

**GULF SHORES CITY SCHOOLS BOARD OF EDUCATION**

**FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2019**

GULF SHORES CITY SCHOOLS BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019

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## INDEPENDENT AUDITOR'S REPORT

To the Members of the Board  
Gulf Shores, Alabama

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gulf Shores City School Board of Education, as of and for the nine month period ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Opinions**

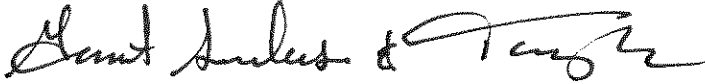
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Gulf Shores City Schools Board of Education as of September 30, 2019, and the respective changes in financial position and cash flows, where applicable, thereof for the nine month period ended in accordance with accounting principles generally accepted in the United State of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the postemployment benefits other than pension (OPEB) on pages 24-25 and pension benefits on pages 26- 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted management's discussion and analysis and budgetary comparison that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.



Gulf Shores, Alabama  
May 15, 2020

## BASIC FINANCIAL STATEMENTS

## GOVERNMENT - WIDE FINANCIAL STATEMENTS

GULF SHORES CITY SCHOOLS BOARD OF EDUCATION  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2019

|  | Governmental<br>Activities  |
|--|-----------------------------|
| <b>ASSETS</b>  |                             |
| Current assets:  |                             |
| Cash and cash equivalents  | \$ 1,782,624                |
| Accounts receivable - net  | 246,068                     |
| Inventories  | 40,488                      |
| Capital assets:  |                             |
| Non-depreciable  | 6,079,354                   |
| Depreciable (net)  | <u>21,383,525</u>           |
| <b>Total assets</b>  | <u><b>29,532,059</b></u>    |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>  |                             |
| Employer pension contribution  | 224,161                     |
| Proportionate share of collective deferred outflows related to net pension liability | 229,000                     |
| Deferred OPEB outflows   | <u>544,781</u>              |
| <b>Total deferred outflows of resources</b>  | <u><b>997,942</b></u>       |
| <b>LIABILITIES</b>   |                             |
| Current liabilities:   |                             |
| Accounts payable   | \$ 429,274                  |
| Due in more than one year:   |                             |
| Proportionate share of collective OPEB liability                                     | 129,774                     |
| Proportionate share of collective net pension liability                              | 263,000                     |
| Bonds payable  | 6,925,198                   |
| Due to the City of Gulf Shores   | <u>6,834,845</u>            |
| <b>Total liabilities</b>   | <u><b>14,582,091</b></u>    |
| <b>DEFERRED INFLOW OF RESOURCES</b>  |                             |
| Deferred revenue   | 16,136                      |
| Proportionate share of collective deferred inflows related to net pension liability  | 28,000                      |
| Proportionate share of collective deferred inflows related to net OPEB liability     | <u>7,016</u>                |
| <b>Total deferred inflows of resources</b>   | <u><b>51,152</b></u>        |
| <b>NET POSITION</b>  |                             |
| Net investment in capital assets   | 13,702,836                  |
| Unrestricted (deficit)   | <u>2,193,922</u>            |
| <b>Total net position</b>  | <u><b>\$ 15,896,758</b></u> |

The accompanying notes are an integral part of the financial statements.

GULF SHORES CITY SCHOOL SYSTEM BOARD OF EDUCATION  
STATEMENT OF ACTIVITIES  
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2019

| Functions/Programs                                   | Program Revenues |                         |  |  | Net (Expenses) Revenues<br>and Changes in Net Position<br>Governmental Activities |
|--|------------------|-------------------------|--|--|---|
|  | Expenses         | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions |   |
| <b>PRIMARY GOVERNMENT:</b>                           |                  |                         |  |  |   |
| Governmental activities:                             |                  |                         |  |  |   |
| Instructional Services                               | \$ 1,437,388     | \$ 243,527              | \$ 84,871                                | \$ -                                   | \$ (1,108,990)  |
| Instructional support services                       | 819,435          | 144,648                 | 30,211                                   | -                                      | (644,576)   |
| Operation and maintenance services                   | 769,636          | 69,794                  | 2,242                                    | -                                      | (697,600)   |
| Auxiliary Services                                   | 267,003          | 114,310                 | 61,446                                   | -                                      | (91,247)  |
| General administrative                               | 1,568,677        | 79,586                  | 1,336                                    | -                                      | (1,487,755)   |
| Other Expenses                                       | 293,817          | 33,395                  | 67,401                                   | -                                      | (193,021)   |
| Total governmental activities                        | 5,155,956        | 685,260                 | 247,507                                  | -                                      | (4,223,189)   |
| General revenues:                                    |                  |                         |  |  |   |
| City of Gulf Shores appropriations                   |                  |                         |  |  | 3,477,568   |
| Contributions from Baldwin County Board of Education |                  |                         |  |  | 16,571,400  |
| Unrestricted investment earnings                     |                  |                         |  |  | 3,210   |
| Total general revenues, special items and transfers  |                  |                         |  |  | 20,052,178  |
| Change in net position                               |                  |                         |  |  | 15,828,989  |
| Net position - beginning                             |                  |                         |  |  | 67,769  |
| Net position - ending                                |                  |                         |  |  | \$ 15,896,758   |



