and for the year ended September 30, 2023, a liability for this vacation liability was recorded both at the fund level and the government wide level.

Professional and support personnel earn non-vesting sick leave at the rate of one day per month worked. The maximum number of days employees are allowed to accumulate is calculated by the number of months worked each year multiplied by the total years of service. Employees may use their entire accrued sick leave balance 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 on the financial statements.

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NET POSITION/FUND BALANCE

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

Net Investment in Capital Assets - Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. Any significant unspent related debt proceeds at year-end related to capital assets are reported as restricted funds.

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

Unrestricted - Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of the Board.

Fund equity is reported in the fund financial statements as fund balance. The following classifications of fund equity are reported in the fund financial statements:

Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form; or (b) legally or contractually required to be maintained intact.

Restricted – This classification includes amounts that have constraints placed on the use of resources imposed either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) by law through constitutional provisions or enabling legislation.

Committed – This classification includes amounts that can only be used for specific purposes. It is the practice of the Board to present assets in this classification pursuant to constraints imposed by formal action of the Board before the end of the fiscal year, and to require the same level of formal action to remove the constraint. However, no formal policy regarding this action has been approved by the Board.

Assigned – This classification includes amounts that are intended to be used for specific purposes, but are neither restricted nor committed. It is the practice of the Board to allow the Superintendent or the Chief School Finance Officer to make a determination of the assigned amounts of fund balances, and also to allow the Superintendent or the Chief School Finance Officer to remove the constraint. Such assignments may not exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. No formal policy regarding the assignment of fund balances to this classification has been approved by the Board. No amounts were reported as assigned as of September 30, 2023.

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NET POSITION/FUND BALANCE (Continued)

Unassigned – This classification is the residual classification for the general fund and represents the fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

SUBSEQUENT EVENTS

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through March 21, 2024, which is the date the financial statements were available to be issued.

LEASES

The Board is a lessee for a non-cancellable lease for copiers with a term of 12 months. The Board has elected to apply the short-term lease exception to all leases with a term of one year or less.

The Board is a lessor for a non-cancellable lease of a building to an individual for a term of 12 months. The Board has elected to apply the short-term lease exception to all leases with a term of one year or less.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

Annual budgets are adopted for all governmental funds on a modified accrual basis of accounting, which is consistent with account principles generally accepted in the United States of America. 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 the submission of the budget for the 2022-2023 fiscal year was September 15, 2022. The board approved its original 2022-2023 annual budget on August 25, 2022. The budget was amended on May 18, 2023.

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 change. The superintendent may approve amendments to program budgets without board approval.

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

There were no expenditures that exceeded the appropriations for the year ended September 30, 2023.

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2023

NOTE 3 - DEPOSITS

At September 30, 2023, the Board's deposits were 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 provisions of Alabama law. Under the SAFE Program, all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, which is mandatory, each qualified public depository (QPD) 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 FDIC insurance. If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance. All deposits of the Board are held in a certified QPD.

At September 30, 2023, the carrying amount of the Board's deposits with three financial institutions was \$20,367,432.

NOTE 4 – RECEIVABLES

Unrestricted receivables at September 30, 2023, consist of the following:

| | General | Special Revenue Funds | Total |
|-------------------------------------|-----------------------------|-----------------------------|-----------------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| Property Tax Revenues | \$ 3,556,972 | \$ - | \$ 3,556,972 |
| City of Fort Payne - Property Taxes | 1,388,574 | - | 1,388,574 |
| Other Sales and Use Taxes | 143,232 | - | 143,232 |
| City of Fort Payne - Alcohol Taxes | 59,204 | - | 59,204 |
| Other Local Revenue | 142,871 | 4,568 | 147,439 |
| Other Federal Revenue | 298,276 | - | 298,276 |
| ESSER Grants | - | 729,157 | 729,157 |
| | <u> </u> | <u> </u> | <u> </u> |
| | <u>\$ 5,589,129</u> | <u>\$ 733,725</u> | <u>\$ 6,322,854</u> |

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2023

NOTE 4 – RECEIVABLES (Continued)

Restricted receivables at September 30, 2023, consist of the following:

| | Special Revenue Funds |
|-------------------------|-----------------------------|
| State of Alabama | |
| Child Nutrition Program | \$ 610,276 |
| IDEA, Part B | 92,166 |
| Title I and IV, Part A | 337,350 |
| Title III and Title V | 94,831 |
| Cares Act | 57,180 |
| Other Revenues | 35,712 |
| | <u>\$ 1,227,515</u> |

NOTE 5 – INVESTMENTS AND CERTIFICATE OF DEPOSIT

Investments consist of a one year certificate of deposit and donated shares of BBVA Compass stock. During 2023, the net increase in fair value of BBVA Compass stock was \$2,852. This amount is reported at fair value of \$6,376 at September 30, 2023. The fair value of the certificate of deposit was \$5,114,068 at September 30, 2023.

