

FINANCIAL STATEMENTS
UNIVERSITY CHARTER SCHOOL
LIVINGSTON, ALABAMA
SEPTEMBER 30, 2019

UNIVERSITY CHARTER SCHOOL
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SEPTEMBER 30, 2019

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FINANCIAL SECTION
UNIVERSITY CHARTER SCHOOL
BIRMINGHAM, ALABAMA
SEPTEMBER 30, 2019

Rebekah Barr, CPA PC

Certified Public Accountant

5422 Boswellville Road
Wilson, North Carolina 27893
Office: 252-230-6294 • Fax: 252-237-2426

Email: contact@rbarrepa.com

Independent Auditor's Report

Board of Directors
University Charter School
Livingston, Alabama

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of University Charter School, Alabama, as of and for the year ended September 30, 2019 and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 and each major fund of University Charter School, as of September 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7-14 and the Schedule of the Proportionate Share of the Net Pension and OPEB Liabilities and the Schedule of Board Contributions on pages 35 through 39, respectively 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University Charter School's basic financial statements. The budgetary schedules and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal and State Awards is presented for purposes of additional analysis as required by the *Government Auditing Standards* and is also not a required part of the basic financial statements.

The budgetary schedules, as well as the accompanying Schedule of Expenditures of Federal and State Awards 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements, budgetary schedules, other schedules, and the accompanying Schedule of Expenditures of Federal and State Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 7, 2020, on our consideration of University Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 University Charter School's internal control over financial reporting and compliance.



Rebekah Barr, CPA PC
Certified Public Accountant
Wilson, North Carolina

July 7, 2020

Management’s Discussion and Analysis
University Charter School
September 30, 2019

As management of University Charter School, we offer readers of University Charter School’s audited financial statements this narrative overview and analysis of the financial activities of University Charter School for the fiscal year ended September 30, 2019. We encourage readers to read the information presented herein in conjunction with additional information that we have furnished in the School’s financial statements, which follow this narrative.

The Management’s Discuss and Analysis reflects an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* issued in June 1999.