## FUND FINANCIAL STATEMENTS

GULF SHORES CITY SCHOOLS BOARD OF EDUCATION  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2019

|  | General           | Special<br>Revenue | Capital<br>Projects | Expendable<br>Trust | Total               |
|--|-------------------|--------------------|---------------------|---------------------|---------------------|
| <b>ASSETS</b>  |                   |                    |                     |                     |                     |
| Cash and cash equivalents  | \$ 667,482        | \$ 885,643         | \$ -                | \$ 229,499          | \$ 1,782,624        |
| Accounts receivable - net  | 168,610           | 77,458             | -                   | -                   | 246,068             |
| Due from other funds   | 33,768            | (33,768)           | -                   | -                   | -                   |
| Inventory  | -                 | 40,488             | -                   | -                   | 40,488              |
| Total assets   | <u>\$ 869,860</u> | <u>\$ 969,821</u>  | <u>\$ -</u>         | <u>\$ 229,499</u>   | <u>\$ 2,069,180</u> |
| <b>LIABILITIES, DEFERRED INFLOWS OF<br/>RESOURCES, AND FUND BALANCES</b> |                   |                    |                     |                     |                     |
| <b>Liabilities:</b>  |                   |                    |                     |                     |                     |
| Accounts payable   | 382,628           | 46,093             | -                   | 553                 | 429,274             |
| Other liabilities  | -                 | 16,136             | -                   | -                   | 16,136              |
| Total liabilities  | <u>382,628</u>    | <u>62,229</u>      | <u>-</u>            | <u>553</u>          | <u>445,410</u>      |
| <b>Deferred inflows of resources:</b>                                    |                   |                    |                     |                     |                     |
| Unearned revenue   | <u>-</u>          | <u>-</u>           | <u>-</u>            | <u>-</u>            | <u>-</u>            |
| <b>Fund balances:</b>  |                   |                    |                     |                     |                     |
| Nonspendable   |                   |                    |                     |                     |                     |
| Inventories  | -                 | 40,488             | -                   | -                   | 40,488              |
| Spendable:   |                   |                    |                     |                     |                     |
| Restricted   | -                 | -                  | -                   | -                   | -                   |
| Committed  | -                 | -                  | -                   | -                   | -                   |
| Assigned   | -                 | -                  | -                   | -                   | -                   |
| Local schools  | -                 | 867,104            | -                   | 228,946             | 1,096,050           |
| Unassigned   | <u>487,232</u>    | <u>-</u>           | <u>-</u>            | <u>-</u>            | <u>487,232</u>      |
| Total fund balances  | <u>487,232</u>    | <u>907,592</u>     | <u>-</u>            | <u>228,946</u>      | <u>1,623,770</u>    |
| Total liabilities, deferred inflows,<br>and fund balances                | <u>\$ 869,860</u> | <u>\$ 969,821</u>  | <u>\$ -</u>         | <u>\$ 229,499</u>   | <u>\$ 2,069,180</u> |

The accompanying notes are an integral part of the financial statements.

GULF SHORES CITY SCHOOLS BOARD OF EDUCATION  
RECONCILIATION OF THE BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
SEPTEMBER 30, 2019

|  |  |           |
|--|--|-----------|
| Fund balances - total governmental funds |  | 1,623,770 |
|--|--|-----------|

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 in the governmental funds.

|                               |                  |  |            |
|-------------------------------|------------------|--|------------|
| Governmental capital assets   | 27,697,171       |  |            |
| Less accumulated depreciation | <u>(234,292)</u> |  | 27,462,879 |

Certain deferred outflows of resources used in governmental activities are not financial resources and therefore are not reported in the governmental funds.

|  |                |  |         |
|--|----------------|--|---------|
| Proportionate share of collective deferred outflows related to net pension liability | 229,000        |  |         |
| Deferred employer pension contributions  | 224,161        |  |         |
| Deferred employer OPEB contributions   | <u>544,781</u> |  | 997,942 |

Certain deferred inflows of resources used in governmental activities are not financial uses and therefore are not reported in the governmental funds.

|   |                |  |          |
|---|----------------|--|----------|
| Proportionate share of collective deferred inflows related to net pension liability | (28,000)       |  |          |
| Proportionate share of collective deferred inflows of OPEB liability                | <u>(7,016)</u> |  | (35,016) |

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

|   |                  |  |                     |
|---|------------------|--|---------------------|
| Governmental bonds payable                              | (6,925,198)      |  |                     |
| Long term payable due to the City of Gulf Shores        | (6,834,845)      |  |                     |
| Proportionate share of collective net pension liability | (263,000)        |  |                     |
| Proportionate shore of collective OPEB liability        | <u>(129,774)</u> |  | <u>(14,152,817)</u> |

|   |  |                      |
|---|--|----------------------|
| Net position of governmental activities |  | <u>\$ 15,896,758</u> |
|---|--|----------------------|

The accompanying notes are an integral part of the financial statements.