NOTE 6 - UNEARNED REVENUE

Governmental funds defer revenue recognition in connection with resources that have been received, but not yet earned. At September 30, 2023, the components of deferred revenue reported in the governmental funds were as follows:

| | Unearned |
|-----------------------|------------------|
| Lunchroom Prepayments | <u>\$ 18,890</u> |
| | <u>\$ 18,890</u> |

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2023

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2023, was as follows:

| | Beginning Balance | Additions | Retirements / Reclassifications | Ending Balance |
|---|----------------------|----------------------|------------------------------------|----------------------|
| Governmental Activities: | | | | |
| Capital Assets, Not Being Depreciated | | | | |
| Land | \$ 1,333,593 | \$ - | \$ - | \$ 1,333,593 |
| Construction in Progress | 32,030,834 | 4,429,399 | (32,020,334) | 4,439,899 |
| Total Capital Assets Not Being Depreciated | 33,364,427 | 4,429,399 | (32,020,334) | 5,773,492 |
| Capital Assets, Being Depreciated: | | | | |
| Buildings and Improvements | 27,863,601 | 32,593,806 | - | 60,457,407 |
| Land Improvements | 6,602,552 | 1,284,378 | - | 7,886,930 |
| Vehicles, Equipment, and Furniture | 8,443,159 | 877,534 | - | 9,320,693 |
| Total Capital Assets Being Depreciated | 42,909,312 | 34,755,718 | - | 77,665,030 |
| Less Accumulated Depreciation for: | | | | |
| Buildings and Improvements | 14,404,785 | 1,273,857 | - | 15,678,642 |
| Land Improvements | 2,425,130 | 261,637 | - | 2,686,767 |
| Vehicles, Equipment, and Furniture | 4,446,398 | 581,977 | - | 5,028,375 |
| Total Accumulated Depreciation | 21,276,313 | 2,117,471 | - | 23,393,784 |
| Total Capital Assets, Being Depreciated, Net | 21,632,999 | 32,638,247 | - | 54,271,246 |
| Total Governmental Activities, Capital Assets, Net | <u>\$ 54,997,426</u> | <u>\$ 37,067,646</u> | <u>\$ (32,020,334)</u> | <u>\$ 60,044,738</u> |

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

| | |
|--|---------------------|
| Instruction | \$ 987,854 |
| Instructional Support | 12,009 |
| Student Transportation Services | 373,862 |
| Food Services | 69,049 |
| Operation and Maintenance | 132,415 |
| General and Administrative | <u>542,282</u> |
| Total Depreciation Expense - Governmental Activities | <u>\$ 2,117,471</u> |

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2023

NOTE 8 – INTERFUND BALANCES AND ACTIVITY

The composition of interfund transfers for the fiscal year ended September 30, 2023, is as follows:

| | <u>Transfers In</u> | <u>Transfers Out</u> |
|-----------------------------|---------------------|----------------------|
| General Fund | \$ 32,282 | \$ 2,256,512 |
| Special Revenue Fund | 1,019,617 | 126,733 |
| Capital Projects Fund | 1,343,496 | - |
| Nonmajor Governmental Funds | <u>30,489</u> | <u>42,639</u> |
| | <u>\$ 2,425,884</u> | <u>\$ 2,425,884</u> |

NOTE 9 – LONG-TERM DEBT

Long-term debt consists of the following at September 30, 2023:

During 2012, the Board participated in the refinancing of the 2002 series Special Pool Loan with the State of Alabama School Board to issue \$757,820 of Capital Improvement Pool Bonds at a premium of approximately \$107,000. The proceeds were used for the defeasance of the 2002 series Special Pool Loan. The bonds mature annually through March 2024. Interest varies between 3.00% and 5.00%, and is payable semiannually on March 1 and September 1.

| | |
|--|------------------|
| | \$ 23,354 |
| Unamortized Premium on 2012 Capital Improvement Pool Bonds | <u>3,889</u> |
| | <u>\$ 27,243</u> |

Long-term liability activity for the year ended September 30, 2023, was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|--|------------------------------|------------------|-------------------|---------------------------|--------------------------------|
| PSCA Series 2012 Bonds | \$ 45,657 | \$ - | \$ 22,303 | \$ 23,354 | \$ 23,354 |
| Unamortized Premium on PSCA Series 2012 | <u>13,224</u> | <u>-</u> | <u>9,335</u> | <u>3,889</u> | <u>3,889</u> |
| | <u>\$ 58,881</u> | <u>\$ -</u> | <u>\$ 31,638</u> | <u>\$ 27,243</u> | <u>\$ 27,243</u> |

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2023

NOTE 9 – LONG-TERM DEBT (Continued)

The following schedule shows the obligations at September 30, 2023:

| <u>Fiscal Year Ending September 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Annual Debt Service</u> |
|--|-------------------------|----------------------|--------------------------------|
| 2024 | <u>\$ 23,354</u> | <u>\$ 350</u> | <u>\$ 23,704</u> |
| | <u><u>\$ 23,354</u></u> | <u><u>\$ 350</u></u> | <u><u>\$ 23,704</u></u> |

The City of Fort Payne (the City) has issued special tax revenue bonds to provide financial assistance to the Board for the acquisition and construction of new school facilities. The City is liable for the payment of the bonds, which are paid through city tax revenues. Accordingly, this debt is reflected in the financial statements of the City rather than the Board's financial statements. However, under the terms of an agreement with the City, the Board is responsible for the portion of debt service payments which exceed the earmarked tax revenues collected by the City. For the year ended September 30, 2023, the City collected tax revenues in excess of the debt service payments. Under the terms of the agreement, the City was liable to transfer the excess collections of \$1,250,051 to the Board.

NOTE 10 - DEFINED BENEFIT PENSION PLAN

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.

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.

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2023

NOTE 10 - DEFINED BENEFIT PENSION PLAN (Continued)

Benefits Provided (Continued)

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

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

Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits equal to the annual earnable compensation of the member as reported to the Plan for the preceding year ending June 30 are paid to a qualified beneficiary.