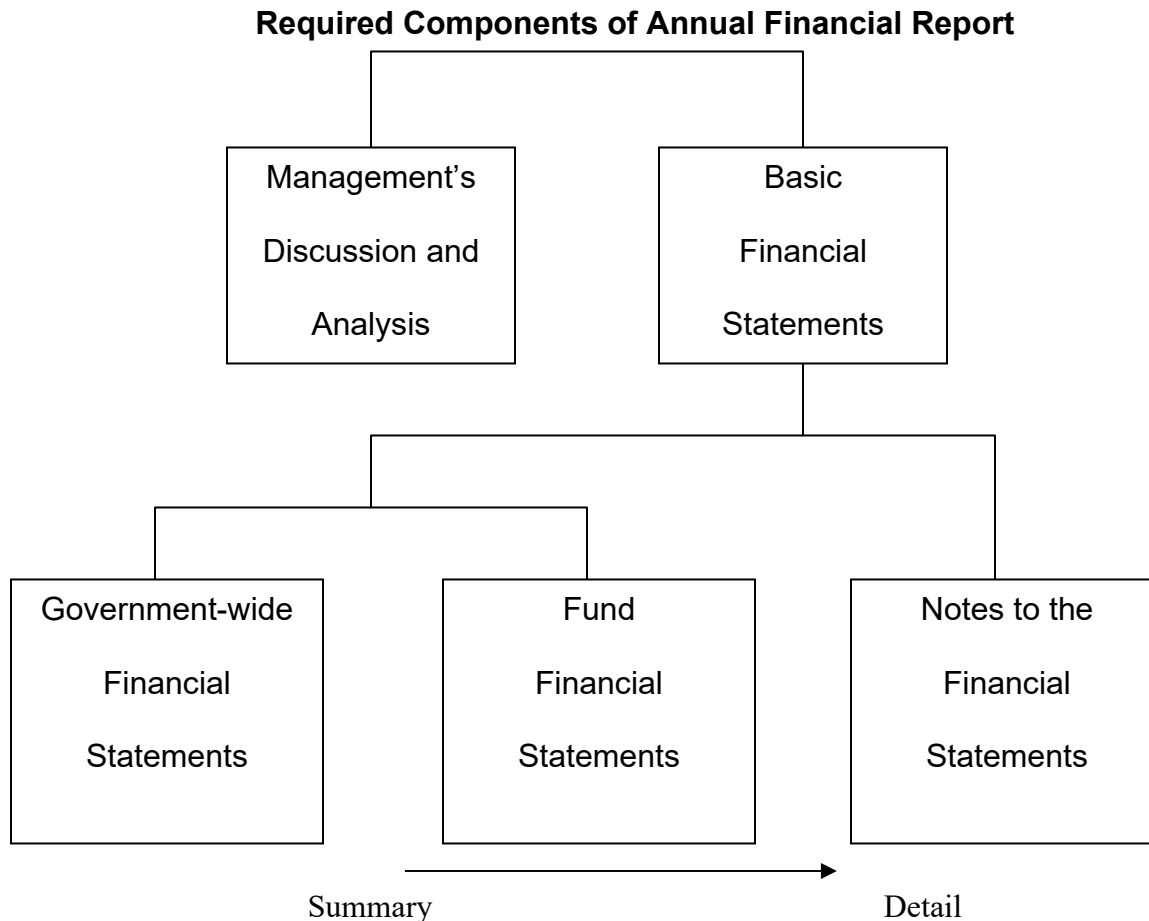
Financial Highlights

- The assets of University Charter School exceeded its liabilities at the close of the fiscal year by \$243,424 (*net position*).
- As of the close of the current fiscal year, University Charter School’s governmental funds reported an ending fund balance of \$574,126
- University Charter School opened its doors to students in August 2018. Enrollment as of September 30, 2019, was 298 for PreK-8th grades.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to University Charter School’s basic financial statements. The School’s basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two distinct financial perspectives of the School through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader’s understanding of the financial condition of University Charter School.

Figure 1



Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the School's financial standing.

The next statements (Exhibits 3 through 5) are **Fund Financial Statements**. These statements focus on the activities of the individual segments of the School's government and are more detailed than the government-wide financial statements.

Immediately following the fund financial statements are the **Notes to the Financial Statements** (i.e. "Notes"). The Notes offer a detailed explanation of the data contained in those statements. Next, **supplemental information** is provided to show details about the School's funds. Budgetary information for the School can also be found in this section of the statements.

Management's Discussion and Analysis
University Charter School
September 30, 2019

Government-wide Financial Statements

The first two statements are government-wide financial statements – the *Statement of Net Position* and the *Statement of Activities*. The government-wide financial statements are designed to provide the reader with a broad overview of the School's finances, similar in format to the financial statements of a private-sector business. The government-wide statements provide short and long-term information about the School's financial status, as a whole.

The two government-wide statements report the School's net position and how they have changed. The *Statement of Net Position* presents information on all of the School's assets less liabilities which results in net position. Measuring net position is one way to gauge the School's financial condition. University Charter School has no business-type activities, consequently, all of University Charter School's net position are reported as governmental activities. The *Statement of Activities* provides information which shows how the School's net position change as a result of the year's activities. The statement uses the accrual basis of accounting. All of the revenues and expenses are reported regardless of the timing of when cash is received or paid. The statement identifies the extent to which each expenditure function draws from general revenues of the School (primarily general donations) and intergovernmental aid (primarily federal programs and state appropriations).

The government-wide financial statements are enumerated in Exhibits 1 and 2 of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the School's most significant activities. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. University Charter School, like all other governmental entities in Alabama, uses fund accounting to ensure and demonstrate fiscal accountability.

Governmental Funds – Governmental funds are used to account for functions reported as governmental activities in the government-wide financial statements. These funds focus on how assets can readily be converted into cash flow in and out, and monies remaining at year-end that will be available for spending in the next fiscal year. The governmental funds statements – the *Balance Sheet* and the *Statement of Revenues, Expenditures and Changes in Fund Balance* - are reported using the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash and provide a short term focus. The governmental fund financial statements assist the reader in determining whether there has been an increase or a decrease in the financial resources available to finance the School's programs. The relationship between government activities (reported in the *Statement of Net Position* and the *Statement of Activities*) and governmental funds is described in a reconciliation that is an integral part of the fund financial statements.

Notes to the Financial Statements – The notes provide additional information essential to facilitating a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 20 of this report.

Management's Discussion and Analysis
University Charter School
September 30, 2019

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

Government-Wide Financial Analysis

As noted earlier, University Charter School has no business-type activities. Consequently, the School's net position is reported as Governmental Activities.