GULF SHORES CITY SCHOOLS BOARD OF EDUCATION  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2019

|   | General           | Special<br>Revenue | Capital<br>Projects | Expendable<br>Trust | Total               |
|---|-------------------|--------------------|---------------------|---------------------|---------------------|
| <b>REVENUES</b>                             |                   |                    |                     |                     |                     |
| State Sources                               | \$ 60,000         | \$ -               | \$ -                | \$ -                | \$ 60,000           |
| Federal Sources                             | -                 | 78,442             | -                   | -                   | 78,442              |
| Local Sources                               |                   |                    |                     |                     |                     |
| Other                                       | 306,078           | 374,658            | -                   | 116,089             | 796,825             |
| City of Gulf Shores                         | 3,477,568         | -                  | -                   | -                   | 3,477,568           |
| Other Sources                               | 710               | -                  | -                   | -                   | 710                 |
| <b>TOTAL REVENUES</b>                       | <u>3,844,356</u>  | <u>453,100</u>     | <u>-</u>            | <u>116,089</u>      | <u>4,413,545</u>    |
| <b>EXPENDITURES</b>                         |                   |                    |                     |                     |                     |
| Instructional services                      | 1,512,757         | 133,288            | -                   | 56,587              | 1,702,632           |
| Instructions support services               | 786,098           | 80,283             | -                   | 22,059              | 888,440             |
| Operational and maintenance services        | 1,027,534         | 11,609             | -                   | -                   | 1,039,143           |
| Auxiliary services                          | 145,572           | 131,219            | -                   | -                   | 276,791             |
| General administrative services             | 989,017           | -                  | -                   | -                   | 989,017             |
| Other expenditures                          | 154,576           | 23,770             | -                   | 5,032               | 183,378             |
| Capital improvements                        | -                 | -                  | 28,109,586          | -                   | 28,109,586          |
| <b>TOTAL EXPENDITURES</b>                   | <u>4,615,554</u>  | <u>380,169</u>     | <u>28,109,586</u>   | <u>83,678</u>       | <u>33,188,987</u>   |
| <b>OTHER FINANCING SOURCES (USES)</b>       |                   |                    |                     |                     |                     |
| Debt assumed from BCBE                      | -                 | -                  | 6,925,198           | -                   | 6,925,198           |
| Line of Credit - City of Gulf Shores        | 1,107,529         | -                  | 5,727,316           | -                   | 6,834,845           |
| Capital contributed from BCBE               | -                 | 909,730            | 15,457,072          | 204,598             | 16,571,400          |
| Transfers in                                | 83,132            | -                  | -                   | -                   | 83,132              |
| Transfers out                               | -                 | (75,069)           | -                   | (8,063)             | (83,132)            |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b> | <u>1,190,661</u>  | <u>834,661</u>     | <u>28,109,586</u>   | <u>196,535</u>      | <u>30,331,443</u>   |
| Net change in fund balances                 | 419,463           | 907,592            | -                   | 228,946             | 1,556,001           |
| Fund balances - beginning                   | <u>67,769</u>     | <u>-</u>           | <u>-</u>            | <u>-</u>            | <u>67,769</u>       |
| Fund balances - ending                      | <u>\$ 487,232</u> | <u>\$ 907,592</u>  | <u>\$ -</u>         | <u>\$ 228,946</u>   | <u>\$ 1,623,770</u> |

The accompanying notes are an integral part of the financial statements.

GULF SHORES CITY SCHOOLS BOARD OF EDUCATION  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL ACTIVITIES  
TO THE CHANGES IN NET POSITION ON THE STATEMENT OF ACTIVITIES  
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2019

|                             |  |           |
|-----------------------------|--|-----------|
| Net change in fund balances |  | 1,556,001 |
|-----------------------------|--|-----------|

Governmental funds report capital improvements as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

|                                 |                  |            |
|---------------------------------|------------------|------------|
| Expenditures for capital assets | 27,697,171       |            |
| Less current year depreciation  | <u>(234,292)</u> | 27,462,879 |

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

|                    |                     |              |
|--------------------|---------------------|--------------|
| Proceeds from debt | <u>(13,760,043)</u> | (13,760,043) |
|--------------------|---------------------|--------------|

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

|                  |                |                |
|------------------|----------------|----------------|
| Pension expenses | 162,161        |                |
| OPEB expenses    | <u>475,760</u> | <u>637,921</u> |

|   |  |                      |
|---|--|----------------------|
| Change in net position of governmental activities |  | <u>\$ 15,896,758</u> |
|---|--|----------------------|

The accompanying notes are an integral part of the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

GULF SHORES CITY SCHOOLS BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019

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

**A. GENERAL STATEMENT**

The City of Gulf Shores, Alabama, created the Gulf Shores City School Board of Education on October 9, 2017. The School Board is a component unit of the City of Gulf Shores. The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally Accepted Accounting Principles (GAAP) for local governments includes those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable). As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the City has elected not to apply Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989. The more significant accounting policies of the Board are described below.