Contributions

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

Effective 10/1/2021, the covered Tier 2 members contribution rate increased from 6.0% to 6.2% of earnable compensation to the TRS as required by statute. Effective 10/1/2021, the covered Tier 2 certified law enforcement, correctional officers, and firefighters contribution rate increased from 7.0% to 7.2% of earnable compensation to the TRS as required by statute.

Participating employers' contractually required contribution rate for the year ended September 30, 2022 was 12.36% of annual pay for Tier 1 members and 11.22% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the System were \$2,628,962 for the year ended September 30, 2023.

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2023

NOTE 10 – DEFINED BENEFIT PENSION PLAN (Continued)

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

At September 30, 2023, the Board reported a liability of \$39,422,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2021. The 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, 2022, the Board's proportion was 0.253665% which was an increase of 0.015346% from its proportion measured as of September 30, 2021.

For the year ended September 30, 2023, the Board recognized pension expense of \$5,494,000. At September 30, 2023, 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 | \$ 867,000 | \$ 957,000 |
| Changes of assumptions | 1,789,000 | - |
| Net difference between projected and actual earnings on pension plan investments | 7,911,000 | - |
| Changes in proportion and differences between Employer contributions and proportionate share of contributions | 2,008,000 | 52,000 |
| Employer contributions subsequent to the measurement date | 2,628,962 | - |
| Total | <u>\$ 15,203,962</u> | <u>\$ 1,009,000</u> |

The \$2,628,962 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended September 30:

| | |
|------------|--------------|
| 2024 | \$ 3,417,000 |
| 2025 | 2,833,000 |
| 2026 | 1,863,000 |
| 2027 | 3,453,000 |
| 2028 | - |
| Thereafter | - |

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2023

NOTE 10 – DEFINED BENEFIT PENSION PLAN (Continued)

Actuarial Assumptions

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

| | |
|----------------------------|---------------|
| Inflation | 2.50% |
| Projected salary increases | 3.25% - 5.00% |
| Investment rate of return* | 7.45% |

*Net of pension plan investment expense.

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

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

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

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2023

NOTE 10 – DEFINED BENEFIT PENSION PLAN (Continued)

Actuarial Assumptions (Continued)

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

| Asset Class | Target Allocation | Long-Term Expected Rate of Return* |
|---------------------------------------|----------------------|--|
| Fixed Income | 15.00% | 2.80% |
| U.S. Large Stocks | 32.00% | 8.00% |
| U.S. Mid Stocks | 9.00% | 10.00% |
| U.S. Small Stocks | 4.00% | 11.00% |
| International Developed Market Stocks | 12.00% | 9.50% |
| International Emerging Market Stocks | 3.00% | 11.00% |
| Alternatives | 10.00% | 9.00% |
| Real Estate | 10.00% | 6.50% |
| Cash | 5.00% | 2.50% |
| Total | 100.00% | |

* Includes assumed rate of inflation of 2.00%.

Discount Rate

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

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 7.45%, 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 (6.45%) or 1-percentage point higher (8.45%) than the current rate (dollar amounts in thousands):

| | 1% Decrease 6.45% | Current Discount Rate 7.45% | 1% Increase 8.45% |
|--|-------------------------|-----------------------------------|-------------------------|
| Board's proportionate share of collective net pension liability | \$ 51,010,000 | \$ 39,422,000 | \$ 29,661,000 |

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2023

NOTE 10 – DEFINED BENEFIT PENSION PLAN (Continued)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Annual Comprehensive Report for the fiscal year ended September 30, 2022. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2022. The auditor's report on the Schedule of Employer Allocations and Pension Amounts by Employer and accompanying notes detail by employer and in aggregate information needed to comply with GASB 68. The additional financial and actuarial information is available at www.rsa-al.gov.

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

The Alabama Retired Education Employees' Health Care Trust (Trust) is a cost-sharing multiple-employer defined benefit postemployment healthcare plan that administers healthcare benefits to the retirees of participating state and local educational institutions. The Trust was established under the Alabama Retiree Health Care Funding Act of 2007 which authorized and directed the Public Education Employees' Health Insurance Board (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 Annual Comprehensive 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 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.

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2023

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

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

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

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2023

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

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.

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

At September 30, 2023, the Board reported a liability of \$5,325,767 for its proportionate share of the Net OPEB liability. The Net OPEB liability was measured as of September 30, 2022 and the total OPEB liability used to calculate the Net OPEB liability was determined by an actuarial valuation as of September 30, 2021. The 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 contributions of all participating PEEHIP employers. At September 30, 2022, the Board's proportion was 0.305648%, which was a increase of 0.059308% from its proportion measured as of September 30, 2021.

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2023

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

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

For the year ended September 30, 2023, the Board recognized OPEB income of \$2,459,080, with no special funding situations. As of September 30, 2023, 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 | \$ 244,261 | \$ 10,768,265 |
| Changes of assumptions | 4,319,925 | 7,751,975 |
| Net difference between projected and actual earnings on OPEB plan investments | 669,766 | - |
| Changes in proportion and differences between Employer contributions and proportionate share of contributions | 4,197,302 | 2,057,721 |
| Employer contributions subsequent to the plan measurement date | 427,685 | - |
| Total | <u>\$ 9,858,939</u> | <u>\$ 20,577,961</u> |

The \$427,685 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, 2024.