Figure 2
University Charter School's Net Position

| | Governmental Activities FY2019 |
|--|---|
| Current and Other Assets | \$ 697,445 |
| Capital Assets, Net of Depreciation | \$ 5,525 |
| Total Assets | \$ 702,970 |
| Deferred outflows of resources | \$ 3,679,785 |
| Total assets and deferred outflows of resources | \$ 4,382,755 |
| Current and Other Liabilities | \$ 123,319 |
| Long-term Liabilities | \$ 3,709,811 |
| Total Liabilities | \$ 3,833,130 |
| Deferred inflows of resources | \$ 306,201 |
| Total liabilities and deferred inflows of resources | \$ 4,139,331 |
| Net Investment in Capital Assets | \$ 5,525 |
| Restricted for: | |
| Capital Projects | \$ 123,498 |
| Debt Service | |
| Other Purposes | |
| Unrestricted | \$ 114,401 |
| Total Net Position | \$ 243,424 |

**Management's Discussion and Analysis
University Charter School
September 30, 2019**

University Charter School's total net position was \$243,424 at the close of the fiscal year 2019. University Charter School's total net position amount reflects adjustments related to pension liability and other postemployment benefits as required by GASB.

**Figure 3
University Charter School's Changes in Net Assets**

| | Governmental Activities FY2019 |
|---|---|
| Revenues | |
| Program revenues: | |
| Charges for services | \$ 168,936 |
| Operating grants and contributions | 2,566,150 |
| General revenues: | |
| Grants and Contributions not Restricted for Specific Programs | 693,750 |
| Miscellaneous | 123,168 |
| Total revenues | <u>\$ 3,552,004</u> |
| Expenditures | |
| Instructional Services | \$ 2,023,331 |
| Instructional support services | 532,499 |
| Operation and maintenance services | 57,283 |
| Auxiliary services | 133,450 |
| General administrative services and central support services | 425,806 |
| Other | 359,949 |
| Capital outlay | - |
| Interest and fiscal charges | - |
| Total expenditures | <u>\$ 3,532,318</u> |
| Increase in net position before proceeds | \$ 19,686 |
| Proceeds from long term debt | <u>\$ -</u> |
| Increase in net position | \$ 19,686 |
| Net position, Oct 1 | \$ 223,738 |
| Reinstatement | - |
| Net position, Sept 30 | <u><u>\$ 243,424</u></u> |

Program revenues provided 77% of all revenues. Operating grants and contributions contribute 94% of program revenues and 72% of all revenues. The major sources of revenues in this category are State foundation program funds and federal funds restricted for specific programs.

Management's Discussion and Analysis
University Charter School
September 30, 2019

General revenues, primarily donations and contributions, are used to provide the revenue to expenses not covered by program revenues.

Instructional expenditures, primarily salaries and benefits for classroom teachers, are the largest expense function of the School (57%).

- In addition to teacher salaries and benefits, instructional services includes teacher aides, substitute teachers, textbooks, depreciation of instructional buildings, professional development, and classroom instructional materials, supplies and equipment.
- Instructional support services includes salaries and benefits for school principals, assistant principals, librarians, counselors, school secretaries, school bookkeepers, speech therapists, and school nurses, and professional development expenses.
- Operation and maintenance services include utilities, security services, janitorial services, maintenance services, and depreciation of maintenance vehicles.
- Auxiliary services includes food services and transportation services. Food service expenditures include purchased food, food preparation and service supplies, and kitchen and lunchroom equipment. In addition to bus driver salaries, transportation services include vehicle maintenance and repair expenses, and vehicle fuel.
- General administrative services includes salaries and benefits for the superintendent, assistants, clerical and financial staff, and other personnel that provide system-wide support for the School. 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 on long-term debt issues and other expenses related to the issuance and continuance of debt issues.
- Other expenses includes the salaries and benefits for extended day personnel, materials, supplies, equipment, related depreciation and other expenses for operating programs outside of those for educating students in the PreK through 12 instructional programs.

Financial Analysis of the School's Funds

The analysis of governmental funds serves the purpose of looking at what resources came into the funds, how they were spent, and what is available for future expenditures. The financial performance of the School as a whole is reflected in its governmental funds as well. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year. At the end of the fiscal year, the School's governmental funds reported combined ending fund balances of \$574,126. Approximately, \$450,628 of this amount constitutes unassigned fund balances available as of the end of the fiscal year for spending on future operations or capital needs.

General Fund. The general fund is the primary operating fund of University Charter School. As noted earlier, at the end of the fiscal year, unassigned fund balance of the General Fund was \$450,628, while total fund balance reached \$574,126.