On June 1, 2019 the Gulf Shores City School Board of Education official split from the Baldwin County Board of Education. As part of the separation agreement, the following items were transferred to the Gulf Shores City School System.

- Local School cash accounts totaling \$1,114,328
- Fixed assets including land, building, buses, and equipment totaling \$15,457,072

In addition, the Gulf Shores City Schools Board of Education assumed \$6,925,198 in debt from the Baldwin County Board of Education (BCBE). BCBE will continue to make debt service payments associated with this debt through June 1, 2024 in the amount of \$1,437,980. Amounts are reported as other financing sources and uses.

**B. FINANCIAL REPORTING ENTITY**

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

The Board is a legally separate agency of the State of Alabama (the State). However, for financial reporting, the Board is considered a component unit of the City of Gulf Shores, Alabama (the City) due to the following reasons:

- The City appoints a voting majority of the organization's board.
- The City appropriates funds to the Board on an annual basis. is able to impose its will on the organization
- The Board cannot levy taxes directly. The tax revenues must be levied by the City or another taxing authority on behalf of the Board.

**C. BASIS OF PRESENTATION**

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

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to

GULF SHORES CITY SCHOOLS BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019

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

**C. BASIS OF PRESENTATION (continued)**

customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

**FUND FINANCIAL STATEMENTS:**

The Board segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The Board has presented the following major governmental funds:

**General Fund –**

The General Fund is the main operating fund of the Board. It is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

**Special Revenue Fund –**

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. Special revenue funds consists of the following:

**Restricted:** Grants to be spent for specific purposes::

Special educational grants to States, Special Educational Preschool Grants, Title I grants to Local Educational Agencies, ROTC Language and Cultural Training Grants.

**Assigned:** Local School Funds are to be used for school activities and are not considered restricted or committed.

**Capital Projects Funds –**

The Capital projects funds account for and report financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

**Expendable Trust Fund-**

The Expendable trust funds account for non-public funds.

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

**Agency Funds** generally account for assets held by the Board in a purely custodial capacity. Agency funds consist of accounts payable and payroll clearing funds.



GULF SHORES CITY SCHOOLS BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019

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

**D. MEASUREMENT FOCUS/BASIS OF ACCOUNTING**

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets, liabilities (whether current or non-current), deferred inflows of resources, and deferred outflows of resources are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A one-year availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are charges for services, interest income and intergovernmental revenues. Taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received.

**F. CASH AND INVESTMENTS**

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

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

**G. RECEIVABLES**

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivables balances for the governmental activities include intergovernmental receivables from the City of Gulf Shores and Baldwin County Board of Education.

In the fund financial statements, material receivables in governmental funds include revenue accruals that are usually both measurable and available. Nonexchange transactions collectible but not available are not deferred in the fund financial statements in accordance with modified accrual, but are deferred in the government-wide statements in accordance with accrual basis. The interest earned is recorded when earned, only if paid within 60 days since they would be considered both measurable and available.

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

**I. INVENTORY**

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory consists of supplies and lunch room food .

**J. INTERFUND RECEIVABLES AND PAYABLES**

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

**L. CAPITAL ASSETS**

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Capital assets are recorded as expenditures at the acquisition date in the fund financial statements. The Board has no general infrastructure assets.

Assets capitalized, not including infrastructure assets, have an original cost of \$5,000 or more. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

|                         |             |
|-------------------------|-------------|
| Buildings               | 35-50 years |
| Building Improvements   | 20-30 years |
| Machinery and equipment | 5-15 years  |
| Furniture and fixtures  | 3-15 years  |

**M. ACCUMULATED COMPENSATED ABSENCES**

For vacation leave and other compensated absences with similar characteristics, GASB Statement No 16 requires the accrual of a liability as the benefits are earned by the employees, if both of these conditions are met:

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

An accrual for earned sick leave should be made only to the extent it is probable that the benefits will result in termination payments, rather than be taken as absences due to illness or other contingencies, such as medical appointments and funerals. Because employees do not receive compensation for unused sick leave at termination, no liability is recorded on the financial statements. In addition, employees cannot carry over vacation to succeeding years; therefore no liability for unpaid leave is accrued in the financial statements.

**N. NATURE AND PURPOSE OF RESERVATIONS AND DESIGNATIONS OF FUND BALANCE**

*Government Wide Level Financial Statements*

Equity is classified as net position and displayed in three components:

- a) Invested in capital assets, net of related debt consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

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- b) Restricted net position consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c) Unrestricted net position consists of all other net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

*Fund Level Financial Statements*

In accordance with Government Accounts Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Bureau classifies governmental fund balance as follows:

- Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. The policy established by the Board pursuant to which the authorization to assign fund balance to a specific purpose is given for the Board of Education to approve, followed by the Superintendents action to accept and signature to authorize.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The Board's policy is to maintain a minimum reserve fund equal to one month's operating expenses as set by Code of Alabama 1975, Sections 16-13A-9.