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

| | |
|---------------------------------|----------------|
| Year Ended September 30: | |
| 2024 | \$ (2,922,913) |
| 2025 | (3,052,001) |
| 2026 | (1,333,131) |
| 2027 | (1,213,132) |
| 2028 | (1,719,565) |
| Thereafter | (905,965) |

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2023

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Actuarial Assumptions

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

| | |
|---|--|
| Inflation | 2.50% |
| Salary Increases | 5.00% - 3.25%, including 2.75% wage inflation |
| Long-Term Investment Rate of Return | 7.00% compounded annually, net of investment expense, and including inflation |
| Municipal Bond Index Rate at the Measurement Date | 4.40% |
| Municipal Bond Index Rate at the Prior Measurement Date | 2.29% |
| Year for Fiduciary Net Position (FNP) is Projected to be Depleted | N/A |
| Singe Equivalent Interest Rate the Measurement Date | 7.00% |
| Singe Equivalent Interest Rate the Prior Measurement Date | 3.97% |
| Healthcare Cost Trent Rate | |
| Pre-Medicare Eligible | 6.50% |
| Medicare Eligible | Initial Medicare claims are set based on scheduled increases through plan year 2025. |
| Ultimate Trend Rate | |
| Pre-Medicare Eligible | 4.50% in 2031 |
| Medicate Eligible | 4.50% in 2027 |

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

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

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2023

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Actuarial Assumptions (Continued)

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

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

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

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

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

* Geometric mean, includes 2.50% inflation.

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2023

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Discount Rate

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

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

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

| | 1% Decrease (5.50% decreasing to 3.50% for pre-Medicare, Known decreasing to 3.50% for Medicare eligible) | Current Healthcare Trend Rate (6.50% decreasing to 4.50% for pre-Medicare, Known decreasing to 4.50% for Medicare eligible) | 1% Increase (7.50% decreasing to 5.50% for pre-Medicare, Known decreasing to 5.50% for Medicare eligible) |
|---|---|--|---|
| Board's proportionate share of the collective net OPEB liability | \$ 4,038,540 | \$ 5,325,767 | \$ 6,904,430 |

The following table presents the Board's proportionate share of the Net OPEB liability of the Trust calculated using the discount rate of 7.00%, as well as what the Net OPEB liability would be if calculated using one percentage point lower or one percentage point higher than the current rate:

| | 1% Decrease (6.00%) | Current Discount Rate (7.00%) | 1% Increase (8.00%) |
|---|---------------------------|-------------------------------------|---------------------------|
| Board's proportionate share of the collective net OPEB liability | \$ 6,584,525 | \$ 5,325,767 | \$ 4,269,078 |

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2023

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

OPEB Plan Fiduciary Net Position

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

NOTE 12 – RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board has insurance for its buildings and contents through the State Insurance Fund (SIF), Alabama Department of Finance, Division of Risk Management, a public entity risk pool, which operates as a common risk management and insurance program for state-owned properties and boards of education. The Board pays an annual premium based on the amount of coverage. The SIF is self-insured up to \$3 million per occurrence and purchases commercial insurance for claims in excess of \$3 million. Errors and omissions insurance are purchased from the 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 Board purchases commercial insurance for fidelity bonds and vehicles. Settled claims in the past three years have not exceeded the commercial insurance coverage.

The State Board of Adjustment 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. No such claims or related settlements have occurred in the past three years.

NOTE 13 – PAYMENTS OR SERVICES FURNISHED BY OTHER AGENCIES

Certain payments or services are furnished by the State of Alabama and the City of Fort Payne on behalf of the Board. Included in these items are payments for bond issue proceeds, donated fixed assets, utilities and payments on city bond issues for school purposes. These payments or services are reflected as revenues on the Board's financial statements in the applicable funds for which they apply. Also, the City of Fort Payne holds legal title to some of the Board's land and buildings, and the related amounts are not reported in the accompanying financial statements. As of September 30, 2023, the Board utilized such land and buildings with aggregate costs of \$6,000 and \$1,452,557, respectively.

FORT PAYNE CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2023

NOTE 14 – CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds or the general fund. 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.

On October 1, 1996, the Board entered into a "Funding Agreement" with the City of Fort Payne whereby the Board would receive \$7,350,000 from the proceeds of the City's issue of General Obligation Warrants, Series 1996. Under the Agreement, the Board agreed to pay its pro rata share of the debt service on the Series 1996 Warrants. The Board's portion of debt repayment on the Series 1996 Warrants is 73.8% of the City's debt service obligation. Although the Agreement stipulates the Board is to remit payments monthly, the obligations are actually paid from a 7.5 mil tax designated for school system use that is collected by the City. The City remits to the Board any collections that are in excess of the debt service due from the Board for that year. The Board remits to the City any debt service costs that are in excess of collections by the City for that year. During the year ended September 30, 2014, the City refinanced and defeased this bond issue. The Board's portion of the new warrants was \$1,440,000 at September 30, 2023. The new warrants mature on May 1, 2026.

On June 6, 2018, the City issued the 2018 General Obligation Warrants in the amount of \$19,815,000 to fund the construction of a new elementary school. The bond issue principal and interest is paid from ad valorem taxes collected by the City. At September 30, 2023, the outstanding warrants totaled \$19,025,000. The warrants are scheduled to mature in May 2047.

