



Alabama Department of Examiners of Public Accounts

Report on the **Shelby County Board of Education** **Shelby County, Alabama**

October 1, 2022 through September 30, 2023

Filed: June 7, 2024

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ALABAMA STATE HOUSE

Rachel Laurie Riddle, Chief Examiner



Rachel Laurie Riddle
Chief Examiner

State of Alabama
Department of
Examiners of Public Accounts

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

Dear Madam:

An audit was conducted on the Shelby County Board of Education, Shelby County, Alabama, for the period October 1, 2022 through September 30, 2023, by Examiners Kalandria Morris and Kalese Robinson. I, Kalandria Morris, served as Examiner-in-Charge on the engagement, and under the authority of the *Code of Alabama 1975*, Section 41-5A-19, I hereby swear to and submit this report to you on the results of the audit.

Respectfully submitted,

A handwritten signature in blue ink that reads "Kalandria Morris".

Kalandria Morris
Examiner of Public Accounts

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Department of
Examiners of Public Accounts

SUMMARY

**Shelby County Board of Education
October 1, 2022 through September 30, 2023**

The Shelby County Board of Education (the “Board”) is governed by a five-member body elected by the citizens of Shelby County. The members and administrative personnel in charge of governance of the Board are listed in Exhibit 16. The Board is the governmental agency that provides general administration and supervision for Shelby County Public Schools, preschool through high school, with the exception of schools administered by cities having a city board of education.

This report presents the results of an audit the objectives of which were to determine whether the financial statements present fairly the financial position and results of financial operations and whether the Board complied with applicable laws and regulations, including those applicable to its major federal financial assistance programs. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, as well as the requirements of the Department of Examiners of Public Accounts under the authority of the *Code of Alabama 1975*, Section 41-5A-12.

An unmodified opinion was issued on the financial statements, which means that the Board’s financial statements present fairly, in all material respects, its financial position and the results of its operations for the fiscal year ended September 30, 2023.

Tests performed during the audit did not disclose any significant instances of noncompliance with applicable state and local laws and regulations.

EXIT CONFERENCE

Board members and administrative personnel, as reflected on Exhibit 16, were invited to discuss the results of this report at an exit conference. Individuals in attendance were Superintendent Dr. Lewis Brooks; Chief School Financial Officer John Gwin; and Board Members David Bobo, Peg Hill, Jimmy Bice, Amber Polk, Aubrey Miller and Jane Hampton. Representing the Department of Examiners of Public Accounts were Amanda Hensley, Audit Manager; Kalandria Morris, Examiner; and Kalese Robinson, Examiner.

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Independent Auditor's Report

Independent Auditor's Report

Members of the Shelby County Board of Education,
Superintendent and Chief School Financial Officer
Columbiana, 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 Shelby County Board of Education, as of and for the year ended September 30, 2023, and related notes to the financial statements, which collectively comprise the Shelby County Board of Education's basic financial statements as listed in the table of contents as Exhibits 1 through 8.

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 Shelby County Board of Education, as of September 30, 2023, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 (***Government Auditing Standards***). 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 Shelby County 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 these 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 Shelby County 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.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- ◆ exercise professional judgment and maintain professional skepticism throughout the audit.
- ◆ identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- ◆ obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Shelby County 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 Shelby County 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

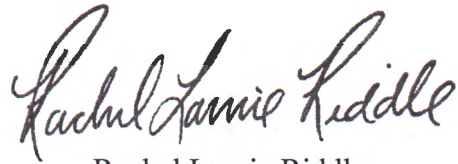
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), the Schedule of the Employer's Proportionate Share of the Collective Net Pension Liability, the Schedule of the Employer's Proportionate Share of the Net Other Postemployment Benefits (OPEB) Liability, the Schedules of the Employer's Contributions and the Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Exhibits 9 through 14), 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 Shelby County Board of Education's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 15), as required by Title 2 U. S. *Code of Federal Regulations* Part 200, ***Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)***, is presented for the purpose of additional analysis, and is not a required part of the basic financial statements. 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 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with ***Government Auditing Standards***, we have also issued our report dated May 15, 2024, on our consideration of the Shelby County Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Shelby County Board of Education's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with ***Government Auditing Standards*** in considering the Shelby County Board of Education's internal control over financial reporting and compliance.



Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

May 15, 2024

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Management's Discussion and Analysis
(Required Supplementary Information)

Shelby County Board of Education
Management's Discussion and Analysis (MD&A)
September 30, 2023

Introduction

This section of the Shelby County Board of Education's comprehensive annual financial report presents Management's Discussion and Analysis (MD&A) of the Board of Education's overall financial position and operating results of the fiscal year ended on September 30, 2023 please read it in conjunction with the Board's financial statements and notes, which follow this analysis.

The MD&A is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement 34; *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the model contained in GASB Statement No. 34, and these comparisons are included.

The Board and its Superintendent have the responsibility for operating, maintaining and servicing the needs of 30 school sites including 15 Elementary/Intermediate Schools, 6 Middle Schools, 7 High Schools, a Career Technical Education Center, and 1 Special Needs School. All schools are accredited by the Southern Association of Colleges and Schools Council of Accreditation and School Improvement. In addition, the Board operates a Central Office, an Instructional Services Center, an Operations Department, and a Student Transportation Facility.

At the beginning of the 2023-2024 school term, the Board employed 1,715 teachers, counselors, librarians, administrators, other professionals; and 1,336 support workers, serving a student population of 20,680. The Shelby County School System is the sixth largest system in the State.

Financial highlights - Significant Items to Note

Major Local tax revenues increased 9.78% when compared to the previous year. This is from the net increase in assessed values of Shelby County Property and inflation in home prices over the course of the year. Another contributing factor is the increase in the value of Motor Vehicles during the year due to vehicle shortages driving up demand and general inflation.

The Board decreased outstanding bonds and notes payable by \$12.31 million. The Board took on new debt in the form of notes payable for vehicles totaling \$766.7 thousand, Actuarial Recalculations of Net Pension Liability totaling \$104.77 million, and compensated absences of \$103.3 thousand. The Board is continuing to finance vehicles to replace older administrative and service vehicles in the fleet. The Board recognized a decrease in the collective share of net other post-employment benefit liability totaling \$57.44 million due to annual, actuarial recalculations from the Retirement Systems of Alabama.

The Board's General Fund Balance increased during the year by 7% due to a \$25.31 million increase in revenue and only a \$23.12 million increase in expenditures.

Using the Financial Statements - An Overview for the User

As a result of the implementation of the GASB 34 reporting model, the financial section consists of five parts- *management's discussion and analysis* (this section), the *independent auditors' report*, the *basic financial statements*, *required supplementary information*, and *other supplementary information*.

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

Instruction includes teacher salaries and benefits, teacher aides, substitute teachers, textbooks, depreciation of instructional buildings, professional development, and classroom instructional materials, supplies and equipment.

Instructional support includes salaries and benefits for school principals, assistant principals, librarians, counselors, school secretaries, school bookkeepers, speech therapists, school nurses, and professional development expenses.

Operations and maintenance includes salaries and benefits for maintenance and custodial staff, utilities, security services, maintenance supplies, maintenance equipment, maintenance services, and depreciation of maintenance vehicles and equipment.

Auxiliary services includes student transportation expenses, such as bus driver salaries and benefits, mechanics, bus aides, vehicle maintenance and repair expenses, vehicle fuel, depreciation of buses and bus shops, and fleet insurance. Auxiliary services also include food service expenses such as salaries and benefits for lunchroom managers, cooks, cashiers, and servers. Also included are donated and purchased food, food preparation and service supplies, kitchen and lunchroom equipment, and depreciation of food service equipment and facilities.

General administration and central support includes salaries and benefits for the superintendent, assistants, clerical and financial staff, and other personnel that provide system-wide support for the schools. Also included are legal expenses, liability insurance, training for board members and general administrative staff, printing costs, and depreciation of central office equipment and facilities.

Interest and Fiscal Charges includes interest, but not principal payments, on long-term debt issues and other expenses related to the issuance and continuance of debt issues.

Other includes the salaries and benefits for adult and continuing education teachers, preschool teachers and aides, extended day personnel, and community education instructors. Also included are the materials, supplies, equipment, related depreciation, and other expenses for operating programs outside of those for educating students in the kindergarten through 12th grade instructional programs.

Government-wide statements report the capitalization of capital assets and depreciation of all exhaustible capital assets and the outstanding balances of long-term debt and other obligations. These statements report all assets and liabilities perpetuated by these activities using the accrual basis of accounting. The accrual basis takes into account all of the Board's current year revenues and expenses regardless of when received or paid. This approach moves the financial reporting method for governmental entities closer to the financial reporting methods used in the private sector. The following *government-wide financial statements* report on all of the governmental activities of the Board as a whole.

The *statement of net position* (on page 2) is most closely related to a balance sheet. It presents information on all of the board's assets (what it owns) and liabilities (what it owes), with the difference between the two reported as net position. The net position reported in this statement represents the accumulation of changes in net position for the current fiscal year and all fiscal years in the past combined. Over time, the increases or decreases in net position reported in this statement may serve as a useful indicator of whether the financial position of the school board is improving or deteriorating.

The *statement of activities* (on page 3) is most closely related to an income statement. It presents information showing how the Board's net position changed during the current fiscal year only. All of the current year's revenues and expenses are accounted for in the *statement of activities* regardless of when cash is received or paid. This statement shows gross expenses and offsetting program revenues to arrive at net cost information for each major expense function or activity of the Board. By showing the change in net position for the year, the reader may be able to determine whether the Board's financial position has improved or deteriorated over the course of the current fiscal year. The change in net position may be financial or non-financial in nature. Non-financial factors which may have an impact on the Board's financial condition include: age and condition of facilities, mandated educational programs for which little or no funding is provided, and increases or decreases in funding from state and federal governments, to name a few.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Board used fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The reporting model still requires the School Board to present financial statements on a fund basis, but with some modifications. All of the funds of the School Board can be classified into two categories: governmental funds, and fiduciary funds.

Governmental Funds Governmental *fund financial statements* begin on page 5. These statements account for basically the same governmental activities reported in the *government-wide financial statements*. Until now, fund information has been reported in the aggregate by type of fund. As required under the reporting model, the *fund financial statements* presented herein displayed information on each of the Board's most important governmental funds or *major funds*. This is required in order to better assess the School Board's accountability for significant governmental programs or certain dedicated revenue. The Board's *major funds* are the General Fund and Special Revenue Fund.

The *fund financial statements* are still measured on the modified-accrual basis of accounting as reported in previous fiscal years, where revenues, expenditures are recorded when they become measurable and available. As a result, the *fund financial statements* focus more on the near term use and availability of spendable resources. The information provided in these statements is useful in determining the Board's immediate financial needs. This is in contrast to the accrual-based *government-wide financial statements*, which focus more on overall long-term availability of spendable resources. The relationship between governmental activities reported in the *government-wide financial statements* and the governmental funds reported in the *fund financial statements* are reconciled on pages 6 and 8 of these financial statements. These reconciliations are useful to readers in understanding the long-term impact of the Board's short-term financing decisions.

Fiduciary Funds. The Board is the trustee, or fiduciary, for some of its booster and parent organization activity funds, which are under the control, and administration of its schools. Fiduciary funds also include the balances of custodial funds. All of the Board's fiduciary activities are reported in a separate *Statement of Fiduciary Net Position* on page 10 of this section. These funds are not available to the Board to finance its operations, and therefore are not included in the *government-wide financial statements*. The Board is responsible for ensuring that the assets reported by these funds are used for their intended purposes.

Notes to the Basic Financial Statements. The *notes to the basic financial statements* provide additional information that is essential for the statements to fairly represent the Board's financial position, and its operations. The notes contain important information that is not part of the basic financial statements. However, the notes are an integral part of the statements, not an appendage to them. The *notes to the basic financial statements* begin on page 12 in this section.

After the presentation of the *basic financial statements*, the reporting model requires additional *required supplemental information* to be presented following the notes to the basic financial statements. The required supplementary information beginning on page 52 provides a comparison of the original adopted budget to the final amended budget of the Board's General Fund, which is then further compared to the actual operating results for the fiscal year. The comparison of this data allows users to assess management's ability to project and plan for its operations throughout the year.

Analysis of the School Board’s Overall Financial Position

Over time, net position may serve as a useful indicator of a government’s financial position. Refer to Table 1 when reading the following analysis of net position. The Board’s liabilities and deferred inflows exceeded assets and deferred outflows by \$29.12 million at September 30, 2023. This reflected an increase in net position of \$51.02 million over the previous year. This increase is mainly due to the decrease in Deferred Inflows of Net Pension Liability totaling \$41.71 million, as well as an increase in the Deferred Outflows of Net Pension Liability totaling \$44.75 million. These major changes come from actuarial changes made by the Retirement Systems of Alabama. Another positive effect on the fund balance was the increase in Investments of \$11.44 million and the increase of Construction in Progress of \$27.97 million.

- Of this figure, \$207.64 million reflects the Board’s investment in capital assets (e.g. land, buildings, improvements other than buildings, furniture and equipment, and transportation equipment), less accumulated depreciation and debt related to the acquisition of the assets. Since these capital assets are used in governmental activities, this portion of net position is not available for future spending or funding of operations.
- Restricted net position accounts for \$28.50 million of total net position. Restricted net position is reported separately to show the external legal constraints from debt covenants and enabling legislation that limit the Board’s ability to use net position for day-to-day operations.
- The balance of unrestricted net position was (\$265.26) million primarily due to pension liabilities and deferred outflows with the adoption of GASB Statement 68 and other post-employment benefit liabilities and deferred outflows with the adoption GASB Statement 75.