Special Revenue Fund. The special revenue fund accounts for all of the federal funds that flow through the State Department of Education. In addition, this fund includes the Local School

**Management’s Discussion and Analysis
University Charter School
September 30, 2019**

Public Funds. The ending fund balance of the Special Revenue Fund was \$123,498, while total fund balance reached \$574,126.

General Fund Budgetary Highlights. The FY2019 Budget was developed by projecting expenses based upon known sources at the time of adoption. Revenues were based on the State Department of Education allocations along with local revenue projections.

Capital Asset and Debt Administration

Capital assets. As of September 30, 2019, University Charter School had \$5,525 invested in capital assets including vehicles costing \$5,000 or more. The amount is net of accumulated depreciation.

**Figure 4
University Charter School’s Capital Assets
(Net of Depreciation)**

| | |
|----------------------------------|---|
| | Governmental Activities FY2019 |
| | <hr/> |
| Vehicles | \$ 6,500 |
| Less: Accumulated Depreciation | \$ (975) |
| Total Capital Assets, net | <hr/> \$ 5,525 |

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

Long-term Debt. As of September 30, 2019, University Charter School had \$3,833,130 in long-term debt, with the majority of that liability related to the University Charter School’s share of Alabama’s Net Pension and Other Post-Employment Benefits (OPEB liability). Additional information about the School’s long-term debt can be found in the notes to the basic financial statements.

Economic Factors and Next Year’s Budget

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

- The School will be adding an additional grade level in FY2020.
- The School does not receive local funding from local county or city tax dollars.
- University Charter School Board of Directors will continue planning on how to operate efficiently during the current year.

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

Management's Discussion and Analysis
University Charter School
September 30, 2019

Requests for Information

This report is designed to provide an overview of the School's finances for those with an interest in this area and to show the Board's accountability for the money it receives. Questions concerning any of the information found in this report or requests for additional information should be directed to the Board of Directors, University Charter School, 108 North Street, Livingston, Alabama, 35470, telephone (205) 652-3848

**University Charter School
Statement of Net Position
September 30, 2019**

| | Governmental Activities |
|--|------------------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 656,717 |
| Grants receivable | 40,728 |
| Net OPEB asset | - |
| Capital assets (Note III): | |
| Land, improvements, and construction in progress | - |
| Other capital assets, net of depreciation | 5,525 |
| Total capital assets | 5,525 |
| Total assets | 702,970 |
| DEFERRED OUTFLOWS OF RESOURCES | 3,679,785 |
| LIABILITIES | |
| Accounts payable - trade | 123,319 |
| Accrued interest payable | - |
| Long-term liabilities: | |
| Compensated Absences | - |
| Net pension liability | 2,023,000 |
| Net OPEB liability | 1,686,811 |
| Due within one year | - |
| Due in more than one year | - |
| Total liabilities | 3,833,130 |
| DEFERRED INFLOWS OF RESOURCES | 306,201 |
| NET POSITION | |
| Net investment in capital assets | 5,525 |
| Restricted for: | |
| Federal funds | 123,498 |
| Unrestricted | 114,401 |
| Total net position | \$ 243,424 |

The notes to the financial statements are an integral part of this statement.

University Charter School
Statement of Activities
September 30, 2019

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | |
|---|---------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|-------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | |
| | | | | | Governmental Activities | Business-type Activities | Total |
| Primary government: | | | | | | | |
| Governmental Activities: | | | | | | | |
| Instructional services | \$ 2,023,331 | \$ - | \$ 1,650,220 | \$ - | \$ (373,111) | \$ - | \$ (373,111) |
| Instructional support | 532,499 | - | 532,499 | - | - | - | - |
| Operation and maintenance | 57,283 | - | 57,283 | - | - | - | - |
| Auxiliary services | 133,450 | - | - | - | (133,450) | - | (133,450) |
| General administration and central support | - | - | - | - | - | - | - |
| | 425,806 | - | 326,148 | - | (99,658) | - | (99,658) |
| Other | 359,949 | 168,936 | - | - | (191,013) | - | (191,013) |
| Interest on long-term debt | - | - | - | - | - | - | - |
| Total governmental activities | <u>3,532,318</u> | <u>168,936</u> | <u>2,566,150</u> | <u>-</u> | <u>(797,232)</u> | <u>-</u> | <u>(797,232)</u> |
| Business-type activities: | | | | | | | |
| School food service | - | - | - | - | - | - | - |
| Total business-type activities | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total primary government | <u>\$ 3,532,318</u> | <u>\$ 168,936</u> | <u>\$ 2,566,150</u> | <u>\$ -</u> | <u>(797,232)</u> | <u>-</u> | <u>(797,232)</u> |
| General revenues: | | | | | | | |
| Grants and Contributions not Restricted for Specific Programs | | | | | 693,750 | - | 693,750 |
| Miscellaneous | | | | | 123,168 | - | 123,168 |
| Transfers | | | | | - | - | - |
| Total general revenues, special items, and transfers | | | | | <u>816,918</u> | <u>-</u> | <u>816,918</u> |
| Change in net position | | | | | 19,686 | - | 19,686 |
| Net position, beginning | | | | | 223,738 | - | 223,738 |
| Net position-ending | | | | | <u>\$ 243,424</u> | <u>\$ -</u> | <u>\$ 243,424</u> |