NOTE 15 – DONATED FOOD PROGRAM

The commodities received from the federal government in connection with the donated food program are reflected in the accompanying financial statements. The total assigned value of commodities donated and consumed for the year was \$262,260.

NOTE 16 – DEFERRED COMPENSATION PLANS

The Board offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Section 457. The deferred compensation plan RSA-1 is administered by the Retirement Systems of Alabama and the American Fidelity annuity plans are administered by the Public Employees Benefit Services Corporation (PEBSCO) and Alabama Education Association (AEA). The RSA-1 plan is available to all Board employees participating in the Teachers' Retirement System. Participation in either plan is optional and permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency. All amounts of compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to those amounts, are solely the property of the employees. The plans' assets and liabilities are no longer reported on the Board's financial statements for the RSA-1 and PEBSCO plans.

REQUIRED SUPPLEMENTARY INFORMATION

FORT PAYNE CITY BOARD OF EDUCATION

SCHEDULE OF BOARD'S PROPORTIONATE SHARE OF THE COLLECTIVE NET PENSION LIABILITY

FOR THE YEAR ENDED SEPTEMBER 30, 2023

| | Actuarial Valuation as of September 30, | | | | | | | | | |
|--|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|------|
| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
| Board's Proportion of the Collective Net Pension Liability | 0.253665% | 0.238319% | 0.237293% | 0.222443% | 0.224774% | 0.224625% | 0.224879% | 0.220172% | 0.217177% | - |
| Board's Proportionate Share of the Collective Net Pension Liability | \$ 39,422,000 | \$ 22,450,000 | \$ 29,352,000 | \$ 24,595,000 | \$ 22,348,000 | \$ 22,077,000 | \$ 24,345,000 | \$ 23,043,000 | \$ 19,730,000 | \$ - |
| Board's Covered-Employee Payroll during the Measurement Period* | \$ 17,676,812 | \$ 17,575,144 | \$ 16,301,340 | \$ 15,617,474 | \$ 14,589,652 | \$ 14,630,647 | \$ 13,900,853 | \$ 13,676,565 | \$ 13,578,365 | \$ - |
| Board's Proportionate Share of the Collective Net Pension Liability as a Percentage of its Covered Payroll | 223.02% | 127.74% | 180.06% | 157.48% | 153.18% | 150.90% | 175.13% | 168.49% | 145.30% | - |
| Plan Fiduciary Net Position as a Percentage of the Total Collective Net Pension Liability | 62.21% | 76.44% | 67.72% | 69.85% | 72.29% | 71.50% | 67.93% | 67.51% | 71.01% | - |

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

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

FORT PAYNE CITY BOARD OF EDUCATION

SCHEDULE OF BOARD'S PENSION CONTRIBUTIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2023

| | Actuarial Valuation as of September 30, | | | | | | | | | |
|---|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|------|
| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
| Contractually Determined Contribution | \$ 2,365,000 | \$ 2,367,809 | \$ 2,084,763 | \$ 2,046,592 | \$ 1,933,891 | \$ 1,804,366 | \$ 1,758,316 | \$ 1,690,588 | \$ 1,624,681 | \$ - |
| Contributions in Relation to the Contractually Required Contribution | 2,368,000 | 2,367,809 | 2,084,763 | 2,046,592 | 1,933,891 | 1,804,366 | 1,758,316 | 1,690,588 | 1,624,681 | - |
| Contribution Deficiency (Excess) | \$ (3,000) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered-Employee Payroll | \$ 17,676,812 | \$ 17,575,144 | \$ 16,301,340 | \$ 15,617,474 | \$ 14,589,652 | \$ 14,630,647 | \$ 13,900,853 | \$ 13,676,565 | \$ 13,578,365 | \$ - |
| Contributions as a Percentage of Covered- Employee Payroll | 13.40% | 13.47% | 12.79% | 13.10% | 13.26% | 12.33% | 12.65% | 12.36% | 11.97% | - |

Note to Schedule:

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

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

FORT PAYNE CITY BOARD OF EDUCATION

SCHEDULE OF PENSION INVESTMENT RETURNS

FOR THE YEAR ENDED SEPTEMBER 30, 2023

| | Actuarial Valuation as of September 30, | | | | | | | | | |
|--|---|-------|-------|-------|-------|-------|-------|-------|-------|------|
| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
| Investment rate of return, net of pension plan investment expense, including inflation | 7.45% | 7.45% | 7.70% | 7.70% | 7.70% | 7.75% | 8.00% | 8.00% | 8.00% | - |

Note to Schedule:

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

FORT PAYNE CITY BOARD OF EDUCATION

SCHEDULE OF BOARD'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY

ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST

FOR THE YEAR ENDED SEPTEMBER 30, 2023

| | Actuarial Valuation as of September 30, | | | | | | | | | |
|--|---|---------------|---------------|---------------|---------------|---------------|------|------|------|------|
| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
| Board's Proportion of the Collective Net OPEB Liability | 0.305648% | 0.246340% | 0.258354% | 0.290561% | 0.274226% | 0.268868% | - | - | - | - |
| Board's Proportionate Share of the Collective Net OPEB Liability | \$ 5,325,767 | \$ 12,727,928 | \$ 16,766,815 | \$ 10,962,192 | \$ 22,537,885 | \$ 19,969,979 | \$ - | \$ - | \$ - | \$ - |
| Board's Covered-Employee Payroll during the Measurement Period* | \$ 17,676,812 | \$ 17,575,144 | \$ 16,301,340 | \$ 15,617,474 | \$ 14,589,652 | \$ 14,630,647 | \$ - | \$ - | \$ - | \$ - |
| Board's Proportionate Share of the Collective Net OPEB Liability as a Percentage of its Covered-Employee Payroll | 30.13% | 72.42% | 102.86% | 70.19% | 154.48% | 136.49% | - | - | - | - |
| Plan Fiduciary Net Position as a Percentage of the Total Collective Net OPEB Liability | 48.39% | 27.11% | 19.80% | 28.14% | 14.81% | 15.37% | - | - | - | - |