Table 1: Summary of Net Position
September 30, 2023
(in Millions)

	9/30/2023 Governmental Activities	9/30/2022 Governmental Activities	Increase (Decrease)
Assets			
Current and other Assets	\$ 182.00	\$ 159.51	\$ 22.49
Capital Assets	343.91	318.72	25.19
Total Assets	525.91	478.23	47.68
Deferred Outflows of Resources	158.76	94.45	64.31
Liabilities			
Current and other Liabilities	20.84	17.46	3.38
Non-Current (Long-Term) Liabilities	451.37	416.07	35.30
Total Liabilities	472.21	433.53	38.68
Deferred Inflow of Resources	241.59	219.29	22.30
Net Position			
Invested in Capital Assets, Net of Related Debt	207.64	177.04	30.60
Restricted	28.50	13.62	14.88
Unrestricted	(265.26)	(270.80)	5.54
Total Net Position	\$ (29.12)	\$ (80.14)	\$ 51.02

At the end of the current fiscal year, the Board is able to report positive balances in all categories of net position except unrestricted net position of the Board. Again, this is due to the inclusion of Pensions and OPEB.

The results of this fiscal year's operations as a whole are reported in detail in the *Statement of Activities* on page 3. Table 2 condenses the results of operations for the fiscal year into a format where the reader can easily see the total revenues of the School Board for the year. It also shows the impact the operations had on changes in net position as of September 30, 2023.

Table 2: Summary of Changes in Net Position from Operating Results
September 30, 2023
(in Millions)

	9/30/2023 Governmental Activities	9/30/2022 Governmental Activities
Revenues		
Program Revenues:		
Charges for Services	\$ 22.53	\$ 22.54
Operating grants and contributions	173.15	163.35
Capital Grants and Contributions	25.85	11.95
General Revenues:		
Local property taxes	78.21	70.45
Local sales taxes	15.50	14.96
Other taxes including Alcoholic Beverage Tax	0.72	0.78
Other	10.12	10.22
Total Revenue	326.08	294.25
Expenses		
Instruction services	156.14	134.09
Instructional support services	45.02	39.70
Operation and maintenance services	26.62	22.67
Auxiliary services	32.68	29.85
General administration and central support	5.86	4.96
Interest and fiscal charges	3.48	3.79
Other	5.26	4.49
Total Expenses	275.06	239.55
Excess <Decrease> in Net Position	51.02	54.70
Net Position Beginning	(80.14)	(134.84)
Net Position Ending	\$ (29.12)	\$ (80.14)

The Board's net position increased \$51.02 million during the current fiscal year due to increases in local taxes and decreases in expenditures to record for OPEB liability.

Governmental Activities - As shown in Table 2, the cost of services rendered from the Board’s governmental activities for the year ended September 30, 2023 was \$275.06 million. It is important to note that not all of these costs were borne by the taxpayers of Shelby County:

- Some of the cost, \$22.53 million, was paid by users who benefited from services provided during the year, such as school lunches, after school care tuition, local school fees, and drivers education instruction.
- State and federal governments subsidized certain programs with grants and contributions totaling \$173.15 million.
- Other general revenue sources, such as interest earnings, sale of surplus property, etc., provided for \$10.12 million in revenues.
- \$94.43 million of the Board’s total costs of \$275.06 million was financed by district taxpayers.

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

Table 3: Net Cost of Governmental Activities
(in millions)

	9/30/2023		9/30/2022	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction services	\$156.14	\$(4.92)	\$134.09	\$(13.11)
Instructional support services	45.02	(22.37)	39.70	(17.58)
Operation and maintenance services	26.62	(12.44)	22.67	(2.86)
Auxiliary services	32.68	(5.18)	29.85	(0.07)
General administration and central support	5.86	(5.16)	4.96	(4.47)
Interest and fiscal charges	3.48	(3.48)	3.79	(3.79)
Other	5.26	0.03	4.48	0.19
Total	\$275.06	\$(53.52)	\$239.54	\$(41.69)

Financial Analysis of School Board Funds

As noted earlier, the Board uses fund accounting to control and manage resources in order to ensure compliance with finance-related legal requirements. Using funds to account for resources for particular purposes helps the reader to determine whether the Board is being accountable for the resources provided by taxpayers and other entities. It may also help to provide more insight into the Board’s overall financial health. The following analysis of the Board’s funds should be read in reference to the *fund financial statements*, which begins on page 5.

Governmental Funds - The focus of the Board’s governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Board’s financial requirements. (Note that the relationship between the *fund financial statements* and the *government-wide financial statements* are reconciled on pages 6 and 8) 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 \$81.54 million.

General Fund – The general fund is the primary operating fund of the Board. The general fund unassigned fund balance amount is \$35.01 million that is available as of the end of the fiscal year for spending on future operations. An additional \$130 thousand is designated as non-spendable for inventories. The general fund had \$3.61 million designated as assigned fund balance for encumbrances and specific purposes. The general fund had \$12.23 million restricted for State Grant Revenue carried over to FY2023. General accepted accounting principles (GAAP) requires fund financial statements to be presented using the modified accrual basis of accounting. Daily financial transactions are recorded using the modified cash or budgetary basis of accounting. In order for the Board’s financial transactions to be presented in accordance with GAAP, certain adjustments were necessary. Exhibit # 11 shows the Board’s general fund balance in the amount \$73.24 million using the budgetary basis, but using the GAAP basis the general fund balance is only \$50.99 million (See Exhibit #12.) The reasons for the difference are due to the \$17.56 million accrual for salaries and fringe benefit expenditures to be paid out in the subsequent fiscal year and the deferral of \$4.69 million in local tax revenue received but unrecognizable until the subsequent fiscal year. Considering all GAAP adjustments, the general fund balance reflected a net decrease of \$3.05 million.

Special Revenue Fund – The special revenue fund ended the year with a \$12.48 million fund balance presented in the following categories: \$849 thousand was designated as non-spendable fund balance for inventories. \$2.49 million was considered restricted for the child nutrition program and \$9.13 million fund balance assigned to local schools and other purposes.

Other Governmental Funds – Other Governmental Funds include the Debt Service Fund and Capital Projects Fund. \$18.07 million is considered restricted for its specific purposes of Construction and Debt Payments.

Fiduciary Funds – The Fiduciary Fund or Custodial Fund financial statements appear on pages 10. The Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position are presented, as the Board serves as the custodian of these funds, which are held in school accounts.

Budgetary Highlights of Major Funds

State Law requires the Board to prepare and submit an annual budget to the State Superintendent of Education. The annual budget for FY2023 was due on or before October 1, 2022.

The Board passed the FY2023 Budget on September 29, 2022. Over the course of the year, the Board revised the annual operating budget once on March 16, 2023. The differences between the original and the amended budget were due to changes that are briefly summarized as follows:

In the first amendment, the budget was amended to match grant carryover to beginning fund balances in the General Fund, CNP Funds, ESSER Grant Carryover, IDEA Carryover, Title Funds Carryover, Donation Carryover, Local School Funds, Advancement and Technology, Fleet Renewal, HIPPIY Grant, Preschool Grants, Legislative Grants, State Bond Capital Projects, Local Capital Projects, The budget amendment includes the addition of new grants such as Catastrophic Grants, Cyber Security Grant, Fine Arts Grants, GAP Coverage, Gifted Ed Grant, National Board Teachers, Penny Trust Grant, Robotics Grants, Specialized Treatment Center Grant, State Career Tech Grants, Career Ready Indicators Grant. The budget amendment includes additions and increases to Local Property Tax Revenue, Indirect Cost Revenue, Investment Revenue, Interest Revenue, County Commission Appropriations, City Council Appropriations, CPES Building Addition, Debt Services, Insurance Claims, Maintenance Budgets, Transportation Budgets, Instruction Budgets, Special Ed Budgets, and Substitutes. The budget amendment includes decreases to salaries. The budget was amended to adjust expenditures for Title I, Title I Part D, Title II, Title III, IDEA, ESSER II, ESSER II Reserve, ESSER III, ESSER III Reserve, CNP summer feeding, change Advancement and Technology Revenue to Beginning Fund Balance, add Alabama Arts Initiative Grants, and new Capital Projects.

Capital Assets and Debt Administration

Capital Assets – The Board’s investment in capital assets for its governmental activities for the year ended September 30, 2023, amounted to an increase of \$25.18 million, net of accumulated depreciation. The Board’s investment in capital assets includes, land at estimated historical cost, buildings and improvements at estimated historical cost, equipment and furniture at estimated historical cost, equipment under capital lease, and construction in progress, and is shown in Table 4.

Table 4: Capital Assets (net of accumulated depreciation)
(in Millions)

	Governmental Activities		Increase (Decrease)
	2023	2022	
Land and land improvements	\$22.27	\$20.80	\$1.47
Construction in progress	45.84	17.99	27.85
Buildings and improvements	258.09	264.17	(6.08)
Vehicles, Equipment, and Furniture	17.71	15.77	1.94
Total	\$343.91	\$318.73	\$25.18

Long-Term Debt – At year-end, the Board had \$451.36 million in Warrants Payable, PSCA Capital Improvement Bonds, Notes Payable, and Compensated Absences, Net Pension Liability, and Other Post Employment Benefit Liabilities. Net Pension Liability and Net OPEB Liability is Shelby County’s proportionate share of the debt held by the Retirement Systems of Alabama. Table 5 provides a synopsis of the board’s activities related to long-term debt.

Table 5: Long Term Debt
(in Millions)

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental Activities:				
Bonds and Warrants Payable	\$46.65	\$ -	\$ (5.36)	\$41.29
Compensated Absences	1.29	0.10	-	1.39
Net Pension Liability	165.94	104.78	-	270.72
Net OPEB Liability	95.52	-	(57.44)	38.08
Other Long Term Liabilities	106.66	0.77	(7.55)	99.88
Total Long Term Debt	\$416.06	\$ 105.65	\$ (70.35)	\$451.36

Based on Actuarial calculations, Shelby County’s Net Pension and OPEB Liability increased by a combined total of \$47.34 million

Economic Factors and Future Years' Budgets

The following are currently known economic factors for Shelby County going into the 2023-2024 fiscal year.

Economic Conditions - As of September 2023, Shelby County has one of the State's lowest unemployment rates of 1.9%. The State average is 2.2% compared to a national figure of 3.8%. Large retailer and grocery chains continue to locate within the county. Major retail areas on the U.S. 280 corridor and the I-65 corridor provide a strong sales tax base.

Sales Taxes - Sales Tax increased 3.71% compared to the previous year. Mainly due to the Alabama Simplified Sellers Use Tax for Internet Purchases.

Population Growth/Housing/Income - According to the July 2022 U.S. Census Bureau estimates, the population of Shelby County was 230,115. The homeownership rate is estimated at 80.9% and the median value of a home in the county is \$235,500. Median household income estimates are \$82,592.

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

Student Enrollment - Adjusted Average Daily Membership (ADM) as of the forty-day report for the 2023-2024 school year was 20,901.00. The ten-year figures of growth based on 40 Day ADM are indicated below.

<u>Fiscal Year</u>	<u>40 Day ADM</u>	<u>Increase/(Decrease)</u>
2024	20,680.40	(220.60)
2023	20,901.00	61.50
2022	20,839.50	400.95
2021	20,438.55	(571.95)
2020	21,010.50	402.40
2019	20,608.10	15.00
2018	20,593.10	273.00
2017	20,320.10	93.39
2016	20,226.71	197.21
2015	20,029.50	237.32

Establishment of Independent City School Districts: In addition to the Shelby County School System, there are six municipal school systems partially or completely within Shelby County. They are Alabaster City Schools, Pelham City Schools, Birmingham City Schools, Hoover City Schools, Vestavia Hills City Schools, and Leeds City Schools. Alabama law allows a city with a population of 5,000 or more to form a separate school system within its jurisdiction. Countywide property and sales taxes are apportioned based on students served. In the fall of 2023 the City of Calera voted to fund a feasibility study to separate from Shelby County Schools. The feasibility study has not been published yet.

Estimated Capital Needs: As of September 30, 2023, the Board’s capital plans for the next five years included \$51,202,000 in estimated needs. These capital improvements will be funded by local funds and State PSF Funds.

Medical and Retirement Costs: Employee health insurance is provided through the Public Education Employees’ Health Insurance Program (PEEHIP). The past five years of retirement and PEEHIP rates are listed below.

Fiscal Year	Employer Retirement Contribution Percentage	Employer Monthly Premium Cost
2024 Tier I	12.59%	800.00
2024 Tier II	11.57%	800.00
2023 Tier I	12.59%	800.00
2023 Tier II	11.44%	800.00
2022 Tier I	12.43%	800.00
2022 Tier II	11.32%	800.00
2021 Tier I	12.36%	800.00
2021 Tier II	11.22%	800.00
2020 Tier I	12.43%	800.00
2020 Tier II	11.34%	800.00

Foundation Program Allocations:

For FY2024, the State Foundation Program is allocating \$124,835,041. The Board is required to provide matching funds for the equivalent of 10 mills of district ad valorem taxes. This matching requirement is \$22,416,410 for FY2024.

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 School Board’s finances and to show the School Board’s accountability for the money it receives. If you have any questions about this report or need additional financial information contact one of the financial managers listed below during regular work hours Monday – Friday; 8:00 a.m. to 4:00 p.m. central time.