The notes to the financial statements are an integral part of this statement

**University Charter School
Balance Sheet
Governmental Funds
September 30, 2019**

| | Major Funds | | Total Governmental Funds |
|---|-------------------|-------------------|--------------------------------|
| | General | Special Revenue | |
| ASSETS | | | |
| Cash and cash equivalents | \$ 573,947 | \$ 82,770 | \$ 656,717 |
| Grants receivable | - | 40,728 | 40,728 |
| Prepaid expenses | - | - | - |
| Total assets | <u>573,947</u> | <u>123,498</u> | <u>697,445</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Accounts payable - trade | 123,319 | - | 123,319 |
| Short term note payable | - | - | - |
| Total liabilities | <u>123,319</u> | <u>-</u> | <u>123,319</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund balances: | | | |
| Nonspendable: | | | |
| Assigned: | | | |
| Federal funds | - | 123,498 | 123,498 |
| Unassigned | 450,628 | - | 450,628 |
| Total fund balances | <u>450,628</u> | <u>123,498</u> | <u>574,126</u> |
| Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 573,947</u> | <u>\$ 123,498</u> | |

Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:

| | |
|--|-------------------|
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 5,525 |
| Net OPEB asset | - |
| Deferred outflows of resources | 3,679,785 |
| Liabilities for earned but unavailable revenues in fund statements. Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds. | - |
| Net Pension Liability | (2,023,000) |
| Net OPEB Liability | (1,686,811) |
| Deferred inflows of resources | (306,201) |
| Net position of governmental activities | <u>\$ 243,424</u> |

The notes to the financial statements are an integral part of this statement.

University Charter School
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2019

| | Major Funds | | Total Governmental Funds |
|--|--------------|-----------------|--------------------------------|
| | General | Special Revenue | |
| Revenues | | | |
| State | \$ 1,971,661 | \$ - | \$ 1,971,661 |
| Federal | - | 204,048 | 204,048 |
| Local | 1,131,237 | 40,175 | 1,171,412 |
| Other | 83,145 | 121,738 | 204,883 |
| Total revenues | 3,186,043 | 365,961 | 3,552,004 |
| EXPENDITURES | | | |
| Current: | | | |
| Instructional services | 1,468,370 | 181,850 | 1,650,220 |
| Instructional support | 509,349 | 23,150 | 532,499 |
| Operation and maintenance | 57,283 | - | 57,283 |
| Auxiliary services | 133,450 | - | 133,450 |
| General administration and central support | 425,806 | - | 425,806 |
| Other | 322,486 | 37,463 | 359,949 |
| Capital outlay | 6,500 | - | 6,500 |
| Debt service: | | | |
| Principal | - | - | - |
| Interest and other charges | - | - | - |
| Total expenditures | 2,923,244 | 242,463 | 3,165,707 |
| Excess (deficiency) of revenues over expenditures | 262,799 | 123,498 | 386,297 |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers to other funds | - | - | - |
| Proceeds from long term debt | - | - | - |
| Total other financing sources (uses) | - | - | - |
| Net change in fund balance | 262,799 | 123,498 | 386,297 |
| Fund balances-beginning | 187,829 | - | 187,829 |
| Fund balances-ending | \$ 450,628 | \$ 123,498 | \$ 574,126 |

The notes to the financial statements are an integral part of this statement.