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

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

FORT PAYNE CITY BOARD OF EDUCATION

SCHEDULE OF BOARD'S OPEB CONTRIBUTIONS

ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST

FOR THE YEAR ENDED SEPTEMBER 30, 2023

| | Actuarial Valuation as of September 30, | | | | | | | | | |
|---|---|---------------|---------------|---------------|---------------|---------------|------|------|------|------|
| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
| Contractually Determined Contribution | \$ 583,682 | \$ 575,036 | \$ 466,242 | \$ 509,011 | \$ 819,045 | \$ 634,113 | \$ - | \$ - | \$ - | \$ - |
| Contributions in Relation to the Contractually Required Contribution | 584,122 | 575,036 | 466,242 | 509,011 | 819,045 | 634,113 | - | - | - | - |
| Contribution Deficiency (Excess) | \$ (440) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered-Employee Payroll | \$ 17,676,812 | \$ 17,575,144 | \$ 16,301,340 | \$ 15,617,474 | \$ 14,589,652 | \$ 14,630,647 | \$ - | \$ - | \$ - | \$ - |
| Contributions as a Percentage of Covered- Employee Payroll | 3.30% | 3.27% | 2.86% | 3.26% | 5.61% | 4.33% | - | - | - | - |

Note to Schedule:

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

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

FORT PAYNE CITY BOARD OF EDUCATION

OTHER POST-EMPLOYMENT BENEFIT NOTES TO THE REQUIRED SUPPLEMENTARY
INFORMATION

FOR THE YEAR ENDED SEPTEMBER 30, 2023

CHANGES IN ACTUARIAL ASSUMPTIONS

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

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

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.

FORT PAYNE CITY BOARD OF EDUCATION

OTHER POST-EMPLOYMENT BENEFIT NOTES TO THE REQUIRED SUPPLEMENTARY
INFORMATION (CONTINUED)

FOR THE YEAR ENDED SEPTEMBER 30, 2023

METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED
CONTRIBUTIONS

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

| | |
|-------------------------------|--|
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level Percent of Pay |
| Remaining Amortization Period | 22 years, Closed |
| Asset Valuation Method | Market Value of Assets |
| Inflation | 2.75% |
| Healthcare Cost Trend Rate: | |
| Pre-Medicare Eligible | 6.75% |
| Medicare Eligible* | ** |
| Ultimate Trend Rate: | |
| Pre-Medicare Eligible | 4.75% |
| Medicare Eligible | 4.75% |
| Year of Ultimate Trend Rate | 2027 for Pre-Medicare Eligible 2024 for Medicare Eligible |
| Optional Plans Trend Rate | 2.00% |
| Investment Rate of Return | 5.00%, including inflation |

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

FORT PAYNE CITY BOARD OF EDUCATION

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2023

| | Budgeted Amounts | | Actual Amounts | Budget to GAAP | | Actual Amounts |
|---|------------------|---------------|-----------------|-----------------------------|-----------|----------------|
| | Original | Final | Budgetary Basis | Differences Over (Under) | | GAAP Basis |
| REVENUES | | | | | | |
| State | \$ 25,010,708 | \$ 27,029,732 | \$ 27,446,741 | \$ | - | \$ 27,446,741 |
| Federal | 99,786 | 99,786 | 74,007 | | - | 74,007 |
| Local | 5,327,790 | 5,327,790 | 7,610,627 | | - | 7,610,627 |
| Other | 167,000 | 167,000 | 431,201 | | - | 431,201 |
| | 30,605,284 | 32,624,308 | 35,562,576 | | - | 35,562,576 |
| EXPENDITURES | | | | | | |
| Instruction Services | 19,127,139 | 19,159,700 | 20,448,189 | (1) | (436,361) | 20,011,828 |
| Instructional Support | 4,752,614 | 4,915,821 | 5,176,621 | (1) | (76,749) | 5,099,872 |
| Operation and Maintenance | 2,204,697 | 2,391,088 | 2,468,846 | (1) | (3,413) | 2,465,433 |
| Student Transportation Services | 1,323,727 | 1,323,727 | 1,306,716 | (1) | (6,000) | 1,300,716 |
| General Administration Services | 966,787 | 966,877 | 1,219,484 | (1) | (1,320) | 1,218,164 |
| Other Expenditures | 1,088,587 | 1,088,587 | 1,042,736 | (1) | 56,987 | 1,099,723 |
| Capital Outlay | - | 1,639,558 | 571,019 | | - | 571,019 |
| | 29,463,551 | 31,485,358 | 32,233,611 | | (466,856) | 31,766,755 |
| Excess of Revenues Over Expenditures | | | | | | |
| | 1,141,733 | 1,138,950 | 3,328,965 | | 466,856 | 3,795,821 |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Insurance Loss Recoveries | - | - | 11,026 | | - | 11,026 |
| Indirect Cost | - | - | 167,136 | | - | 167,136 |
| Transfers From Other Funds | 371,566 | 289,386 | 32,282 | | - | 32,282 |
| Transfers to Other Funds | (1,004,000) | (1,004,000) | (2,256,512) | | - | (2,256,512) |
| | (632,434) | (714,614) | (2,046,068) | | - | (2,046,068) |
| Net Changes In Fund Balances | 509,299 | 424,336 | 1,282,897 | | 466,856 | 1,749,753 |
| Fund Balances - Beginning of Year | 15,657,280 | 15,757,222 | 10,549,349 | (2) | 2,710,828 | 13,260,177 |
| Fund Balances - End of Year | \$ 16,166,579 | \$ 16,181,558 | \$ 11,832,246 | \$ | 3,177,684 | \$ 15,009,930 |