John Gwin, CPA
 Chief School Financial Officer
jgwin@shelbyed.org

Joann Gates, MBA
 Coordinator of Finance
jgates@shelbyed.org

Shelby County Board of Education
 410 East College Street (PO Box 1910)
 Columbiana, AL 35051
 Phone: (205) 682-7000
 Fax: (205) 682-7030

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Basic Financial Statements

Statement of Net Position
September 30, 2023

	Governmental Activities
<u>Assets</u>	
Cash and Cash Equivalents	\$ 84,451,015.81
Investments	11,644,396.86
Ad Valorem Property Taxes Receivable	74,586,109.28
Receivables, Net (Note 4)	10,341,170.16
Inventories	979,696.85
Capital Assets (Note 5):	
Nondepreciable	58,431,267.28
Depreciable, Net	285,480,094.95
Total Assets	<u>525,913,751.19</u>
<u>Deferred Outflows of Resources</u>	
Loss on Refunding of Debt	346,583.47
Employer Pension Contribution	17,791,738.19
Proportionate Share of Collective Deferred Outflows Related to Net Pension Liability	75,159,000.00
Employer Other Postemployment Benefits (OPEB) Contribution	3,048,146.00
Proportionate Share of Collective Deferred Outflows Related to Net Other Postemployment Benefits (OPEB) Liability	62,418,695.00
Total Deferred Outflows of Resources	<u>158,764,162.66</u>
<u>Liabilities</u>	
Accounts Payable	1,069,876.21
Unearned Revenue	686,660.21
Salaries and Benefits Payable	18,405,509.12
Accrued Interest Payable	680,069.81
Long-Term Liabilities:	
Portion Due or Payable Within One Year	13,353,843.57
Portion Due or Payable After One Year	438,013,489.20
Total Liabilities	<u>472,209,448.12</u>
<u>Deferred Inflows of Resources</u>	
Unavailable Revenue - Property Taxes	74,586,109.28
Revenue Received in Advance - Motor Vehicle Taxes	4,689,598.15
Proportionate Share of Collective Deferred Inflows Related to Net Pension Liability	10,541,000.00
Proportionate Share of Collective Deferred Inflows Related to Net Other Postemployment Benefits (OPEB) Liability	151,769,870.00
Total Deferred Inflows of Resources	<u>\$ 241,586,577.43</u>

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

	Governmental Activities
<hr/>	
<u>Net Position</u>	
Net Investment in Capital Assets	\$ 207,635,670.63
Restricted for:	
Debt Service	4,289,622.33
Capital Projects	8,635,996.48
Other Purposes	15,578,252.81
Unrestricted	<u>(265,257,653.95)</u>
 Total Net Position	 <u><u>\$ (29,118,111.70)</u></u>

Statement of Activities
For the Year Ended September 30, 2023

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	and Changes in Net Position
					Total Governmental Activities
Governmental Activities					
Instruction	\$ 156,137,708.83	\$ 5,483,862.35	\$ 124,973,867.41	\$ 20,761,812.50	\$ (4,918,166.57)
Instructional Support	45,019,270.79	1,218,073.51	21,428,863.82		(22,372,333.46)
Operation and Maintenance	26,618,932.10	853,442.96	9,343,484.07	3,985,339.20	(12,436,665.87)
Auxiliary Services:					
Student Transportation	17,273,990.19	658,871.58	12,887,230.82	1,106,826.00	(2,621,061.79)
Food Service	15,411,820.55	11,477,214.36	1,366,196.87		(2,568,409.32)
General Administrative and Central Support	5,860,288.32	79,847.42	617,702.28	500.00	(5,162,238.62)
Interest and Fiscal Charges	3,476,196.27				(3,476,196.27)
Other Expenses	5,258,693.09	2,756,503.86	2,535,116.99		32,927.76
Total Governmental Activities	<u>\$ 275,056,900.14</u>	<u>\$ 22,527,816.04</u>	<u>\$ 173,152,462.26</u>	<u>\$ 25,854,477.70</u>	<u>(53,522,144.14)</u>
General Revenues:					
Taxes:					
Property Taxes for General Purposes					68,339,749.12
Property Taxes for Specific Purposes					9,870,711.39
Sales Tax					15,498,295.28
Alcohol Beverage Tax					252,458.77
Other Taxes					469,846.92
Grants and Contributions Not Restricted for Specific Programs					1,069,693.79
Investment Earnings					1,143,320.56
Miscellaneous					7,900,213.72
Total General Revenues					<u>104,544,289.55</u>
Changes in Net Position					51,022,145.41
Net Position - Beginning of Year					<u>(80,140,257.11)</u>
Net Position - End of Year					<u>\$ (29,118,111.70)</u>

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

Balance Sheet
Governmental Funds
September 30, 2023

	General Fund	Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and Cash Equivalents	\$ 54,840,989.63	\$ 11,765,681.96	\$ 17,844,344.22	\$ 84,451,015.81
Investments	11,455,208.96	189,187.90		11,644,396.86
Ad Valorem Property Taxes Receivable	74,586,109.28			74,586,109.28
Receivables, Net (Note 4)	5,137,710.57	3,860,189.09	317,616.79	9,315,516.45
Due from Other Funds	2,784,817.74			2,784,817.74
Inventories	130,766.88	848,929.97		979,696.85
Total Assets	<u>148,935,603.06</u>	<u>16,663,988.92</u>	<u>18,161,961.01</u>	<u>183,761,552.99</u>
Liabilities, Deferred Inflows of Resources and Fund Balances				
Liabilities				
Accounts Payable	895,198.47	84,252.44	90,425.30	1,069,876.21
Due to Other Funds		2,784,817.74		2,784,817.74
Unearned Revenues	185,953.27	500,706.94		686,660.21
Salaries and Benefits Payable	17,589,218.22	816,290.90		18,405,509.12
Total Liabilities	<u>18,670,369.96</u>	<u>4,186,068.02</u>	<u>90,425.30</u>	<u>22,946,863.28</u>
Deferred Inflows of Resources				
Unavailable Revenue - Property Taxes	74,586,109.28			74,586,109.28
Revenue Received in Advance - Motor Vehicle Taxes	4,689,598.15			4,689,598.15
Total Deferred Inflows of Resources	<u>79,275,707.43</u>			<u>79,275,707.43</u>
Fund Balances				
Nonspendable	130,766.88	848,929.97		979,696.85
Restricted for:				
Debt Service			4,595,717.48	4,595,717.48
Capital Projects			13,475,818.23	13,475,818.23
Child Nutrition		2,472,757.51		2,472,757.51
Other Purposes	12,235,319.23	21,246.10		12,256,565.33
Assigned to:				
Local Schools		9,134,987.32		9,134,987.32
Other Purposes	3,613,224.67			3,613,224.67
Unassigned	35,010,214.89			35,010,214.89
Total Fund Balances	<u>50,989,525.67</u>	<u>12,477,920.90</u>	<u>18,071,535.71</u>	<u>81,538,982.28</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 148,935,603.06</u>	<u>\$ 16,663,988.92</u>	<u>\$ 18,161,961.01</u>	<u>\$ 183,761,552.99</u>

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

***Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Position
September 30, 2023***

Total Fund Balances - Governmental Funds (Exhibit 3) \$ 81,538,982.28

Amounts reported for governmental activities in the Statement of Net Position are different because:

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

Cost of Capital Assets is	\$ 523,388,731.02	
Accumulated Depreciation is	<u>(179,477,368.79)</u>	
		343,911,362.23

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred on the Statement of Net Position. 1,025,653.71

Losses on refunding of debt are reported as deferred outflows of resources and are not available to pay for current-period expenditures and, therefore, are deferred on the Statement of Net Position. 346,583.47

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds. 82,409,738.19

Deferred outflows and inflows of resources related to OPEB obligations are applicable to future periods and, therefore, are not reported in the governmental funds. (86,303,029.00)

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

Current Portion of Long-Term Debt	\$ 13,353,843.57	
Noncurrent Portion of Long-Term Debt	<u>438,013,489.20</u>	
		(451,367,332.77)

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

Accrued Interest Payable	<u>\$ 680,069.81</u>	
		<u>(680,069.81)</u>

Total Net Position - Governmental Activities (Exhibit 1) \$ (29,118,111.70)

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

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2023

	General Fund	Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
State	\$ 154,546,063.34	\$	\$ 25,839,015.70	\$ 180,385,079.04
Federal	283,709.50	24,140,190.43		24,423,899.93
Local	87,434,132.68	18,881,398.94	14,602,028.87	120,917,560.49
Other	496,723.01	283,618.51		780,341.52
Total Revenues	242,760,628.53	43,305,207.88	40,441,044.57	326,506,880.98
Expenditures				
Current:				
Instruction	132,736,223.86	20,328,125.68		153,064,349.54
Instructional Support	36,973,857.88	6,374,216.58		43,348,074.46
Operation and Maintenance	25,079,926.60	1,643,990.52	124,702.13	26,848,619.25
Auxiliary Services:				
Student Transportation	17,195,516.42	751,622.96		17,947,139.38
Food Service		15,890,708.57		15,890,708.57
General Administrative and Central Support	5,457,529.51	724,129.04		6,181,658.55
Other	4,012,099.00	1,237,873.07		5,249,972.07
Capital Outlay	5,655,560.98	2,763,392.17	26,174,362.44	34,593,315.59
Debt Service:				
Principal Retirement			12,311,215.17	12,311,215.17
Interest and Fiscal Charges			4,035,920.18	4,035,920.18
Debt Issuance Costs/Other Debt Service		3,804.51	18,579.18	22,383.69
Total Expenditures	227,110,714.25	49,717,863.10	42,664,779.10	319,493,356.45
Excess (Deficiency) of Revenues Over Expenditures	15,649,914.28	(6,412,655.22)	(2,223,734.53)	7,013,524.53
Other Financing Sources (Uses)				
Indirect Cost	1,470,479.90			1,470,479.90
Long-Term Debt Issued	102,235.23		664,504.09	766,739.32
Transfers In	2,530,859.02	5,884,533.60	19,941.00	8,435,333.62
Other Financing Sources	180,084.29	34,072.97		214,157.26
Sale of Capital Assets	23,145.00	23,221.00		46,366.00
Transfers Out	(5,884,533.60)	(2,550,800.02)		(8,435,333.62)
Total Other Financing Sources (Uses)	(1,577,730.16)	3,391,027.55	684,445.09	2,497,742.48
Net Changes in Fund Balances	14,072,184.12	(3,021,627.67)	(1,539,289.44)	9,511,267.01
Fund Balances - Beginning of Year	36,917,341.55	15,499,548.57	19,610,825.15	72,027,715.27
Fund Balances - End of Year	\$ 50,989,525.67	\$ 12,477,920.90	\$ 18,071,535.71	\$ 81,538,982.28

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

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended September 30, 2023

Net Changes in Fund Balances - Total Governmental Funds (Exhibit 5) \$ 9,511,267.01

Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) are different because:

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

Capital Outlays	\$ 34,593,315.59	
Depreciation Expense	<u>(9,337,514.95)</u>	25,255,800.64

Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities. 12,311,215.17

Proceeds from the issuance of debt are reported as financing sources in governmental funds and thus contribute to the change in fund balance. Issuing long-term debt increases liabilities in the Statement of Net Position but does not affect the Statement of Activities. (766,739.32)

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

Proceeds from Sale of Capital Assets	\$ (46,366.00)	
Loss on Disposition of Capital Assets	<u>(78,285.73)</u>	(124,651.73)

Donated Assets do not provide current financial resources and are not reported as revenues in the funds, but the value of these assets increase assets in the Statement of Activities. 62,475.00

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

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

Accrued Interest Payable, Current Year Increase/(Decrease)	\$	(69,027.30)	
Compensated Absences, Current Year Increase/(Decrease) in Noncurrent Portion		103,357.08	
Amortization of Bond Discounts/Premiums/Gain or Loss on Refunding/Issuance Costs (Prepaid Insurance)		(513,080.30)	
Pension Expense, Current Year Increase/(Decrease)		16,662,262.19	
OPEB Expense, Current Year Increase/(Decrease)		<u>(21,598,283.00)</u>	5,414,771.33

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Reduction in Separation Agreement Receivable (Long-Term Receivable)		<u>(641,992.69)</u>
Change in Net Position of Governmental Activities (Exhibit 2)		<u>\$ 51,022,145.41</u>

Statement of Fiduciary Net Position
September 30, 2023

	Custodial Fund
<u>Assets</u>	
Cash and Cash Equivalents	\$ 2,019,194.68
Total Assets	<u>2,019,194.68</u>
<u>Liabilities</u>	
Accounts Payable	<u>1,134.00</u>
Total Liabilities	<u>1,134.00</u>
<u>Net Position</u>	
Held for Other Organizations	<u>\$ 2,018,060.68</u>

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

***Statement of Changes in Fiduciary Net Position
For the Year Ended September 30, 2023***

	Custodial Fund
<u>Additions</u>	
Other Sources	\$ 2,953,013.92
Total Additions	<u>2,953,013.92</u>
<u>Deductions</u>	
Instruction	524,003.56
Instructional Support	502,707.20
Operation and Maintenance	256,939.57
Auxiliary Services:	
Student Transportation	17,895.89
Other	<u>1,300,852.35</u>
Total Deductions	<u>2,602,398.57</u>
Changes in Net Position	350,615.35
Net Position - Beginning of Year	<u>1,667,445.33</u>
Net Position - End of Year	<u>\$ 2,018,060.68</u>

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

Notes to the Financial Statements

For the Year Ended September 30, 2023

Note 1 – Summary of Significant Accounting Policies

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

A. Reporting Entity

The Board is governed by a separately elected board composed of five members elected by the qualified electors of the County. The Board is responsible for the general administration and supervision of the public schools for the educational interests of the County (with the exception of cities having a city board of education).