**NOTE 2 – CAPITAL ASSETS**

Capital asset activity for the period ended September 30, 2019, was as follows:

| <b>Description</b>                             | <b>Beginning<br/>Balance</b> | <b>Additions</b> | <b>Retirements</b> | <b>Reclass-<br/>ifications</b> | <b>Ending<br/>Balance</b> |
|--|------------------------------|------------------|--------------------|--------------------------------|---------------------------|
| Governmental Activities                        |                              |                  |                    |                                |                           |
| Non-Depreciable Assets:                        |                              |                  |                    |                                |                           |
| Land   | \$ -                         | \$ 5,013,900     | \$ -               | \$ -                           | \$ 5,013,900              |
| Depreciable Assets:                            |                              |                  |                    |                                |                           |
| Land and Building Improvements                 | -                            | 4,550,417        | -                  | -                              | 4,550,417                 |
| Motor vehicles and equipment                   | -                            | 1,196,002        | -                  | -                              | 1,196,002                 |
| Building                                       | -                            | 16,936,852       | -                  | -                              | 16,936,852                |
| Totals at historical cost                      | -                            | 27,697,171       | -                  | -                              | 27,697,171                |
| Less accumulated depreciation for:             |                              |                  |                    |                                |                           |
| Land and Building Improvements                 | -                            | 13,140           | -                  | -                              | 13,140                    |
| Motor vehicles and equipment                   | -                            | 25,602           | -                  | -                              | 25,602                    |
| Building                                       | -                            | 195,550          | -                  | -                              | 195,550                   |
| Total accumulated depreciation                 | -                            | 234,292          | -                  | -                              | 234,292                   |
| Governmental activities<br>capital assets, net | <u>\$ -</u>                  |                  |                    |                                | <u>\$ 27,462,879</u>      |

GULF SHORES CITY SCHOOLS BOARD OF EDUCATION  
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**NOTE 3 – OTHER POST EMPLOYER BENEFITS (OPEB)**

**Summary of Significant Accounting Policies**

***Postemployment Benefits Other Than Pensions (OPEB)***

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

***Plan description***

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

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

***Benefits provided***

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

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

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

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**NOTE 3 – OTHER POST EMPLOYER BENEFITS (OPEB) (CONTINUED)**

Plan covers diagnostic and preventative services, as well as basic and major dental services. Diagnostic and preventative services include oral examinations, teeth cleaning, x-rays, and emergency office visits. Basic and major services include fillings, general aesthetics, oral surgery not covered under a Group Medical Program, periodontics, endodontics, dentures, bridgework, and crowns. Dental services are subject to a maximum of \$1,250 per year for individual coverage and \$1,000 per person per year for family coverage. The Vision Plan covers annual eye examinations, eye glasses, and contact lens prescriptions.

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

Effective January 1, 2017, Medicare eligible members and Medicare eligible dependents who are covered on a retiree contract were enrolled in the United Healthcare Group Medicare Advantage plan for PEEHIP retirees. The MAPDP plan is fully insured by United Healthcare and members are able to have all of their Medicare Part A, Part B, and Part D (prescription drug coverage) in one convenient plan. With the United Healthcare plan for PEEHIP, retirees can continue to see their same providers with no interruption and see any doctor who accepts Medicare on a national basis. Retirees have the same benefits in and out-of-network and there is no additional retiree cost share if a retiree uses an out-of-network provider and no balance billing from the provider.

***Contributions***

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

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

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

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

At September 30, 2019, the School Board reported a liability of \$129,774 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2017. The School Board's proportion of the net OPEB liability was

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**NOTE 3 – OTHER POST EMPLOYER BENEFITS (OPEB) (CONTINUED)**

based on a projection of the School 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, 2018, the School Board's proportion was .001579% percent, which was an increase of .001579% from its proportion measured as of September 30, 2017.

For the period ended September 30, 2019, the System recognized OPEB expense of \$28,003, with no special funding situations. At September 30, 2019, the System reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

|  | Deferred Outflows<br>of Resources | Deferred Inflows<br>of Resources |
|--|-----------------------------------|----------------------------------|
| Difference between expected and actual experience                                | 2,443                             | -                                |
| Changes of assumptions   | -                                 | 6,321                            |
| Net difference between projected and actual earnings<br>on OPEB plan investments | -                                 | 695                              |
| Changes in proportionate share of contributions                                  | 106,344                           | -                                |
| Employer contributions subsequent to the measurement date                        | 435,994                           | -                                |
|  | 544,781                           | 7,016                            |

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

Year Ended September 30

|            |        |
|------------|--------|
| 2020       | 19,100 |
| 2021       | 19,100 |
| 2022       | 19,100 |
| 2023       | 19,256 |
| 2024       | 21,106 |
| Thereafter | 4,109  |