(1) 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 benefits that are earned but not paid are reported as expenditures on the financial statements.

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

FORT PAYNE CITY BOARD OF EDUCATION

BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2023

| | Budgeted Amounts | | Actual Amounts Budgetary Basis | Budget to GAAP Differences Over (Under) | | Actual Amounts GAAP Basis |
|--|-------------------|-------------------|-----------------------------------|---|----------------|------------------------------|
| | Original | Final | | | | |
| REVENUES | | | | | | |
| State | \$ - | \$ - | \$ - | \$ - | | \$ - |
| Federal | 7,776,939 | 11,884,606 | 9,089,902 | - | | 9,089,902 |
| Local | 653,292 | 653,292 | 912,587 | - | | 912,587 |
| Other | 92,000 | 92,000 | 93,747 | - | | 93,747 |
| | <u>8,522,231</u> | <u>12,629,898</u> | <u>10,096,236</u> | <u>-</u> | | <u>10,096,236</u> |
| EXPENDITURES | | | | | | |
| Instruction Services | 3,811,609 | 5,969,173 | 4,007,937 | (1) | (32,573) | 3,975,364 |
| Instructional Support | 701,227 | 753,066 | 568,755 | - | | 568,755 |
| Operation and Maintenance | 93,651 | 204,599 | 397,182 | - | | 397,182 |
| Student Transportation Services | - | - | 54,506 | (1) | (20,569) | 33,937 |
| Food Services | 2,959,466 | 3,011,503 | 3,491,646 | - | | 3,491,646 |
| General Administration Services | 625,345 | 494,339 | 361,434 | (1) | (497) | 360,937 |
| Other Expenditures | 264,503 | 328,310 | 273,717 | (1) | (16) | 273,701 |
| Capital Outlay | - | 1,802,278 | 1,072,778 | - | | 1,072,778 |
| | <u>8,455,801</u> | <u>12,563,268</u> | <u>10,227,955</u> | <u>(53,655)</u> | | <u>10,174,300</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>66,430</u> | <u>66,630</u> | <u>(131,719)</u> | <u>53,655</u> | | <u>(78,064)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers From Other Funds | 96,067 | 96,067 | 1,019,617 | - | | 1,019,617 |
| Transfers to Other Funds | (90,067) | (90,067) | (126,733) | - | | (126,733) |
| | <u>6,000</u> | <u>6,000</u> | <u>892,884</u> | <u>-</u> | | <u>892,884</u> |
| Net Changes In Fund Balances | 72,430 | 72,630 | 761,165 | 53,655 | | 814,820 |
| Fund Balances - Beginning of Year | <u>779,321</u> | <u>682,885</u> | <u>(305,861)</u> | <u>(2)</u> | <u>531,393</u> | <u>225,532</u> |
| Fund Balances - End of Year | <u>\$ 851,751</u> | <u>\$ 755,515</u> | <u>\$ 455,304</u> | <u>\$ 585,048</u> | | <u>\$ 1,040,352</u> |

(1) 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 benefits that are earned but not paid are reported as expenditures on the financial statements.

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

SUPPLEMENTARY INFORMATION



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

Members of the Board of Education
Fort Payne City Board of Education
Fort Payne, Alabama

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Fort Payne City Board of Education (the Board), a component unit of the City of Fort Payne, Alabama, as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated March 21, 2024.

Report on Internal Control Over Financial Reporting

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

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

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Members of the Board of Education
Fort Payne City Board of Education

Report on Internal Control Over Financial Reporting (Continued)

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

MDA Professional Group, P.C.

Fort Payne, Alabama
March 21, 2024

SINGLE AUDIT ACT INFORMATION

FORT PAYNE CITY BOARD OF EDUCATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2023