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

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

Notes to the Financial Statements

For the Year Ended September 30, 2023

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Board's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The Board does not allocate indirect expenses to the various functions. Program revenues include (a) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or program and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

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

The Board reports the following major governmental funds:

- ◆ **General Fund** – The General Fund is the primary operating fund of the Board. It is used to account for all financial resources except those required to be accounted for in another fund. The Board primarily receives revenues from the Education Trust Fund (ETF) and local taxes. Amounts appropriated from the ETF were allocated to the school board on a formula basis.

- ◆ **Special Revenue Fund** – This fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Various federal and local funding sources are included in this fund. Some of the significant federal funding sources include the federal funds that are received for Special Education, Title I, Coronavirus Relief, and the Child Nutrition Program in addition to various smaller grants, which are required to be spent for the purposes of the applicable federal grants. Also included in this fund are the public and non-public funds received by the local schools which are generally not considered restricted or committed.

Notes to the Financial Statements

For the Year Ended September 30, 2023

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

Governmental Fund Types

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

The Board reports the following fiduciary fund type:

Fiduciary Fund Type

- ◆ **Custodial Fund** – This fund is used to report assets held by the Board in a purely custodial capacity. The Board collects these assets and transfers them to the proper individual, private organizations, or other government. This fund comprises the local schools' Parent Teacher Organizations, Band Boosters, and Athletic Booster Clubs. These funds are under the control of the parent officers.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

Notes to the Financial Statements
For the Year Ended September 30, 2023

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

Under the terms of grant agreements, the Board funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the Board's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

D. Assets, Deferred Outflow of Resources, Liabilities, Deferred Inflow of Resources and Net Position/Fund Balances

1. Deposits and Investments

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

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

Investments are reported at fair value, based on quoted market prices, except for money market investments and repurchase agreements, which are reported at amortized cost, and certificates of deposit which are reported at cost. The Board reports all money market investments – U. S. Treasury bills and bankers' acceptances having a remaining maturity at time of purchase of one year or less – at amortized cost.

Notes to the Financial Statements

For the Year Ended September 30, 2023

2. Receivables

Sales tax receivables are based on the amounts collected within 60 days after year-end.

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

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

Receivables from external parties are amounts that are being held in a trustee or agency capacity by the fiduciary funds.

3. Inventories

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

4. Restricted Assets

Certain funds received from the State Department of Education for capital projects and improvements, which are included in Cash and Cash Equivalents on the financial statements, as well as certain resources set aside for repayment of debt, are considered restricted assets because they are maintained separately, and their use is limited. The Debt Service Fund is used to report resources set aside to pay the principal and interest on debt as it becomes due.

Notes to the Financial Statements
For the Year Ended September 30, 2023

5. Capital Assets

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

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

	Capitalization Threshold	Estimated Useful Life
Land	\$1.00 or more	N/A
Construction in Progress	\$1.00 or more	N/A
Land Improvements – Exhaustible	\$50,000	20 years
Buildings	\$50,000	50 years
Building Improvements	\$50,000	7 – 30 years
Equipment and Furniture	\$ 5,000	5 – 20 years
Vehicles	\$ 5,000	8 – 10 years

6. Deferred Outflows of Resources

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

Notes to the Financial Statements

For the Year Ended September 30, 2023

7. Long-Term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond/Warrant premiums and discounts are deferred and amortized over the life of the debt. Bond/Warrants payable are reported net of the applicable bond/warrant premium or discount. Bond/Warrant issuance costs are reported as an expense in the period incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as other debt service expenditures.

8. Compensated Absences

The Board's vacation leave policy consists of the following: All administrative and supervisory personnel who are employed for twelve months are entitled to earn one day vacation leave per month. Unused leave days may be carried over to the next year. The Board will pay for a maximum of 15 days-unused vacation leave upon resignation or retirement.

9. Deferred Inflows of Resources

Deferred inflows of resources are reported in the Government-Wide and Fund Financial Statements. Deferred inflows of resources are defined as an acquisition of net position/fund balances by the government that is applicable to a future reporting period. Deferred inflows of resources decrease net position/fund balances, similar to liabilities.

10. Net Position/Fund Balances

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

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

Notes to the Financial Statements

For the Year Ended September 30, 2023

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

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

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

Notes to the Financial Statements
For the Year Ended September 30, 2023

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

E. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, the Teachers' Retirement System of Alabama (the "Plan") financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to Plan requirements. Benefits and refunds are recognized as revenues when due and payable in accordance with the terms of the Plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Annual Comprehensive Financial Report.

F. Postemployment Benefits Other Than Pensions (OPEB)

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

Notes to the Financial Statements

For the Year Ended September 30, 2023

Note 2 – Stewardship, Compliance, and Accountability

Budgets

Budgets are adopted on a basis of accounting consistent with accounting principles generally accepted in the United States of America (GAAP) for the General Fund with the exception of salaries and benefits, which are budgeted only to the extent expected to be paid rather than on the modified accrual basis of accounting. Also, ad valorem taxes are budgeted only to the extent expected to be received rather than on the modified accrual basis of accounting. The Special Revenue Fund budgets on a basis of accounting consistent with GAAP with the exception of salaries and benefits, which are budgeted only to the extent expected to be paid rather than on the modified accrual basis of accounting. All other governmental funds adopt budgets on the modified accrual basis of accounting. The Capital Projects Fund adopts project-length budgets. All appropriations lapse at fiscal year-end.

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

Note 3 – Deposits and Investments

A. Deposits

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Board will not be able to cover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Board's deposits at year-end were entirely covered by federal depository insurance or by the Security for Alabama Funds Enhancement Program (SAFE Program). The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the *Code of Alabama 1975*, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

Notes to the Financial Statements

For the Year Ended September 30, 2023

B. Investments

Statutes authorize the Board to invest in obligations of the U. S. Treasury, obligations of any state of the United States, general obligations of any Alabama county or city board of education secured by pledge of the three-mill school tax and other obligations as outlined in the *Code of Alabama 1975*, Section 19-3-120 and Section 19-3-120.1. The Board categorizes its fair value measurements within the fair value hierarchy established by the Governmental Accounting Standards Board (GASB) Statement Number 72, Fair Value Measurement and Application. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The Board authorizes the investment of surplus funds in the manner prescribed by the law and approved administrative guidelines.

As of September 30, 2023, the Board had the following investments and maturities:

Investment Type	Total	Fair Value Hierarchy
		Level 1
US Treasury Bond February 29, 2024 Maturity	\$11,444,482.19	\$11,444,482.19
Total Investments	\$11,444,482.19	\$11,444,482.19

(*) The Board's remaining investments were in certificates of deposit.

Cash with Fiscal Agents

As of September 30, 2023, the Board had the following amounts invested with fiscal agents, reported with Cash and Cash Equivalents.

Investments in Fiscal Agents	Amortized Cost
Fidelity Treasury Only Money Market Portfolio	\$3,022,085.22
US Treasury Bond October 1, 2023 Maturity	1,431,918.83
US Treasury Bond October 31, 2023 Maturity	1,234,334.20
US Treasury Bond November 30, 2023 Maturity	1,330,665.83
Total Investments	\$7,019,004.08

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

Notes to the Financial Statements

For the Year Ended September 30, 2023

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. State law requires that pre-funded public obligations, such as any bonds or other obligations of any state of the United States of America or of any agency instrumentality or local governmental unity of any such state that the Board invests in be rated in the highest rating category of Standard & Poor’s Corporation and Moody’s Investor Services, Inc. The Board does not have a formal investment policy requiring investments to be rated in the highest rating category. The Fidelity Treasury Only Portfolio is rated AAA-mf by Moody’s and AAAM by S&P.

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

Concentrations of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer.

Note 4 – Receivables

On September 30, 2023, receivables for the Board’s individual major funds and other governmental funds in the aggregate are as follows:

	General Fund	Special Revenue Fund	Other Governmental Funds	Total
<u>Governmental Funds:</u>				
Accounts	\$ 24,171.19	\$ 36,107.70	\$	\$ 60,278.89
Other Receivables	16.05	20.00		36.05
Intergovernmental	5,113,523.33	3,824,061.39	317,616.79	9,255,201.51
Total	<u>\$5,137,710.57</u>	<u>\$3,860,189.09</u>	<u>\$317,616.79</u>	<u>\$9,315,516.45</u>

Government-wide financial statements report a Separation Agreement receivable of \$1,025,653.71 for a total of \$10,341,170.16. This amount includes \$392,108.86 of Series 2006 Special School Tax Warrants maturing February 1, 2031 due from the Alabaster City School Board per the Separation Agreement dated June 27, 2013. Also included is \$633,544.85 of Series 2011 Capital Outlay School Warrants maturing February 1, 2024 due from the Pelham City School Board per the Separation Agreement dated June 5, 2014.

Notes to the Financial Statements
For the Year Ended September 30, 2023

Note 5 – Capital Assets

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

	Balance 10/01/2022	Additions/ Reclassifications	Retirements/ Reclassifications (*)	Balance 09/30/2023
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 12,472,475.78	\$ 121,326.00	\$	\$ 12,593,801.78
Construction in Progress	17,990,129.78	30,450,673.78	(2,603,338.06)	45,837,465.50
Total Capital Assets, Not Being Depreciated	<u>30,462,605.56</u>	<u>30,571,999.78</u>	<u>(2,603,338.06)</u>	<u>58,431,267.28</u>
Capital Assets Being Depreciated:				
Land Improvements – Exhaustible	18,265,908.13	1,950,408.98		20,216,317.11
Buildings	332,915,075.65	211,151.09		333,126,226.74
Building Improvements	61,923,787.06	297,948.32	(38,360.00)	62,183,375.38
Vehicles, Equipment and Furniture	45,538,682.15	4,227,620.48	(334,758.12)	49,431,544.51
Total Capital Assets Being Depreciated	<u>458,643,452.99</u>	<u>6,687,128.87</u>	<u>(373,118.12)</u>	<u>464,957,463.74</u>
Less Accumulated Depreciation for:				
Land Improvements – Exhaustible	(9,937,451.74)	(601,783.57)		(10,539,235.31)
Buildings	(108,700,179.69)	(4,924,644.38)		(113,624,824.07)
Building Improvements	(21,973,115.96)	(1,617,661.88)		(23,590,777.84)
Vehicles, Equipment and Furniture	(29,777,572.84)	(2,193,425.12)	248,466.39	(31,722,531.57)
Total Accumulated Depreciation	<u>(170,388,320.23)</u>	<u>(9,337,514.95)</u>	<u>248,466.39</u>	<u>(179,477,368.79)</u>
Total Capital Assets Being Depreciated, Net	<u>288,255,132.76</u>	<u>(2,650,386.08)</u>	<u>(124,651.73)</u>	<u>285,480,094.95</u>
Total Governmental Activities Capital Assets, Net	<u>\$ 318,717,738.32</u>	<u>\$27,921,613.70</u>	<u>\$(2,727,989.79)</u>	<u>\$ 343,911,362.23</u>
(*) Amounts of \$2,603,338.06 were reclassified from Construction in Progress to Land Improvements, Building Improvements, and Buildings.				

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

	Current Year Depreciation Expense
Governmental Activities:	
Instruction	\$5,271,307.22
Instructional Support	1,463,414.50
Operation and Maintenance	358,801.27
Auxiliary Services:	
Student Transportation	1,161,798.14
Food Service	1,073,825.04
General Administration and Central Support	1,232.74
Other	7,136.04
Total Depreciation Expense – Governmental Activities	<u>\$9,337,514.95</u>

Notes to the Financial Statements

For the Year Ended September 30, 2023

Note 6 – Defined Benefit Pension Plan

A. Plan Description

The Teachers' Retirement System of Alabama (TRS), a cost-sharing multiple-employer public employee retirement plan (the "Plan"), was established as of September 15, 1939, pursuant to the *Code of Alabama 1975*, Section 16-25-1 through Section 16-25-34 (Act Number 419, Acts of Alabama 1939), for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by State-supported educational institutions. The responsibility for the general administration and operation of the TRS is vested in its Board of Control which consists of 15 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). The *Code of Alabama 1975*, Section 16-25-2, grants the authority to establish and amend the benefit terms to the TRS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

B. Benefits Provided

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

Act Number 2012-377, Acts of Alabama, established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 TRS members are eligible for retirement after age 62 with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a 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.

Notes to the Financial Statements

For the Year Ended September 30, 2023

Act Number 2019-316, Acts of Alabama, 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 creditable service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits, equal to the annual earnable compensation of the member as reported to the Plan for the preceding year ending June 30th, are paid to a qualified beneficiary.

C. Contributions

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

Effective October 1, 2021, the covered Tier 2 members contribution rate increased from 6% to 6.2% of earnable compensation to the TRS as required by statute. Effective October 1, 2021, the covered Tier 2 certified law enforcement, correctional officers, and firefighters' contribution rate increased from 7% 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, 2023 was 12.59% of annual pay for Tier 1 members and 11.44% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the Board were \$17,791,738.19 for the year ended September 30, 2023.

Notes to the Financial Statements
For the Year Ended September 30, 2023

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

At September 30, 2023, the Board reported a liability of \$270,716,000 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 1.741969%, which was a decrease of 0.019537% from its proportion measured as of September 30, 2021.