University Charter School
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds to the Statements of Activities
For the Year Ended September 30, 2019

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

| | |
|--|-------------------------|
| Net changes in fund balances - total governmental funds | \$ 386,297 |
| Governmental funds report capital outlays 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. This is the amount by which capital outlays exceeded depreciation in the current period. | 5,525 |
| Contributions to the pension plan in the current fiscal year are not included on the statement of activities. | 163,307 |
| Contributions to the OPEB plans in the current fiscal year are not included on the statement of activities | 371,166 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Amount of donated assets: | - |
| The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. | - |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. | |
| Pension expense | (535,000) |
| OBEP expense | (371,609) |
| Compensated absences | - |
| Rounding adjustment | - |
| Total changes in net position of governmental activities | <u><u>\$ 19,686</u></u> |

The notes to the financial statements are an integral part of this statement.

University Charter School
Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2019

I. Summary of Significant Accounting Policies

The accounting policies of the University Charter School, Alabama (the School) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Board's accounting policies are described below:

A. Reporting Entity

GASB Statements No. 14, 39, 61 and 80 establish standards for defining and reporting on the financial reporting entity. The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for agencies that make up its legal entity. It is also financially accountable for a legally separate agency if its officials appoint a voting majority of that agency's governing body and either it is able to impose its will on that agency or there is a potential for the agency to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. There are no material component units which should be included as part of the financial reporting entity of the School.

The School is a legally separate agency of the State of Alabama.

B. Basis of Presentation

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

The statement of activities presents a comparison between direct expenses and program revenues for each function of the School'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 School 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 School funds, including fiduciary funds, if any. Separate statements for each fund category – *governmental and fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as other governmental funds. The School currently has no fiduciary funds.

The School reports the following major governmental funds:

General Fund. The General Fund is the primary operating fund of the School. It is used to account for all financial resources except those required to be accounted for in another fund. The School's General Fund primarily received Education revenues from the Education Trust Fund (ETF), appropriated by the Alabama Legislature, and from local taxes. The State Department of Education allocated amounts appropriated from the ETF to the school 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 for Special Education and Title I 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.

C. Measurement Focus and Basis of Accounting

Government-Wide Financial Statement. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. Non-exchange transactions, in which the School gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Governmental Fund Financial Statements are reported using a current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues reported in the governmental funds (excluding state and federal reimbursements) to be available if the revenues are collected within thirty (30) days after year-end. Revenues from state and federal funds are considered available if transactions eligible for reimbursement have taken place. Expenditures generally are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

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

Local school activity funds under the control of school principals use the cash basis of accounting during the year. However, these funds have been restated to the modified accrual basis of accounting in these financial statements.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balances

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. 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 companies not insured by the federal government.

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

Property Tax Calendar. The Sumter County commission levies property taxes for all jurisdictions including the school boards and municipalities within the county. Millage rates for property taxes are levied at the first regular meeting of the County Commission in February of each year. Property taxes are assessed for property as of October 1 of the

preceding year based on the millage rates established by the County Commission. Property taxes are due and payable the following October 1 and are delinquent after December 31.

Inventories and Prepaid Items. Inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. The costs of governmental fund type inventories are recorded as expenditures when purchased except commodities donated by the federal government and purchased food items which are expensed when consumed. Prepaid items, such as insurance premiums and rent are recorded as expenditures in governmental funds when paid.

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

Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical costs in the statement of net assets. Donated assets are recorded at their estimated fair value at the date of donation. The cost of maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Capital assets are recorded as expenditures at the acquisition date in the fund financial statements. The School has no general infrastructure assets.

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

| | Capitalization Threshold | Estimated Useful Life |
|------------------------|--------------------------|-----------------------|
| Leasehold improvements | \$ 5,000.00 | 15 years |
| Vehicles | \$ 5,000.00 | 5-7 years |

The capitalization threshold for Land, Construction in Progress, and Inexhaustible Land Improvements is \$1 or more. However, these capital assets are not depreciated.

Long-Term Obligations

In the government-wide financial statements, the unmatured principal of long-term debt and compensated absences are reported in the statement of net position. Interest expense for long-term debt, including accrued interest payable, is reported in the statement of activities. Debt issuance costs include all costs incurred to issue the debt including insurance, financing and other related costs. Debt issuance cost (except for prepaid insurance costs) are recognized as an expense in the period incurred.

Premiums and discounts on debt are capitalized and amortized under accrual accounting and the annual amortization of these accruals is included in the statement of activities. The unamortized portion is reported in the statement of net position.

In the fund financial statements, bond premiums and the face amount of debt issued during the year are reported as an other financing source. Debt issuance costs are not deducted from the amount reported as an other financing source but are reported as debt service expenditures. Any discount is reported as an other financing use. Expenditures for debt principal, interest and related costs are reported in the fiscal year payment is made. The balance sheet does not reflect a liability for long-term debt.