**Actuarial assumptions**

The total OPEB liability was determined by an actuarial valuation as of September 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

|  |                         |
|--|-------------------------|
| Inflation  | 2.75%                   |
| Projected Salary Increases <sup>1</sup>                        | 3.25% - 5.00%           |
| Long-Term Investment Rate of Return <sup>2</sup>               | 7.25%                   |
| Municipal Bond Index Rate at the Measurement Date              | 4.18%                   |
| Municipal Bond Index Rate at the Prior Measurement Date        | 3.57%                   |
| Projected Year for Fiduciary Net Position (FNP) to be Depleted | 2029                    |
| Singe Equivalent Interest Rate the Measurement Date            | 4.44%                   |
| Singe Equivalent Interest Rate the Prior Measurement Date      | 4.63%                   |
| Healthcare Cost Trend Rate                                     |                         |
| Pre-Medicare Eligible  | 7.00%                   |
| Medicare Eligible  | 5.00% beginning in 2019 |
| Ultimate Trend Rate  |                         |
| Pre-Medicare Eligible  | 4.75% in 2026           |
| Medicare Eligible  | 4.75% in 2024           |

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

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

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**NOTE 3 – OTHER POST EMPLOYER BENEFITS (OPEB) (CONTINUED)**

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

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

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the September 30, 2017 valuation were based on a review of recent plan experience done concurrently with the September 30, 2017 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:

| <b>Asset Class</b>                    | <b>Target<br/>Allocation</b> | <b>Long-Term<br/>Expected Real<br/>Rate of Return*</b> |
|---------------------------------------|------------------------------|--|
| 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%  |
| <b>Total</b>                          | <b>100.00%</b>               |  |

\* Geometric mean, includes 2.5% inflation

**Discount Rate**

The discount rate (also known as the Single Equivalent Interest Rate (SEIR), as described by GASB 74) used to measure the total OPEB liability at September 30, 2018 was 4.44%. The discount rate used to measure the total OPEB liability at the prior measurement date was 4.63%. Premiums paid to the Public Education Employees' Health Insurance Board for active employees shall include an amount to partially fund the cost of coverage for retired employees. The projection of cash flows used to determine the discount rate assumed that plan contributions will be made at the current contribution rates. Each year, the State specifies the monthly employer rate that participating school systems must contribute for each active employee. Approximately, 20.307% of the employer contributions were used to assist in funding retiree benefit payments in 2018 and it is assumed that the

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**NOTE 3 – OTHER POST EMPLOYER BENEFITS (OPEB) (CONTINUED)**

amount will increase by 2.75% per year and continue into the future. The discount rate determination will use a municipal bond rate to the extent the trust is projected to run out of money before all benefits are paid. The rate used for this purpose is the monthly average of the Bond Buyers General Obligation 20-year Municipal Bond Index Rate. Therefore, the projected future benefit payments for all current plan members were projected through 2029. The long term rate of return is used until the assets are expected to be depleted in 2029, after which the municipal bond rate is used.

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

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

|                    | 1% Decrease (6%<br>decreasing to 3.75%<br>for pre-Medicare and<br>4% decreasing to<br>3.75% for Medicare<br>Eligible) | Current Healthcare Trend<br>(7% decreasing to 4.75%<br>for pre-Medicare and 5%<br>decreasing to 4.75% for<br>Medicare Eligible) | 1% Increase (8%<br>decreasing to 5.75%<br>for pre-Medicare and<br>6% decreasing to<br>5.75% for Medicare<br>Eligible) |
|--------------------|---|---|---|
| Net OPEB Liability | \$ 106,677  | \$ 129,774  | \$ 159,179  |

The following table presents the School Board's proportionate share of the net OPEB liability of the Trust calculated using the discount rate of 4.44%, as well as what the net OPEB liability would be if calculated using one percentage point lower or one percentage point higher than the current rate:

|  | 1% Decrease (3.44%) | Current Discount (4.44%) | 1% Increase (5.44%) |
|--|---------------------|--------------------------|---------------------|
| Employer's proportionate share of the<br>collective net OPEB liability | \$ 155,024          | \$ 129,774               | \$ 109,405          |

***OPEB plan fiduciary net position***

Detailed information about the OPEB plan's fiduciary net position is located in the Trust's financial statements for the fiscal year ended September 30, 2018. The supporting actuarial information is included in the GASB Statement No. 74 Report for PEEHIP prepared as of September 30, 2018. Additional financial and actuarial information is available at [www.rsa-al.gov](http://www.rsa-al.gov).

**NOTE 4 - PENSION**

***Summary of Significant Accounting Policies***

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



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**NOTE 4 – PENSION (CONTINUED)**

***General Information about the Pension Plan***

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

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

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 TRS members are eligible for retirement after age 62 with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the TRS are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits equal to the annual earnable compensation of the member as reported to the Plan for the preceding year ending June 30 are paid to a qualified beneficiary.