For the year ended September 30, 2023, the Board recognized pension expense of \$34,583,000. 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	\$ 5,951,000.00	\$ 6,569,000.00
Changes of Assumptions	12,284,000.00	
Net Difference between Projected and Actual Earnings on Pension Plan Investments	54,324,000.00	
Changes in Proportion and Differences between Employer Contributions and Proportionate Share of Contributions	2,600,000.00	3,972,000.00
Employer Contributions Subsequent to the Measurement Date	17,791,738.19	
Total	\$92,950,738.19	\$10,541,000.00

The \$17,791,738.19 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 Ending	
September 30, 2024	\$19,998,000
2025	\$13,565,000
2026	\$ 9,813,000
2027	\$21,242,000
2028	\$ 0
Thereafter	\$ 0

Notes to the Financial Statements

For the Year Ended September 30, 2023

E. 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%
Investment Rate of Return (*)	7.45%
Projected Salary Increases	3.25% - 5.00%
(*) Net of pension plan investment expense	

The actuarial assumptions used in the actuarial valuation as of September 30, 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 the year 2019:

Group	Membership Table	Set Forward (+)/ Setback (-)	Adjustment to Rates
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
Disable Retirees	Teacher Disability	Male: +8, Female: +3	None

Notes to the Financial Statements
For the Year Ended September 30, 2023

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 Equivalents	5.00%	2.50%
Total	100.00%	

(*) Includes assumed rate of inflation of 2.00%

F. 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, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Notes to the Financial Statements
For the Year Ended September 30, 2023

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

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

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Board’s Proportionate Share of Collective Net Pension Liability	\$350,295	\$270,716	\$203,685
(Dollar amounts in thousands)			

H. Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued RSA Annual Comprehensive Financial Report for the fiscal year ended September 30, 2022. The supporting actuarial information is included in the GASB Statement Number 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 Statement Number 68 as of September 30, 2022, along with supporting schedules is also available. The additional financial and actuarial information is available at <http://www.rsa-al.gov/index.php/employers/financial-reports/gasb-68reports/>.

Notes to the Financial Statements

For the Year Ended September 30, 2023

Note 7 – Other Postemployment Benefits (OPEB)

A. Plan Description

The Alabama Retired Education Employees' Health Care Trust (the "Trust") is a cost-sharing multiple-employer defined benefit postemployment healthcare plan that administers healthcare benefits to the retirees of participating state and local educational institutions. The Trust was established under the Alabama Retiree Health Care Funding Act of 2007 which authorized and directed the Public Education Employees' Health Insurance Board (PEEHIB) to create an irrevocable trust to fund postemployment healthcare benefits to retirees participating in 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*, Section 16-25A-4, (Act Number 83-455, Acts of Alabama) to provide a uniform plan of health insurance for active and retired employees of state and local educational institutions which provide instruction at any combination of grades K-14 (collectively, eligible employees), and to provide a method for funding the benefits related to the plan. The four-year universities participate in the plan with respect to their retired employees and are eligible and may elect to participate in the plan with respect to their active employees. Responsibility for the establishment of the health insurance plan and its general administration and operations is vested in the PEEHIB. The PEEHIB is a corporate body for purposes of management of the health insurance plan. The *Code of Alabama 1975*, Section 16-25A-4, provides the PEEHIB with the authority to amend the benefit provisions in order to provide reasonable assurance of stability in future years for the plan. All assets of the PEEHIP are held in trust for the payment of health insurance benefits. The Teachers' Retirement System of Alabama (TRS) has been appointed as the administrator of the PEEHIP and, consequently, serves as the administrator of the Trust.

B. Benefits Provided

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

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

Notes to the Financial Statements

For the Year Ended September 30, 2023

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

PEEHIP members may opt to elect the PEEHIP Supplemental Plan as their hospital medical coverage in lieu of the PEEHIP Hospital Medical Plan. The PEEHIP Supplemental Plan provides secondary benefits to the member's primary plan provided by another employer. Only active and non-Medicare retired members and 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 Medicare Advantage and Prescription Drug Plan (MAPDP) is fully insured by UHC and members are able to have all of their Medicare Part A (hospital insurance), Part B (medical insurance), and Part D (prescription drug coverage) in one convenient plan. 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.

Notes to the Financial Statements

For the Year Ended September 30, 2023

C. Contributions

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

For employees who retired after September 30, 2005, but before January 1, 2012, the employer contribution of the health insurance premium set forth by the PEEHIB for each retiree class is reduced by 2% for each year of service less than 25 and increased by 2% for each year of service over 25 subject to adjustment by the PEEHIB for changes in Medicare premium costs required to be paid by a retiree. In no case does the employer contribution of the health insurance premium exceed 100% of the total health insurance premium cost for the retiree.

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

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

At September 30, 2023, the Board reported a liability of \$38,079,682 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 collective Net OPEB liability was based on a projection of the Board's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At September 30, 2022, the Board's proportion was 2.18541205%, which was an increase of 0.33674305% from its proportion measured as of September 30, 2021.

Notes to the Financial Statements
For the Year Ended September 30, 2023

For the year ended September 30, 2023, the Board recognized OPEB income of \$18,544,121.00, with no special funding situations. At September 30, 2023, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Difference between expected and actual experience	\$ 1,746,486.00	\$ 76,993,990.00
Changes of Assumptions	30,887,824.00	55,427,270.00
Net Difference between projected and actual earnings on OPEB plan investments	4,788,882.00	
Changes in proportion and differences between employer contributions and proportionate share of contributions	24,995,503.00	19,348,610.00
Employer contributions subsequent to the measurement date	3,048,146.00	
Total	\$65,466,841.00	\$151,769,870.00

The \$3,048,146.00 reported as deferred outflows of resources related to OPEB resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the Net OPEB liability in the year ended September 30, 2024.

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

Year Ending	
September 30, 2024	\$(21,801,666.00)
2025	\$(23,308,219.00)
2026	\$(10,943,269.00)
2027	\$(11,000,969.00)
2028	\$(15,099,482.00)
Thereafter	\$ (7,197,570.00)

Notes to the Financial Statements
For the Year Ended September 30, 2023

E. 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%
Projected Salary Increases (1)	3.25-5.00%
Long-Term Investment Rate of Return (2)	7.00%
Municipal Bond Index Rate at Measurement Date	4.40%
Municipal Bond Index Rate at Prior Measurement Date	2.29%
Projected Year of Fiduciary Net Position (FNP) to be Depleted	N/A
Single Equivalent Interest Rate at Measurement Date	7.00%
Single Equivalent Interest Rate at Prior Measurement Date	3.97%
Healthcare Cost Trend Rate:	
Pre-Medicare Eligible	6.50%
Medicare Eligible	(**)
Ultimate Trend Rate:	
Pre-Medicare Eligible	4.50% in 2031
Medicare Eligible	4.50% in 2027
(1) Includes 2.75% wage inflation	
(2) Compounded annually, net of investment expense, and including inflation	
(**) Initial Medicare claims are set based on scheduled increases through plan year 2025	

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

Group	Membership Table	Set Forward (+)/ Set Back (-)	Adjustment to Rates
Active Members	Teacher Employee – Below Median	None	65%
Service Retirees	Teacher – Below Median	Male: +2, Female: +2	Male: 108% ages<63, 96% ages>67; Phasing down 63-67 Female: 112% ages <69 98%> age 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

Notes to the Financial Statements

For the Year Ended September 30, 2023

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 Real Rate of Return (*)
Fixed Income	30.00%	4.40%
U. S. Large Stocks	38.00%	8.00%
U. S. Mid Stocks	8.00%	10.00%
U. S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	15.00%	9.50%
Cash	5.00%	1.50%
Total	100.00%	
(*) Geometric mean, includes 2.5% inflation		

Notes to the Financial Statements

For the Year Ended September 30, 2023

F. Discount Rate

The discount rate, also known as the Single Equivalent Interest Rate (SEIR), as described by GASB Statement Number 74, used to measure the total OPEB liability at September 30, 2022, was 7.00%. Premiums paid to the Public Education Employees' Health Insurance Board for active employees shall include an amount to partially fund the cost of coverage for retired employees. The projection of cash flows used to determine the discount rate assumed that plan contributions will be made at the current contribution rates. Each year, the State specifies the monthly employer rate that participating school systems must contribute for each active employee. Currently, the monthly employer rate is \$800 per active member for participating employers. Approximately, 15.257% of the employer contributions were used to assist in funding retiree benefit payments in 2022, and it is assumed that the 15.257% will increase or decrease at the same rate as expected benefit payments for the closed group with a cap of 20.00%. It is assumed the \$800 rate will increase with inflation at 2.50% starting in 2027. Retiree benefit payments for University members are paid by the Universities and are not included in the cash flow projections. The discount rate determination will use a municipal bond rate to the extent the trust is projected to run out of money before all benefits are paid. Projected future benefit payments for all current plan members are projected through 2120.

G. Sensitivity of the Board's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

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

	1% Decrease (5.50% 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 collective net OPEB liability	\$28,875,900.00	\$38,079,682.00	\$49,367,253.00

Notes to the Financial Statements
For the Year Ended September 30, 2023

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 collective 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 collective net OPEB liability	\$47,079,903.00	\$38,079,682.00	\$30,524,264.00

H. OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan’s Fiduciary Net Position is in the Trust’s financial statements for the fiscal year ended September 30, 2022. The supporting actuarial information is included in the GASB Statement Number 74 Report for PEEHIP prepared as of September 30, 2022. Additional financial and actuarial information is available at www.rsa-al.gov.

Note 8 – Construction and Other Significant Commitments

As of September 30, 2023, the Board was obligated under the following significant construction contracts:

	Total Amount Paid	Total Contract Amount
Chelsea Middle Canopy Addition	\$	\$ 121,035.00
Calera Intermediate Classroom Addition	4,121,114.72	4,805,291.00
Helena Middle Classroom Addition	5,812,967.71	6,029,331.00
Helena Intermediate Classroom Addition	3,171,438.87	3,796,077.00
Chelsea Park Elementary Classroom Addition	1,205,108.89	8,207,574.00
Calera Elementary Classroom Addition	3,368,473.34	3,479,228.00
Calera Middle Classroom Addition		6,327,748.00
Montevallo Elementary Classroom Addition	3,339,270.32	4,012,526.00
Calera High Classroom Addition	1,964,513.17	7,660,000.00
Oak Mountain High Fine Arts Addition	6,839,553.35	7,306,489.66
Chelsea High Turf And Track Renovation	1,699,578.85	1,700,118.00
Oak Mountain High Turf and Track Resurfacing	1,123,030.49	1,151,476.70
Shelby County Schools Partial Reroofing	778,971.86	978,903.00
Calera High Health Science Lab Renovation	98,688.85	281,000.00
Shelby County High Stadium ADA Renovation	294,199.12	320,026.10
Chelsea High School Football Video Board	269,810.10	450,000.00
Total	<u>\$34,086,719.64</u>	<u>\$56,626,823.46</u>

Notes to the Financial Statements

For the Year Ended September 30, 2023

Note 9 – Long-Term Debt

The Board, as part of a pooled warrant issuance with other school systems within the State of Alabama, issued Capital Improvement Pool Warrants, 2012-A, 2013-D, 2014-A, 2015-B, 2016-A and 2020-C in anticipation of their Public School Fund allocations, which are received from the Alabama Department of Education. The Alabama Department of Education withholds the required debt service payments from the Board's Public School Fund allocation. The proceeds from these warrants provided funds for the acquisition, construction, and renovation of school facilities.

On March 8, 2006, the Board issued Special Tax School Warrants, Series 2006 in the amount of \$50,000,000.00. At issuance, the Board received \$50,377,470.04 in net proceeds, \$50,000,000.00 in principal, \$870,415.75 in premiums and \$44,178.14 in interest. Underwriters discount of \$375,000 and insurance premiums of \$162,123.85 were taken from the proceeds. The proceeds from these warrants provided funds for the construction of Calera High School, Helena Middle School, and other renovations of school facilities.

On December 16, 2009, the Alabama Public School and College Authority issued Capital Improvement Pool Qualified School Construction Bonds, Series 2009-D (Tax Credit Bonds) with a tax credit rate of 5.76% and interest rate of 1.865% on behalf of various Boards of Education in the State. The Board had a 0.76% participation in the bonds resulting in the Board's share of principal, issuance costs and net proceeds of \$1,107,000, \$9,744.46 and \$1,097,255.54, respectively. The Board is required to make sinking fund deposits of \$37,243.19 on December 15 in each year for fifteen years so that such deposits and any interest earned thereon shall be used to pay the principal of the bonds upon maturity and are pledged to pay the debt service requirements of the bonds. The sinking fund deposits and interest payments are payable from and secured by a pledge of the Board's allocable share of Public School Capital Outlay Funds. In the event of default, the Authority may (1) withhold all amounts of PSF Capital Purchase Funds to which the Board may be entitled until the Board is in full compliance with the terms of the agreement and warrant; (2) file suit to enjoin any acts or things which may be unlawful or in violation of the rights of the Authority or to compel performance of the obligations of the Board under the agreement and warrant; and (3) enforce any other right of the Authority.

On June 2, 2011, the Alabama Public School and College Authority issued Capital Improvement Pool Qualified Zone Academy Bonds, Series 2011-A on behalf of various Boards of Education in the State. The Authority will lend the Board a portion of the proceeds of the bonds. The Board's share of the bonds, issuance costs, and net proceeds were \$900,000.00, \$3,367.30 and \$896,632.70 respectively. The Board is required to make sinking fund deposits of \$41,925.97 on May 1 of each year for fifteen years so that such deposits and any interest earned thereon shall be used to pay the principal of the bonds upon maturity and are pledged to pay the debt service requirements of the bonds. The sinking fund deposits and interest payments are payable from and secured by a pledge of the Board's allocable share of Public School Capital Outlay Funds.

Notes to the Financial Statements
For the Year Ended September 30, 2023

On March 14, 2012, the Alabama Public School and College Authority, on behalf of various Boards of Education in the pool, issued \$79,340,000 in Capital Improvement Pool Refunding Bonds, Series 2012-A (“Series 2012-A”) with interest rates ranging from 4.00% to 5.00% to refund and retire on a current basis \$79,340,000 of outstanding Capital Improvement Pool Bonds, Series 2002-A (“Series 2002-A”) with interest rates of 5.00%. The Board had 7.789% participation in the bonds, resulting in the Board’s share of the principal, issuance costs, and premium of \$4,478,495.70, \$15,867.18 and \$809,909.01, respectively. The Alabama Department of Education withholds the required debt service payments from the Board’s Public School Fund allocation.