Compensated Absences

Paid Sick Leave

a. Persons Eligible for Paid Sick Leave – All regular full time employees are eligible for paid sickleave. Earning and Accumulation of Paid Sick Leave – All eligible employees earn sick leave days at the rate of either seven and one-half (7.5) hours or eight (9) hours per month based upon their daily work hours and contract commitment (10 month, 11 month, or 12 month). Employee’s unused paid sick leave will “roll over” from year to year until Employee accumulates seven weeks (280 hours) of paid sick leave. New employees may transfer up to seven weeks (280 hours) of unused earned sick leave from another Alabama school board, as permitted by law, upon certification by the previous employer. However, employees can only accumulate a total of 280 hours of paid sick leave regardless if the hours transferred in or were accumulated while at UCS.

b. UCS will pay out 50% Employee’s unused sick leave either as a lump sum payment or as a rollover into an eligible retirement account as service credit at an employee’s death or retirement (with proper notice). If Employee resigns or UCS terminates Employee without cause, Employee will be permitted to transfer unused sick leave to another Alabama public school, if Employee is hired for another public school within one year after termination and the other school permits the transfer. Employee otherwise forfeits all unused sick leave when employment terminates for any reason other than retirement or death.

Personal Leave – Personal leave must be requested in accordance with such procedures as may be established by the Head of School or the Board. Personal leave may not be taken during the first or last week of school, or immediately before or after a holiday unless special permission is granted by either the Head of School or Principal. Ten (10) month and twelve (12) month full time employees are eligible for personal leave.

a. Unused Personal Leave -- Unused personal leave days will not roll over and will be lost if not used by the end of the year.

b. Employee will not be permitted to “cash out” or be paid a lump sum for unused personal leave at any time during his employment. If the Employee provides the required notice of resignation/retirement or if USC terminates employment without cause, then unused personal pay will be cashed out to Employee on a pro rata basis: 0% if the termination occurs in the first calendar quarter; 25% if the termination occurs in the second calendar quarter; 50% if the termination occurs in the third calendar quarter; and 75% if the termination occurs in the last calendar quarter.

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 Comprehensive Annual Financial Report.

Deferred Outflows/Inflows of Resources

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

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

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

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

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

Fund equity is reported in the fund financial statements. Governmental funds report restrictions of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Fund Balances

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted Fund Balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions of the School – the government’s highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the School removed the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance. – The classification reflects the amounts constrained by the School’s “intent” to be used for specific purposes but are neither restricted nor committed. The Board of Education and management have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed. A total of \$123,498 is assigned to special revenue funds.

Unassigned fund balance – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, then committed, assigned, and unassigned – in order as needed.

Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with GAAP. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

II. Deposits and Investments

Deposits

As of September 30, 2019, the carrying amount of the School's bank deposits was \$656,717 and the bank balance was \$726,501, of which \$257,584 was covered by federal depository insurance. The remaining \$468,917 was a credit risk. The School does not have a deposit policy for custodial credit risk.

Investments

The School has no investments at this time.

III. Capital Assets

Changes in capital assets of governmental activities was as follows for the year ended September 30, 2019:

| | Beginning | Increases | Decreases | Ending |
|---|-----------|-----------|-----------|----------|
| Governmental activities | | | | |
| Capital assets being depreciated: | | | | |
| Vehicles | \$ - | \$ 6,500 | \$ - | \$ 6,500 |
| Furniture and equipment | - | - | - | - |
| Total capital assets being depreciated | - | 6,500 | - | 6,500 |
| Less accumulated depreciation for: | | | | |
| Vehicles | - | 975 | - | 975 |
| Furniture and equipment | - | - | - | - |
| Total accumulated depreciation | - | 975 | - | 975 |
| Total capital assets being depreciated, net | - | | | 5,525 |
| Governmental activity capital assets, net | \$ - | | | \$ 5,525 |

Depreciation was charged to instructional services.

IV. Pension Plan

a. Teachers' and State Employees' Retirement System

Plan Description. The Teachers' Retirement System (TRS), a cost-sharing multiple-employer public employee retirement plan (the "Plan"), was established as of September 15, 1939, under the provisions of 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. The TRS Board of Control 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.

Benefits Provided. State law established 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 are eligible for retirement after age 60 with 10 years or more of creditable service or with 25 years of service (regardless of age) 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, 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 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 creditable service, and currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary based on the member's age, service credit, employment status and eligibility for retirement.