| | Federal CFDA Number | Pass-through Grantor Number | Federal Expenditures |
|---|------------------------|--------------------------------|-------------------------|
| <u>U.S. DEPARTMENT OF EDUCATION</u> | | | |
| Passed through State Department of Education: | | | |
| <i>Special Education Cluster:</i> | | | |
| Special Education Grants to States - IDEA, Part B, VIB | 84.027 | 181 | \$ 831,548 |
| Special Education Grants to States - IDEA, Part B, ARP | 84.027X | 181 | 129,165 |
| Special Education-Preschool Grants - IDEA, Part B, LEA | 84.173 | 181 | 16,391 |
| Special Education-Preschool Grants - IDEA, Part B, ARP | 84.173X | 181 | 6,636 |
| <i>Subtotal Special Education Cluster</i> | | | 983,740 |
| Title I - Part A Grants to Local Education Agencies | 84.010 | 181 | 1,249,816 |
| Career and Technical Education - BASIC Grant LEA | 84.048A | 181 | 42,764 |
| English Language Acquisition Grants, Title III | 84.365 | 181 | 97,203 |
| Supporting Effective Instruction State Grant | 84.367 | 181 | 100,178 |
| Title V - Part B Rural Education Initiative - Safe and Drug Free School | 84.358 | 181 | 101,934 |
| Title IV Grant Student Support and Academic Enrichment | 84.484 | 181 | 90,067 |
| <i>Subtotal Other Department of Education Grants</i> | | | 1,681,962 |
| COVID-19 Elementary and Secondary Emergency Relief Fund | 84.425D | 181 | 2,635,755 |
| COVID-19 ARPA Homeless II | 84.425W | 181 | 16,026 |
| COVID-19 Elementary and Secondary Emergency Relief Fund, ARP | 84.425U | 181 | 370,803 |
| <i>Subtotal Coronavirus Aid, Relief, and Economic Security Act Grants</i> | | 181 | 3,022,584 |
| <i>TOTAL U.S. DEPARTMENT OF EDUCATION</i> | | | 5,688,286 |
| <u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u> | | | |
| Passed through the State Department of Education: | | | |
| Social Security-Disability Insurance | 96.001 | 181 | 360 |
| <i>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</i> | | | 360 |
| <u>U.S. DEPARTMENT OF DEFENSE</u> | | | |
| Direct Program: | | | |
| Army ROTC | 12.XXX | Unknown | 73,647 |
| <i>TOTAL U.S. DEPARTMENT OF DEFENSE</i> | | | 73,647 |

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

SCHEDULE OF EXPENDITURES AND FEDERAL AWARDS (Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2023

| | Federal CFDA Number | Pass-through Grantor Number | Federal Expenditures |
|---|------------------------|--------------------------------|----------------------------|
| <u>U.S. DEPARTMENT OF AGRICULTURE</u> | | | |
| Passed through State Department of Education: | | | |
| <i>Child Nutrition Cluster:</i> | | | |
| School Breakfast Program | 10.553 | 181 | \$ 602,315 |
| National School Lunch Program | 10.555 | 181 | 1,896,187 |
| After School Snacks | 10.555 | 181 | 25,538 |
| National School Lunch Program - Food Distribution | 10.555 | 181 | 262,260 |
| National School Lunch Program - Non-Cash Assistance | 10.555 | 181 | 5,685 |
| Summer Food Service Program for Children | 10.559 | 181 | 14,960 |
| U.S.D.A. Fresh Fruits and Vegetables Program | 10.582 | 181 | 118,175 |
| Other Federal - COVID Relief | 10.XXX | 181 | 118,391 |
| <i>Subtotal Child Nutrition Cluster</i> | | | <u>3,043,511</u> |
| Child Nutrition Discretionary Grants Limited Availability | 10.579 | 181 | 303,738 |
| U.S.D.A. Head Start Meals | 10.558 | 181 | <u>54,367</u> |
| <i>Subtotal Other Department of Agriculture Grants</i> | | | <u>358,105</u> |
| <i>TOTAL U.S. DEPARTMENT OF AGRICULTURE</i> | | | <u>3,401,616</u> |
| TOTAL FEDERAL ASSISTANCE | | | <u><u>\$ 9,163,909</u></u> |

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

SCHEDULE OF EXPENDITURES AND FEDERAL AWARDS (Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2023

BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance of the Fort Payne City Board of Education (the Board). The Board receives federal awards both directly from federal agencies and indirectly through pass-through entities. Federal program expenditures included in the accompanying schedule are presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the 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 Fort Payne City Board of Education, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Board.

MAJOR PROGRAMS

Major programs are identified in the Summary of Auditor's Results section of the Schedule of Findings and Questioned Costs.

FOOD DISTRIBUTION

Nonmonetary assistance is reported in the Schedule of Expenditures of Federal Awards at fair market value of the commodities received and disbursed.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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



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

Members of the Board of Education
Fort Payne City Board of Education
Fort Payne, Alabama

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

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

In our opinion, the Board complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2023.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

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Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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

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

MDA Professional Group, P.C.

Fort Payne, Alabama
March 21, 2024

FORT PAYNE CITY BOARD OF EDUCATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2023

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

| | |
|--|---------------|
| Type of audit opinion issued: | Unmodified |
| Internal control over financial reporting: | |
| Material weakness identified | No |
| Significant Deficiencies identified | None Reported |
| Noncompliance material to financial statements noted | No |

FEDERAL AWARDS

| | |
|--|---------------|
| Internal control over major programs: | |
| Material weakness identified | No |
| Significant Deficiencies identified | 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 the Uniform Guidance | No |

Identification of major programs

| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> |
|--------------------|--|
| 84.010 | Title I, Part A Grants to Local Education Agencies |
| 84.425D | COVID-19 Elementary and Secondary Emergency Relief Fund |
| 84.425U | COVID-19 Elementary and Secondary Emergency Relief Fund, ARP |
| 84.425W | COVID-19 ARPA Homeless II |

| | | |
|---|----|---------|
| Dollar threshold used to distinguish between Type A and Type B programs | \$ | 750,000 |
| Auditee qualified as low-risk auditee | | Yes |

(Continued)

FORT PAYNE CITY BOARD OF EDUCATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2023

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.