On October 15, 2013, the Alabama Public School and College Authority, on behalf of various Boards of Education in the pool, issued \$23,985,000 in Capital Improvement Pool Bonds, Series 2013-D (“Series 2013-D”) with interest rates ranging from 2.00% to 4.125% to finance loans to local boards of education. Loans of the proceeds of the Pool Bonds to be made to local boards are payable solely out of and secured by the capital outlay funds allocated to participating school boards from the Public School Fund. The Board had 11.299% participation in the bonds, resulting in the Board’s share of the principal, issuance costs, and premium of \$2,710,169.49, \$76,257.65 and \$17,876.07, respectively. The Alabama Department of Education withholds the required debt service payments from the Board’s Public School Fund allocation. In fiscal year 2020, the Alabama Public School and College Authority used State Bond funds to partially refund Series 2013-D at a lower interest rate. This refunding created Series 2020-C that the Board now contributes to and a lower payment for Series 2013-D.

On May 28, 2014, the Alabama Public School and College Authority, on behalf of various Boards of Education in the pool, issued \$80,065,000 in Capital Improvement Pool Refunding Bonds, Series 2014-A (“Series 2014-A”) with interest rates ranging from 2.00% to 5.00% to refund and retire on an advance basis \$55,075,000 of outstanding Capital Improvement Bonds, Series 2005 (“Series 2005”) with interest rates ranging from 3.00% to 4.50% and \$37,810,000 of outstanding Capital Improvement Bonds, Series 2006 (“Series 2006”) with interest rates ranging from 4.00% to 5.00%. The Board had 11.52% participation in the bonds, resulting in the Board’s share of the principal, issuance costs, and premium of \$9,223,662.69, \$26,866.29 and \$1,374,004.42, respectively. The Alabama Department of Education withholds the required debt service payments from the Board’s Public School Fund allocation.

Notes to the Financial Statements
For the Year Ended September 30, 2023

On May 5, 2015, the Alabama Public School and College Authority, on behalf of various Boards of Education in the pool, issued \$47,610,000 in Capital Improvement Pool Refunding Bonds, Series 2015-B (“Series 2015-B”) with interest rates ranging from 3.00% to 5.00% to partially refund \$29,790,000 of outstanding Capital Improvement Bonds, Series 2008 (“Series 2008”) with interest rates ranging from 3.25% to 4.25% and \$22,415,000 of outstanding Capital Improvement Bonds, Series 2009-C (“Series 2009-C”) with interest rates ranging from 3.00% to 4.00%. The Board had 11.55% participation in the bonds, resulting in the Board’s share of the principal, issuance costs, and premium of \$5,499,363.22, \$31,394.67 and \$1,075,413.77, respectively. The Alabama Department of Education withholds the required debt service payments from the Board’s Public School Fund allocation.

On January 12, 2015, the Board issued \$350,000 Capital Outlay School Warrants, Series 2014 (One Mill) for the purpose of constructing athletic complex and facilities at Helena High School with an interest rate of 3.15%. In January of 2023, The Board inquired into the feasibility of an early payoff amount. Trustmark Bank, the holder of the warrant, allowed the Board to make a final payment 3 years early. On January 30, 2023, the Board paid the remaining principal of \$116,798.80 and interest of 3,682.24, this early payoff resulted in interest savings of \$3,752.34.

On May 4, 2016, the Board issued Public School Warrants (Sales Tax), Series 2016 in the amount of \$36,700,000.00. The proceeds and the escrow balance from prior 2006 debt service in the amount of \$43,119,165.60 including a premium of \$5,564,558.60 were used to partially refunded the Series 2006 Warrants in the escrow amount of \$37,145,412.81, pay for underwriting discount \$330,300.00, cost of issuance \$122,250.00, and the premium in the amount of \$5,521,202.79 will be used to construct 20 new classrooms at Chelsea High School and land and building improvements at various schools in Shelby County.

Notes to the Financial Statements

For the Year Ended September 30, 2023

On June 30, 2016, the Alabama Public School and College Authority, on behalf of various Boards of Education in the pool, issued \$29,245,000 in Capital Improvement Pool Bonds, Series 2016-A (“Series 2016-A”) with interest rates ranging from 2.50% to 5% to finance loans to local boards of education. Loans of the proceeds of the Pool Bonds to be made to local boards are payable solely out of and secured by the capital outlay funds allocated to participating school boards from the Public School Fund. The Board had 4.843% participation in the bonds, resulting in the Board’s share of the principal, issuance costs, underwriters discount, discount and premium of \$1,416,222.78, \$7,506.50, \$8,370.58, \$6,934.38 and \$154,327.29, respectively. The Alabama Department of Education withholds the required debt service payments from the Board’s Public School Fund allocation. In the event of default, the Authority may, in addition to all other remedies which the Authority may have, proceed forthwith to protect and enforce its rights by such suits, actions or proceeds as the Authority shall deem expedient, including (but not limited to): (1) withholding all amounts of PSF Capital Purchase Funds to which the Board may be entitled until the Board is in full compliance with the terms of this agreement and the warrant; (2) intercepting state allocated funds; (3) filing suit to enjoin any acts or things which may be unlawful or in violation of the rights of the Authority or to compel performance of the obligations of the Board under this agreement and the warrant; and (4) enforcing any other right of the Authority.

On February 16, 2017, the Board issued Series 2017 Public School Warrants in the amount of \$5,165,000.00. The proceeds in the amount of \$5,343,446.30 of which included principal amount of \$5,165,000.00, premium of \$224,931.30, and underwriting discount of \$46,485.00 for the purpose of purchasing new school buses.

On May 18, 2017, The Board issued \$2,000,000.00 Series 2017 Qualified Zone Academy Warrant with interest rates at 0.00% for the purpose of rehabilitating or repairing the school facilities in various qualified zone schools in Shelby County. The Board is required to make annual sinking fund payments in the amount of \$200,000.00. On the Final maturity date, all monies and investments held in the Warrant Sinking Fund will be applied to payment of the principal amount of the Warrant. The Series 2017 Qualified Zone Academy Warrant will mature February 1, 2027. In the event of default, the lender may declare the principal of all the Warrant and interest accrued thereon to be due and payable immediately, by notice to the other Financing Participants, and upon any such declaration such Debt Service shall become immediately due and payable. At any time after such a declaration of acceleration has been made pursuant to this section, the lender may, by notice to the other financing participants, rescind and annul such declaration and its consequences if the Board has deposited with the lender a sum sufficient to pay (A) all overdue instalments of interest on all warrants, (B) the principal of (and premium, if any, on) any warrant which have become due otherwise than by such declaration of acceleration and interest thereon at the rate or rates prescribed therefore in the warrant, and (D) all sums paid or advanced by the lender hereunder and the reasonable compensation, expenses, disbursements and advances of the lender, its agents and counsel.

Notes to the Financial Statements

For the Year Ended September 30, 2023

On February 20, 2020, the Board issued a note from direct borrowing in the amount of \$115,865,000.00 to refund the remaining portion of the Series 2011 debt totaling \$95,835,000.00. The cost of issuance totaled \$526,277.50. The Board received \$17,243,602.89 in new money to perform classroom additions and renovations at Calera High, Oak Mountain High, Wilsonville Elementary, Elvin Hill Elementary among other projects in all school zones. The debt will mature on February 1, 2041.

The following is a summary of long-term debt obligations for the Board for the year ended September 30, 2023:

	Debt Outstanding 10/01/2022	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 09/30/2023	Amounts Due Within One Year
Governmental Activities:					
Bonds/Warrants Payable:					
CO School Warrant Series 2014	\$ 116,798.80		\$ (116,798.80)		\$
PSCA CO Pool Warrants:					
Series 2012-A	225,395.69		(110,104.34)	115,291.35	115,291.35
Series 2013-D	561,015.21		(133,897.89)	427,117.32	137,852.67
Series 2014-A	3,041,003.84		(942,945.61)	2,098,058.23	990,553.69
Series 2015-B	3,837,194.83		(520,943.67)	3,316,251.16	546,933.10
Series 2016-A	1,106,053.29		(60,290.56)	1,045,762.73	63,196.13
Series 2020-C	1,284,176.81		(20,903.89)	1,263,272.92	20,903.89
QSCB Series 2009-D	774,777.59			774,777.59	
QZAB Series 2011-A	852,598.77			852,598.77	
QZAB Series 2017	2,000,000.00			2,000,000.00	
Special Tax Series 2006	435,000.00		(40,000.00)	395,000.00	40,000.00
Public School Warrants Series 2016	25,340,000.00		(2,300,000.00)	23,040,000.00	2,420,000.00
Public School Warrants Series 2017	2,785,000.00		(520,000.00)	2,265,000.00	540,000.00
Sub-Total Bonds/Warrants Payable	42,359,014.83		(4,765,884.76)	37,593,130.07	4,874,730.83
Unamortized Discount	(4,758.32)		348.17	(4,410.15)	(348.17)
Unamortized Premium	4,296,805.60		(599,409.71)	3,697,395.89	599,409.71
Total Bonds/Warrants Payable, Net	46,651,062.11		(5,364,946.30)	41,286,115.81	5,473,792.37
Other Liabilities:					
Notes from Direct Borrowing	106,669,153.59	766,739.32	(7,545,330.41)	99,890,562.50	7,740,553.95
Compensated Absences	1,291,615.38	103,357.08		1,394,972.46	139,497.25
Net Pension Liability	165,940,000.00	104,776,000.00		270,716,000.00	
Net OPEB Liability	95,517,278.00		(57,437,596.00)	38,079,682.00	
Total Other Liabilities	369,418,046.97	105,646,096.40	(64,982,926.41)	410,081,216.96	7,880,051.20
Total Governmental Activities Long-Term Liabilities	<u>\$416,069,109.08</u>	<u>\$105,646,096.40</u>	<u>\$(70,347,872.71)</u>	<u>\$451,367,332.77</u>	<u>\$13,353,843.57</u>

Payments on the Series 2006, 2011-A QZAB, 2016, 2017 warrants payable are made by the Debt Service Fund with sales tax. Payments on the Series 2017 warrants payable are by the Debt Service funds with State Fleet Renewal Funds. Payments on the Series 2014 (One Mill), 2017 QZAB warrants payable and the Notes from Direct Borrowing are made by the Debt Service Fund with property taxes. Payments on the Capital Improvement Pool Bonds 2009-D, 2012-A, 2013-D, 2014-A, 2015-B, 2016-A, and 2020-C are made with Public School Funds which are part of the Board's allocation from the Alabama Department of Education.

Notes to the Financial Statements

For the Year Ended September 30, 2023

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

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

Fiscal Year Ending	Warrants Payable		Note from Direct Borrowing	
	Principal	Interest	Principal	Interest
September 30, 2024	\$ 4,874,730.83	\$1,415,088.88	\$ 7,740,553.95	\$ 2,274,623.44
2025	4,991,440.31	1,183,522.05	7,717,173.01	2,096,694.28
2026	5,828,176.04	957,978.53	7,866,414.28	1,916,922.74
2027	6,316,604.95	714,603.82	7,953,032.19	1,727,361.07
2028	3,908,535.25	521,949.55	8,057,750.85	1,524,983.23
2029-2033	11,391,076.88	664,506.29	31,535,000.00	4,871,505.75
2034-2038	282,565.81	15,432.20	17,505,000.00	2,382,017.25
2039-2041			11,515,638.22	407,167.50
Totals	\$37,593,130.07	\$5,473,081.32	\$99,890,562.50	\$17,201,275.26

Deferred Gain/Loss on Refunding, Discounts and Premiums

The Board has a deferred loss on refunding and a premium in connection with the issuance of its PSCA Capital Improvement Pool Warrants, Series 2014-A which refunded the Capital Improvement Pool Warrants, Series 2005 and Series 2006. The deferred loss on refunding and premium are being amortized using the straight-line method over a period of twelve years.

The Board has a deferred loss on refunding and a premium in connection with the issuance of its PSCA Capital Improvement Pool Warrants, Series 2015-B which partially refunded the Capital Improvement Pool Warrants, and Series 2009-C. The deferred loss on refunding and premium are being amortized using the straight-line method over a period of fourteen years.

The Board has a deferred loss on the current refunding and a premium in connection with the issuance of its Public School Warrants, Series 2016 which partially refunded the Special Tax School Warrants, Series 2006. The deferred loss on the current refunding and premium are being amortized using the straight-line method over a period of 14.83 years.

The Board has a premium and a discount in connection with the issuance of its PSCA Capital Improvement Pool Warrants, Series 2016-A which are being amortized over a period of 19.92 years.

Notes to the Financial Statements
For the Year Ended September 30, 2023

Total		Total Principal and Interest Requirements to Maturity
Principal	Interest	
\$ 12,615,284.78	\$ 3,689,712.32	\$ 16,304,997.10
12,708,613.32	3,280,216.33	15,988,829.65
13,694,590.32	2,874,901.27	16,569,491.59
14,269,637.14	2,441,964.89	16,711,602.03
11,966,286.10	2,046,932.78	14,013,218.88
42,926,076.88	5,536,012.04	48,462,088.92
17,787,565.81	2,397,449.45	20,185,015.26
11,515,638.22	407,167.50	11,922,805.72
<u>\$137,483,692.57</u>	<u>\$22,674,356.58</u>	<u>\$160,158,049.15</u>

The Board has a premium in connection with the issuance of the \$5,165,000 Public School Warrants Series 2017 are being amortized using the straight-line method over a period of 10 years.