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

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

Participating employers' contractually required contribution rate for the year ended September 30, 2018, was 12.24% of annual pay for Tier 1 members and 11.01% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the System were \$224,161 for the year ended September 30, 2019.

GULF SHORES CITY SCHOOLS BOARD OF EDUCATION  
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**NOTE 4 – PENSION (CONTINUED)**

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

At September 30, 2019, the System reported a liability of \$263,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2017. The System'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, 2018, the System's proportion was .002641 %, which was an increase of .002641% from its proportion measured as of September 30, 2017.

For the period ended September 30, 2019, the System recognized pension expense of \$62,000. At September 30, 2019, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | Deferred Outflows<br>of Resources | Deferred Inflows<br>of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual experience  | 6,000                             | 8,000                            |
| Changes of assumptions  | 15,000                            | -                                |
| Net difference between projected and actual earnings on OPEB plan investments                                 | -                                 | 20,000                           |
| Changes in proportion and differences between Employer contributions and proportionate share of contributions | 208,000                           | -                                |
| Employer contributions subsequent to the measurement date   | 224,161                           | -                                |
| Total   | <u>\$ 453,161</u>                 | <u>\$ 28,000</u>                 |

\$224,161 reported as deferred outflows of resources related to pensions resulting from System contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended September 30 |           |
|-------------------------|-----------|
| 2020                    | \$ 52,000 |
| 2021                    | 45,000    |
| 2022                    | 45,000    |
| 2023                    | 50,000    |
| 2024                    | 9,000     |
| Thereafter              | -         |

*Actuarial assumptions:* The total pension liability in the September 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                            |            |
|----------------------------|------------|
| Inflation                  | 2.75%      |
| Salary increases           | 3.25% - 5% |
| Investment rate of return* | 7.70%      |

\*Net of pension plan investment expense

GULF SHORES CITY SCHOOLS BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019

**NOTE 4 – PENSION (CONTINUED)**

The actuarial assumptions used in the actuarial valuation as of September 30, 2017, were based on the results of an investigation of the economic and demographic experience for the TRS based upon participant data as of September 30, 2015. The Board of Control accepted and approved these changes in September 2016 which became effective at the beginning of fiscal year 2016.

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

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

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

\*Includes assumed rate of inflation of 2.50%.

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

*Sensitivity of the System's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate:* The following table presents the System's proportionate share of the net pension liability calculated using the discount rate of 7.70%, as well as what the System's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.70%) or 1-percentage-point higher (8.70%) than the current rate (dollar amounts in thousands):

|  | 1%<br>Decrease<br>(6.7%) | Current<br>discount<br>rate (7.7%) | 1%<br>Increase<br>(8.7%) |
|--|--------------------------|------------------------------------|--------------------------|
| Employer's proportionate share of the collective net pension liability | 366,000                  | 263,000                            | 176,000                  |

GULF SHORES CITY SCHOOLS BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019

**NOTE 4 - PENSION (continued)**

*Pension plan fiduciary net position:* Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2018. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2018. The auditor's report dated August 16, 2019, on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense for the sum of all participating entities as of September 30, 2018, 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-68-reports/>.

**NOTE 5- CHANGES IN LONG TERM DEBT**

The Gulf Shores City Schools Board of Education has not issued debt as of September 30, 2019. The School System assumed the debt taken on there behalf from the City of Gulf Shores and the Baldwin County Board of Education. In accordance with the separation agreement, the County Board will continue to make debt service payments for all existing debt at the time of the separation agreement associated with Gulf Shores City Schools through June 1, 2024. The City Board shall assume responsibility for the debt service payments after June 1, 2024. At September 30, 2019, governmental long term debt consisted of the following items:

|  | Beginning<br>Balance | Additions            | Reductions  | Ending<br>Balance    | Amounts<br>Due within<br>one Year |
|--|----------------------|----------------------|-------------|----------------------|-----------------------------------|
| <b><u>Long Term notes Payable</u></b>          |                      |                      |             |                      |                                   |
| BCBE- PSCA Series 2009D                        | -                    | 53,014               | -           | 53,014               | 7,573 *                           |
| BCBE PSCA Series 2011A                         | -                    | 141,161              | -           | 141,161              | 20,166 *                          |
| BCBE- 2017 Warrant                             | -                    | 6,731,023            | -           | 6,731,023            | 237,337 *                         |
| Bonds Payable                                  | -                    | 6,925,198            | -           | 6,925,198            | 265,076                           |
| Long term line of credit - City of Gulf Shores | -                    | 6,834,845            | -           | 6,834,845            | -                                 |
| Net Pension Liability                          | -                    | 263,000              | -           | 263,000              | -                                 |
| Net OPEB liability                             | -                    | 129,774              | -           | 129,774              | -                                 |
| Governmental activities long-term debt         | <u>\$ -</u>          | <u>\$ 14,152,817</u> | <u>\$ -</u> | <u>\$ 14,152,817</u> | <u>\$ 265,076</u>                 |

| September 30, | Principal           | Interest            |
|---------------|---------------------|---------------------|
| 2020          | 265,076             | 301,384             |
| 2021          | 275,395             | 289,259             |
| 2022          | 286,321             | 276,603             |
| 2023          | 298,461             | 263,371             |
| 2024          | 312,725             | 249,478             |
| 2025-2029     | 1,718,355           | 998,281             |
| 2030-2034     | 2,157,885           | 536,869             |
| 2035-2038     | 1,610,979           | 98,455              |
|               | <u>\$ 6,925,198</u> | <u>\$ 3,013,700</u> |