	Deferred Loss on Refunding	Discount	Premium
Total Deferred Gain/Loss on Refunding, Discount and Premium	\$862,470.90	\$6,934.38	\$8,945,728.96
Amount Amortized Prior Years	429,906.19	2,176.06	4,648,923.36
Balance Loss on Refunding Discount and Premium	432,564.71	4,758.32	4,296,805.60
Current Year Amortized	85,981.24	348.17	599,409.71
Balance Deferred Gain/Loss on Refunding, Discount and Premium	<u>\$346,583.47</u>	<u>\$4,410.15</u>	<u>\$3,697,395.89</u>

Notes to the Financial Statements

For the Year Ended September 30, 2023

Pledged Revenues

The Board issued 2012-A, 2013-D, 2014-A, 2015-B, 2016-A, and 2020-C. The Board also issued Capital Improvement Pool Warrants, Series 2009-D Capital Improvement Pool Qualified School Construction Bonds and Series 2011-A Capital Improvement Pool Qualified Zone Academy Bonds. These are all pledged to be repaid from their allocation of public school funds received from the State of Alabama. The proceeds are to be used for the acquisition, construction and renovation of school facilities. Future revenues in the amount of \$9,347,629.60 are pledged to repay the principal and interest on the warrants at September 30, 2023. Proceeds of the public school fund in the amount of \$6,174,496.00 were received by the Board during the fiscal year ended September 30, 2023, of which \$2,206,028.32 were used to pay principal and interest on the warrants. The Series 2011-A, Series 2012-A, Series 2013-D, Series 2014-A, 2015-B, 2016-A, 2020-C warrants will mature in fiscal years 2026, 2024, 2026, 2026, 2029, 2036, and 2033 respectively.

The Board issued Series 2006 Special Tax School Warrants for the purpose of constructing a new high school in Calera, a new middle school in Helena, and classroom additions to various schools. The Board pledged to repay the special tax school warrants from the Board's portion of the proceeds of a sales tax levied by Shelby County Commission pursuant to the provisions of Act Number 81-461, Acts of Alabama, as amended by Act Number 96-505, Acts of Alabama. Future revenues in the amount of \$472,440.69 are pledged to repay the principal and interest on the warrants at September 30, 2023. Proceeds of the sales tax in the amount of \$15,282,212.76 were received by the Board during the fiscal year ended September 30, 2023, of which \$59,306.26 were used to pay principal and interest on the warrants. \$58,585.69 came from separation agreement payments from Alabaster City Schools. The Special Tax School Warrants will mature in fiscal year 2031.

The Board issued Series 2016 Public School Warrants for the purpose of partially redeeming the Series 2006 Warrants and the remainder used to construct 20 new classrooms at Chelsea High School and land and building improvements at various schools in Shelby County. The Board pledged to repay the public school warrants from the Board's portion of the proceeds of a sales tax levied by Shelby County Commission pursuant to the provisions of Act Number 81-461, Acts of Alabama, as amended by Act Number 96-505, Acts of Alabama. Future revenues in the amount of \$27,047,725.00 are pledged to repay the principal and interest on the warrants at September 30, 2023. Proceeds of the sales tax in the amount of \$15,282,212.76 were received by the Board during the fiscal year ended September 30, 2023, of which \$3,379,850.00 were used to pay principal and interest on the warrants. The Public School Warrants will mature in fiscal year 2031.

Notes to the Financial Statements

For the Year Ended September 30, 2023

The Board issued Series 2017 Public School Warrants for the purpose of purchasing new school buses. The Board pledged to repay the public school warrants from the Board's portion of the proceeds of a sales tax levied by Shelby County Commission pursuant to the provisions of Act Number 81-461, Acts of Alabama, as amended by Act Number 96-505, Acts of Alabama. Future revenues in the amount of \$2,415,231.25 are pledged to repay the principal and interest on the warrants at September 30, 2023. Proceeds of the sales tax in the amount of \$15,282,212.76 were received by the Board during the fiscal year ended September 30, 2023, of which \$601,412.50 were used to pay principal and interest on the warrants. The Public School Warrants will mature in fiscal year 2027.

The Board issued \$2,000,000.00 Series 2017 Qualified Zone Academy Warrant for the purpose of rehabilitating or repairing the school facilities in various qualified zone schools in Shelby County. The Board pledged to repay the one mill county ad valorem tax (Section 269C as amended by Amendment No 111) of the Constitution of 1901, as amended). Future revenues in the amount of \$800,000.00 are pledged to repay the principal on the warrants at September 30, 2023. Proceeds from the one mill tax in the amount of \$2,745,770.29 were received by the Board during the fiscal year ended September 30, 2023, of which no amount was used to pay principal and interest on the warrants. However, \$200,000.00 was transferred into a sinking fund to contribute towards the principal amount at maturity. On September 30, 2023, the sinking fund had a balance of \$800,000.00. The Series 2017 Qualified Zone Academy Warrant will mature in fiscal year 2027.

The Board issued a note from direct borrowing in the amount of \$115,865,000 to refund the remaining portion of Series 2011 debt and constructing classroom additions, and school modernization throughout Shelby County School Zones. The Board pledged to repay the debt from the ten mill county ad valorem tax. Future revenues in the amount of \$115,855,399.25 are pledged to repay the remaining principal and interest on the warrants at September 30, 2023. Proceeds of the ten-mill tax in the amount of \$27,457,702.75 were received by the Board during fiscal year ended September 30, 2023, of which \$9,673,657.72 was used to pay principal and interest on the warrants. The Note from direct borrowing will mature in fiscal year 2041.

Note 11 – Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The Board has insurance for its buildings and contents through the State Insurance Fund (SIF) part of the State of Alabama, Department of Finance, Division of Risk Management (DORM), which operates as a common risk management and insurance program for state owned properties and county boards of education. The Board pays an annual premium based on the amount of coverage requested. The Board has insured its building at 100% replacement value, which DORM values at \$886,981,124.00 and building contents at \$217,416,183.00.

Notes to the Financial Statements

For the Year Ended September 30, 2023

The Board purchases errors and omissions insurance from the Alabama Trust for Boards of Education (ATBE), a public entity risk pool. The ATBE collects the premiums and purchases excess insurance for any amount of coverage requested by pool participants in excess of the coverage provided by the pool. ATBE covers General Liability Claims up to \$300,000 per claim with a \$600,000 max per Coverage Year, Errors and Omissions Claims up to \$1,000,000 per claim with a \$2,000,000 max per coverage year, Sexual Misconduct and Harassment Claims up to \$100,000 per claim with a \$300,000 max per coverage year. The deductible for ATBE is \$15,000.00.

Automobile insurance is purchased from Rux Carter Insurance Agency Auto Owners Insurance Company with medical payments limited to \$5,000.00 per person and a combined liability of \$500,000.00 per occurrence.

The Board has a Commercial Crime Coverage Policy from Rux Carter Insurance Agency Auto Owners Insurance Company. The Public Employee Dishonesty Policy Covers has a limit of \$100,000.

Employee health insurance is provided through the Public Education Employees' Health Insurance Fund (PEEHIF), administered by the Public Education Employees' Health Insurance Board (PEEHIB). The Fund was established to provide a uniform plan of health insurance for current and retired employees of state educational institutions and is self-sustaining. Monthly premiums for employee and dependent coverage are determined annually by the plan's actuary and are based on anticipated claims in the upcoming year, considering any remaining fund balance on hand available for claims. The Board contributes a specified amount monthly to the PEEHIF for each employee of state educational institutions. The Board's contribution is applied against the employees' premiums for the coverage selected and the employee pays any remaining premium.

Settled claims resulting from these risks have not exceeded the Board's coverage in any of the past three fiscal years.

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

Notes to the Financial Statements
For the Year Ended September 30, 2023

Note 12 – Interfund Transactions

Interfund Receivables/Payables

The interfund receivables and payables at September 30, 2023, were as follows:

	Interfund Payables	
	Special Revenue Fund	Totals
<u>Interfund Receivables:</u>		
General Fund	\$2,784,817.74	\$2,784,817.74
Totals	\$2,784,817.74	\$2,784,817.74

The amounts of interfund transfers during the fiscal year ended September 30, 2023, were as follows:

	Transfers Out		
	General Fund	Special Revenue Fund	Totals
<u>Transfers In:</u>			
General Fund	\$	\$2,530,859.02	\$2,530,859.02
Special Revenue Fund	5,884,533.60		5,884,533.60
Other Governmental Funds		19,941.00	19,941.00
Totals	\$5,884,533.60	\$2,550,800.02	\$8,435,333.62

The Board typically used transfers to fund ongoing operating subsidies and to recoup certain expenditures paid on-behalf of the local schools. The Board is also required to transfer funds into the Special Revenue Fund to pay for CNP staff fringe benefits and raises.

Notes to the Financial Statements
For the Year Ended September 30, 2023

Note 13 – Subsequent Events

The Board has approved the following significant construction contracts since September 30, 2023:

	Contract Amount
Addition to Fieldhouse at Chelsea High School Football	\$2,140,202.00
New Home Bleachers for Chelsea High School Football Stadium	1,143,080.00
New Parking Lot for Chelsea High School	1,894,749.00
Total	<u>\$5,178,031.00</u>

Required Supplementary Information

Schedule of the Employer's Proportionate Share of the Collective Net Pension Liability
For the Year Ended September 30, 2023
(Dollar amounts in thousands)

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the collective net pension liability	1.741969%	1.761506%	1.768035%	1.813159%	1.698577%	1.680774%	1.665511%	1.700285%	1.866222%
Employer's proportionate share of the collective net pension liability	\$ 270,716	\$ 165,940	\$ 218,700	\$ 200,479	\$ 168,882	\$ 165,195	\$ 180,308	\$ 177,947	\$ 169,538
Employer's covered payroll during the measurement period (*)	\$ 134,514	\$ 127,943	\$ 125,880	\$ 119,204	\$ 113,728	\$ 111,458	\$ 106,171	\$ 107,701	\$ 118,415
Employer's proportionate share of the collective net pension liability as a percentage of its covered payroll	201.25%	129.70%	173.74%	168.18%	148.50%	148.21%	169.83%	165.22%	143.17%
Plan fiduciary net position as a percentage of the total collective pension liability	62.21%	76.44%	67.72%	69.85%	72.29%	71.50%	67.93%	67.51%	71.01%

(*) Employer's covered payroll during the measurement period is the total covered payroll. (See GASB Statement 82.)
For fiscal year 2023, the measurement period is October 1, 2021 through September 30, 2022.

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

Schedule of the Employer's Contributions - Pension
For the Year Ended September 30, 2023
(Dollar amounts in thousands)

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 17,792	\$ 16,131	\$ 15,367	\$ 15,260	\$ 14,484	\$ 13,632	\$ 13,157	\$ 12,522	\$ 12,544
Contributions in relation to the contractually required contribution	\$ 17,792	\$ 16,131	\$ 15,367	\$ 15,260	\$ 14,484	\$ 13,632	\$ 13,157	\$ 12,522	\$ 12,544
Contribution deficiency (excess)	\$	\$	\$	\$	\$	\$	\$	\$	\$
Employer's covered payroll	\$ 146,518	\$ 134,514	\$ 127,943	\$ 125,880	\$ 119,204	\$ 113,728	\$ 111,458	\$ 106,171	\$ 107,701
Contributions as a percentage of covered payroll	12.14%	11.99%	12.01%	12.12%	12.15%	11.99%	11.80%	11.79%	11.65%

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

Schedule of the Employer's Proportionate Share of the Collective Net Other Postemployment Benefits (OPEB) Liability
Alabama Retired Education Employees' Health Care Trust
For the Fiscal Year Ended September 30, 2023
(Dollar amounts in thousands)

	2023	2022	2021	2020	2019	2018
Employer's proportion of the collective net OPEB liability	2.185412%	1.848669%	2.162905%	2.216647%	2.118722%	2.024645%
Employer's proportionate share of the collective net OPEB liability (asset)	\$ 38,080	\$ 95,517	\$ 140,370	\$ 83,629	\$ 174,132	\$ 150,379
Employer's covered-employee payroll during the measurement period (*)	\$ 134,514	\$ 127,943	\$ 125,880	\$ 119,204	\$ 113,728	\$ 111,458
Employer's proportionate share of the collective net OPEB liability (asset) as a percentage of its covered-employee payroll	28.31%	74.66%	111.51%	70.16%	153.11%	134.92%
Plan fiduciary net position as a percentage of the total collective OPEB liability	48.39%	27.11%	19.80%	28.14%	14.81%	15.37%

(*) Employer's covered-employee payroll during the measurement period is the total covered payroll.
For fiscal year 2023, the measurement period is October 1, 2021 through September 30, 2022.

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

Schedule of the Employer's Contributions - Other Postemployment Benefits (OPEB)
Alabama Retired Education Employees' Health Care Trust
For the Fiscal Year Ended September 30, 2023
(Dollar amounts in thousands)

	2023	2022	2021	2020	2019	2018
Contractually required contribution	\$ 3,048	\$ 4,171	\$ 3,496	\$ 3,950	\$ 6,321	\$ 5,241
Contributions in relation to the contractually required contribution	\$ 3,048	\$ 4,171	\$ 3,496	\$ 3,950	\$ 6,321	\$ 5,241
Contribution deficiency (excess)	\$	\$	\$	\$	\$	\$
Employer's covered-employee payroll	\$ 146,518	\$ 134,514	\$ 127,943	\$ 125,880	\$ 119,204	\$ 113,728
Contributions as a percentage of covered-employee payroll	2.08%	3.10%	2.73%	3.14%	5.30%	4.61%

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

***Notes to Required Supplementary Information
for Other Postemployment Benefits (OPEB)
For the Year Ended September 30, 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 reflect actual experience more closely.

Recent Plan Changes

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

Effective January 1, 2017, Medicare eligible medical and prescription drug benefits are provided through the Medicare Advantage Plan with Prescription Drug Coverage (MAPD).

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

***Notes to Required Supplementary Information
for Other Postemployment Benefits (OPEB)
For the Year Ended September 30, 2023***

Method and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates in the Schedule of Employer’s Contributions-Other Postemployment Benefits (OPEB) 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.	

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended September 30, 2023

	Budgeted Amounts		Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis
	Original	Final			
Revenues					
State	\$ 143,357,951.97	\$ 141,927,340.18	\$ 154,546,063.34	\$	\$ 154,546,063.34
Federal	86,598.50	69,202.96	283,709.50		283,709.50
Local	79,478,055.53	82,907,104.87	88,110,788.28	(676,655.60)	87,434,132.68
Other	330,635.00	555,505.00	496,723.01		496,723.01
Total Revenues	223,253,241.00	225,459,153.01	243,437,284.13	(676,655.60)	242,760,628.53
Expenditures					
Current:					
Instruction	128,308,153.46	132,405,592.12	130,824,261.41	1,911,962.45	132,736,223.86
Instructional Support	36,905,967.12	37,548,353.84	36,705,583.90	268,273.98	36,973,857.88
Operation and Maintenance	23,136,931.84	24,794,450.05	25,025,334.56	54,592.04	25,079,926.60
Auxiliary Services:					
Student Transportation	16,488,735.91	16,664,351.92	17,066,288.50	129,227.92	17,195,516.42
General Administrative and Central Support	5,286,320.12	5,388,308.45	5,467,688.71	(10,159.20)	5,457,529.51
Other	3,816,248.78	4,282,200.95	3,990,912.91	21,186.09	4,012,099.00
Capital Outlay	3,312,292.00	5,822,887.31	5,655,560.98		5,655,560.98
Total Expenditures	217,254,649.23	226,906,144.64	224,735,630.97	2,375,083.28	227,110,714.25
Excess (Deficiency) of Revenues Over Expenditures	5,998,591.77	(1,446,991.63)	18,701,653.16	(3,051,738.88)	15,649,914.28
Other Financing Sources (Uses)					
Indirect Cost	1,181,141.53	2,334,744.60	1,470,479.90		1,470,479.90
Long-Term Debt Issued		34,639.00	102,235.23		102,235.23
Transfers In	1,919,707.99	1,937,213.99	2,530,859.02		2,530,859.02
Other Financing Sources			180,084.29		180,084.29
Sale of Capital Assets	40,000.00	73,500.00	23,145.00		23,145.00
Transfers Out	(7,197,152.11)	(8,153,543.56)	(5,884,533.60)		(5,884,533.60)
Total Other Financing Sources (Uses)	(4,056,302.59)	(3,773,445.97)	(1,577,730.16)		(1,577,730.16)
Net Change in Fund Balances	1,942,289.18	(5,220,437.60)	17,123,923.00	(3,051,738.88)	14,072,184.12
Fund Balances - Beginning of Year	42,497,443.07	56,119,119.46	56,118,278.19	(19,200,936.64)	36,917,341.55
Fund Balances - End of Year	\$ 44,439,732.25	\$ 50,898,681.86	\$ 73,242,201.19	\$ (22,252,675.52)	\$ 50,989,525.67

Explanation of differences:

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

\$ (3,051,738.88)

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Special Revenue Fund
For the Year Ended September 30, 2023

	Budgeted Amounts		Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis
	Original	Final			
Revenues					
Federal	\$ 27,339,355.77	\$ 33,933,850.45	\$ 24,140,190.43	\$	\$ 24,140,190.43
Local	15,269,797.05	15,473,942.73	18,881,398.94		18,881,398.94
Other	300,599.99	301,330.88	283,618.51		283,618.51
Total Revenues	42,909,752.81	49,709,124.06	43,305,207.88		43,305,207.88
Expenditures					
Current:					
Instruction	20,512,063.35	23,931,828.41	20,328,125.68		20,328,125.68
Instructional Support	6,348,148.74	7,650,738.67	6,374,216.58		6,374,216.58
Operation and Maintenance	2,119,325.00	1,544,324.21	1,643,990.52		1,643,990.52
Auxiliary Services:					
Student Transportation	834,320.97	859,959.65	751,622.96		751,622.96
Food Service	14,136,786.70	16,830,575.62	15,762,743.27	127,965.30	15,890,708.57
General Administrative and Central Support	448,279.21	1,560,264.71	724,129.04		724,129.04
Other	2,325,384.81	2,401,849.58	1,237,873.07		1,237,873.07
Capital Outlay	899,635.00	2,357,783.68	2,763,392.17		2,763,392.17
Debt Service:					
Debt Issuance Costs/Other Debt Service	4,085.00	4,085.00	3,804.51		3,804.51
Total Expenditures	47,628,028.78	57,141,409.53	49,589,897.80	127,965.30	49,717,863.10
Excess (Deficiency) of Revenues Over Expenditures	(4,718,275.97)	(7,432,285.47)	(6,284,689.92)	(127,965.30)	(6,412,655.22)
Other Financing Sources (Uses)					
Long-Term Debt Issued	20,550.00	20,550.00			
Transfers In	7,835,187.11	8,791,578.56	5,884,533.60		5,884,533.60
Other Financing Sources			34,072.97		34,072.97
Sale of Capital Assets		425.00	23,221.00		23,221.00
Transfers Out	(2,557,742.99)	(2,575,248.99)	(2,550,800.02)		(2,550,800.02)
Total Other Financing Sources (Uses)	5,297,994.12	6,237,304.57	3,391,027.55		3,391,027.55
Net Change in Fund Balances	579,718.15	(1,194,980.90)	(2,893,662.37)	(127,965.30)	(3,021,627.67)
Fund Balances - Beginning of Year	13,041,751.81	17,862,519.50	16,187,874.17	(688,325.60)	15,499,548.57
Fund Balances - End of Year	\$ 13,621,469.96	\$ 16,667,538.60	\$ 13,294,211.80	\$ (816,290.90)	\$ 12,477,920.90

Explanation of differences:

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

\$ (127,965.30)

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Supplementary Information

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2023***

Federal Grantor/ Pass-Through Grantor/ Program Title	Assistance Listing Number	Pass-Through Grantor's Identifying Number	Total Federal Expenditures
<u>U. S. Department of Agriculture</u>			
<u>Passed Through Alabama Department of Education</u>			
Child Nutrition Cluster:			
School Breakfast Program	10.553	N/A	\$ 1,467,471.67
National School Lunch Program:			
Cash Assistance	10.555	N/A	5,394,061.85
Non-Cash Assistance (Commodities)	10.555	N/A	804,446.96
Emergency Operational Cost Reimbursement Program	10.555	N/A	589,479.55
Sub-Total National School Lunch Program			6,787,988.36
Sub-Total Child Nutrition Cluster			8,255,460.03
Team Nutrition Grants	10.574	N/A	3,242.96
Total U. S. Department of Agriculture			8,258,702.99
<u>U. S. Department of Education</u>			
<u>Passed Through Alabama Department of Education</u>			
Title I Grants to Local Educational Agencies	84.010	N/A	2,081,861.62
Special Education Cluster:			
Special Education Grants to States	84.027	N/A	4,664,587.62
COVID-19 American Rescue Plan Special Education - Grants to States	84.027X	N/A	165,698.16
Special Education Preschool Grants to States	84.173	N/A	101,363.32
COVID-19 American Rescue Plan Special Education - Preschool Grants	84.173X	N/A	36,381.47
Sub-Total Special Education Cluster			4,968,030.57
Career and Technical Education - Basic Grants to States	84.048	N/A	254,435.80
Education for Homeless Children and Youth	84.196	N/A	42,455.89
English Language Acquisition State Grants	84.365	N/A	89,246.40
Supporting Effective Instruction State Grants	84.367	N/A	522,409.45
Student Support and Academic Enrichment Program	84.424	N/A	138,081.07
COVID-19 Education Stabilization Fund:			
COVID-19 Elementary and Secondary School Emergency Relief Fund	84.425D	N/A	1,905,168.26
COVID-19 American Rescue Plan - Elementary and Secondary School Emergency Relief Fund	84.425U	N/A	5,723,737.37
COVID-19 American Rescue Plan-Elementary and Secondary School Emergency Relief - Homeless Children and Youth	84.425W	N/A	34,687.61
Sub-Total COVID-19 Education Stabilization Fund			7,663,593.24
<u>Passed Through Alabama Department of Rehabilitation Services</u>			
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	N/A	116,673.40
Total U. S. Department of Education			15,876,787.44
Sub-Total Forward			\$ 24,135,490.43

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2023***

Federal Grantor/ Pass-Through Grantor/ Program Title	Assistance Listing Number	Pass-Through Grantor's Identifying Number	Total Federal Expenditures
Sub-Total Brought Forward			\$ 24,135,490.43
<u>Social Security Administration</u>			
<u>Passed Through Alabama Department of Education</u>			
Social Security - Disability Insurance	96.001	N/A	2,498.00
<u>Federal Communications Commission</u>			
<u>Direct Program</u>			
Emergency Connectivity Fund Program	32.009	N/A	224,709.00
<u>National Endowment for the Humanities</u>			
<u>Direct Program</u>			
Promotion of the Arts - Partnership Agreements	45.025	N/A	4,700.00
<u>Other Federal Assistance</u>			
<u>U. S. Department of Defense</u>			
<u>Direct Program</u>			
ROTC - Army	N/A	N/A	56,502.50
Total Expenditures of Federal Awards			<u>\$ 24,423,899.93</u>

N/A = Not Applicable or Not Available

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

***Notes to the Schedule of Expenditures
of Federal Awards
For the Year Ended September 30, 2023***

Note 1 – Basis of Presentation

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

Note 2 – Summary of Significant Accounting Policies

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

Note 3 – Indirect Cost Rate

The Shelby County Board of Education has elected not to use the 10-percent de minimis indirect cost rate as allowed in the *Uniform Guidance*.

Additional Information

Board Members and Administrative Personnel
October 1, 2022 through September 30, 2023

Board Members		Term Expires
Hon. David Bobo	President	2024
Hon. Peg Hill	Vice-President	2026
Hon. Jimmy Bice	Member	2024
Hon. Brian Boatman	Member	2028
Hon. Amber Polk	Member	2028
Hon. Aubrey Miller	Member	2022
Hon. Jane Hampton	Member	2022
<u>Administrative Personnel</u>		
Dr. Lewis Brooks	Superintendent	2025
John Gwin	Assistant Superintendent of Finance/ Chief School Financial Officer	Indefinite

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

Independent Auditor's Report

Members of the Shelby County Board of Education,
Superintendent and Chief School Financial Officer
Columbiana, Alabama

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards*** issued by the Comptroller General of the United States (***Government Auditing Standards***), the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Shelby County Board of Education, as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the Shelby County Board of Education's basic financial statements, and have issued our report thereon dated May 15, 2024.

Report on Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

***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***

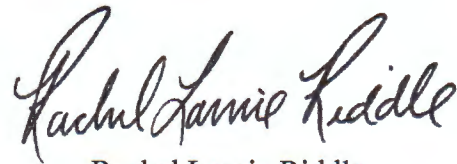
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Report on Compliance and Other Matters

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

Purpose of this Report

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



Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

May 15, 2024

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

Independent Auditor's Report

Members of the Shelby County Board of Education,
Superintendent and Chief School Financial Officer
Columbiana, Alabama

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Shelby County Board of Education's 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 Shelby County Board of Education's major federal programs for the year ended September 30, 2023. The Shelby County Board of Education's major federal programs are identified in the Summary of Examiner's Results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the Shelby County Board of Education complied, in all material respects, with the 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 (GAAS); the standards applicable to financial audits contained in ***Government Auditing Standards*** issued by the Comptroller General of the United States (***Government Auditing Standards***); 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 Shelby County Board of Education and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Shelby County Board of Education's compliance with the compliance requirements referred to above.

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

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 Shelby County Board of Education's federal programs.

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 Shelby County Board of Education'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 GAAS, ***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 Shelby County Board of Education's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, ***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 Shelby County Board of Education'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 Shelby County Board of Education'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 Shelby County Board of Education's internal control over compliance. Accordingly, no such opinion is expressed.

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

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

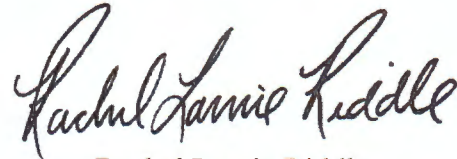
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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 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 the 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.

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

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



Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

May 15, 2024

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2023

Section I – Summary of Examiner’s Results

Financial Statements

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

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified?

_____ Yes X None reported

Noncompliance material to financial statements noted?

_____ Yes X No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified?

_____ Yes X None reported

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

Unmodified

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

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

_____ Yes X No

Identification of major federal programs:

Assistance Listing Numbers	Name of Federal Programs or Clusters
10.553 and 10.555 84.425	Child Nutrition Cluster COVID-19 Education Stabilization Fund

Dollar threshold used to distinguish between

Type A and Type B programs:

\$750,000.00

Auditee qualified as low-risk auditee?

_____ Yes X No

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2023

Section II – Financial Statement Findings (GAGAS)

No matters were reportable.

Section III – Federal Awards Findings and Questioned Costs

No matters were reportable.