GULF SHORES CITY SCHOOLS BOARD OF EDUCATION  
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**NOTE 6 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

The operating fund has a receivable from the special fund in the amount of \$33,768. The receivable resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them, to the fund that statute or budget that requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts, to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

| <u>Transfers Out</u> | <u>Transfers In</u> |
|----------------------|---------------------|
|                      | <u>General Fund</u> |
| Special Revenues     | 75,069              |
| Expendable Trust     | 8,063               |
|                      | <u>\$ 83,132</u>    |

**NOTE 6 – COMMITMENTS AND CONTINGENCIES**

The Board is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets, errors and omissions; injuries to employees; and natural disasters. The Board obtains coverage from municipal insurance companies and effectively manages risk through various employee education and prevention programs. The policy premiums are based on estimated annual payroll. The premiums are adjusted retrospectively based on actual annual payroll.

The Board is party to various legal proceedings, which normally occur in the course of governmental operations. The financial statements do not include accrual or provisions for loss contingencies that may result from these proceedings.

**NOTE 7- SUBSEQUENT EVENTS**

As a result of the spread of COVID 19 coronavirus, economic uncertainties have arisen which are likely to negatively impact tax revenues. Other financial impacts could occur though such potential impacts are unknown at this time. Subsequent events were evaluated from October 1, 2019 to the financial statement issuance date of May 15, 2020.

## REQUIRED SUPPLEMENTARY INFORMATION

GULF SHORES CITY SCHOOLS BOARD OF EDUCATION  
SCHEDULE OF GULF SHORES CITY SCHOOLS PROPORTIONATE SHARE OF THE NET OPEB LIABILITY  
ALABAMA RETIRED EDUCATION EMPLOYEE'S HEALTHCARE TRUST  
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2019

|   | <u>2019</u> |
|---|-------------|
| Board's proportion of the net OPEB Liability  | 0.00158%    |
| Board's proportionate share of the net OPEB liability   | 129,774     |
| Board's covered -employee payroll*  | 62,100      |
| Board's proportionate share of the net OPEB liability (asset) as a percentage of its covered employee payroll | 209%        |
| Plan fiduciary net position as a percentage of the total OPEB liability                                       | 14.81%      |

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

\* Employer's covered-employee payroll during the measurement is the total payroll paid to covered employee. For the fiscal year 2019, the measurement period is October 1, 2017 through September 30, 2018.

GULF SHORES CITY SCHOOLS BOARD OF EDUCATION  
SCHEDULE OF BOARD CONTRIBUTIONS  
ALABAMA RETIRED EDUCATION EMPLOYEE'S HEALTHCARE TRUST  
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30

|  | <u>2018</u>    |
|--|----------------|
| Contractually required contribution                                  | 2,400          |
| Contributions in relation to the contractually required contribution | <u>(2,400)</u> |
| Contribution deficiency (excess)                                     | -              |
| Board's covered-employee payroll                                     | 62,100         |
| Contributions as a percentage of covered-employee payroll            | 4%             |

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



GULF SHORES CITY SCHOOLS BOARD OF EDUCATION  
SCHEDULE OF GULF SHORES CITY SCHOOLS PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
TEACHER'S RETIREMENT SYSTEM OF ALABAMA  
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2019

|  | <u>2019</u> |
|--|-------------|
| Board's proportion of the net pension Liability  | 0.00264%    |
| Board's proportionate share of the net pension liability   | 263,000     |
| Board's covered -employee payroll*   | 62,100      |
| Board's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll | 24%         |
| Plan fiduciary net position as a percentage of the total collective pension liability                            | 72.29%      |

\* Employer's covered-employee payroll during the measurement is the total payroll paid to covered employee. For the fiscal year 2019, the measurement period is October 1, 2017 through September 30, 2018.

GULF SHORES CITY SCHOOLS BOARD OF EDUCATION  
SCHEDULE OF BOARD CONTRIBUTIONS  
TEACHER'S RETIREMENT SYSTEM OF ALABAMA  
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30

2018

|  |              |
|--|--------------|
| Contractually required contribution                                  | 7,000        |
| Contributions in relation to the contractually required contribution | <u>7,000</u> |
| Contribution deficiency (excess)                                     | -            |
| Board's covered-employee payroll                                     | 62,100       |
| Contributions as a percentage of covered-employee payroll            | 11.27%       |

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