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 of 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, 2019, was 12.41% of annual pay for Tier 1 members and 11.35% 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 cost 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 \$163,307 for the year ended September 30, 2019.

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

At September 30, 2019, the Board reported a liability of \$2,023,000 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 collective net pension liability was determined by an actuarial valuation as of September 30, 2017. 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, 2018, the Board's proportion was 0.020344%.

For the year ended September 30, 2019, the Board recognized pension expense of \$535,000. At September 30, 2019, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences between expected and actual experience | \$ 44,000 | \$ 62,000 |
| Changes of assumptions | 112,000 | - |
| Net difference between projected and actual earnings on pension plan investments | - | 153,000 |
| Changes in proportion and differences between Board contributions and proportionate share of contributions | 1,578,000 | - |
| Board contributions subsequent to the measurement date | <u>163,307</u> | <u>-</u> |
| Total | <u>\$ 1,897,307</u> | <u>\$ 215,000</u> |

The \$163,307 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, 2019. 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 June 30:

| | |
|------------|------------|
| 2020 | \$ 394,000 |
| 2021 | 335,000 |
| 2022 | 338,000 |
| 2023 | 375,000 |
| 2024 | 77,000 |
| Thereafter | - |

Actuarial Assumptions. The total pension 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 percent |
| Salary increases | 3.25 to 5.00 percent, including inflation and productivity factor |
| Investment rate of return | 7.70 percent, net of pension plan investment expense, including inflation |

The actuarial assumptions used in the September 30, 2017 valuation were based on the results of an actuarial experience study for the period October 1, 2010 through September 30, 2015.

Mortality rates were based on the sex distinct 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 rate of disabled mortality were based on the sex distinct RP-2000 Disable Mortality Table Projected to 2020 using Scale BB and adjusted 105% for males and 120% for females.

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>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real 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 | 3.0% | 1.5% |
| Total | <u>100%</u> | |

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 County's proportionate share of the net pension asset to changes in the discount rate. The following presents the Board's proportionate share of the collective net pension liability calculated using the discount rate of 7.70%, 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 (6.70%) or 1-percentage-point higher (8.70%) than the current rate:

| | <u>1% Decrease (6.70%)</u> | <u>Discount Rate (7.70%)</u> | <u>1% Increase (8.70%)</u> |
|--|--------------------------------|----------------------------------|--------------------------------|
| Board's proportionate share of the net pension liability (asset) | \$ 2,816,000 | \$ 2,023,000 | \$ 1,352,000 |

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 Number 67 Report for the TRS prepared as of September 30, 2018. The auditor's report dated April 3, 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 www.rsa-al.gov.

b. Other Employment Benefits

1. Healthcare Benefits

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

participating in the Public Education Employees' Health Insurance Plan (PEEHIP). Active and retiree health insurance benefits are paid through PEEHIP. In accordance with GASB, the Trust is considered a component unit of the State of Alabama (the "State") and is included in the State's Comprehensive Annual 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.

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 extensive formulary. However, participants in the HMO are required to receive care from a participating physician in the HMO plan.

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

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

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 Medicare Advantage 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 a 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 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 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 is 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 of 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.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of resource and Deferred Inflows of Resources Related to OPEB. At September 30, 2019, the Board reported a liability of \$1,686,811 for its proportionate share of the collective net OPEB liability. The collective 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 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, 2018, the Board’s proportion was 0.020524%.

For the year ended September 30, 2019, the Board recognized OPEB expense of \$371,609, with no special funding situations. At September 30, 2019, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Differences between expected and actual experience | \$ 31,757 | \$ - |
| Changes of assumptions | - | 82,163 |
| Net difference between projected and actual earnings on pension plan investments | - | 9,038 |
| Changes in proportion and differences between Board contributions and proportionate share of contributions | 1,379,555 | - |
| Board contributions subsequent to the measurement date | 371,166 | - |
| Total | <u>\$ 1,782,478</u> | <u>\$ 91,201</u> |

The \$371,166 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, 2020.

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 June 30:

| | |
|------------|------------|
| 2020 | \$ 247,733 |
| 2021 | 247,733 |
| 2022 | 247,733 |
| 2023 | 249,762 |
| 2024 | 273,806 |
| Thereafter | 53,347 |

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 (1) | 3.25% - 5.00% |
| Long-Term Investment Rate of Return (2) | 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 | 2029.00% |
| Single Equivalent Interest Rate at the Measurement Date | 4.44% |
| Single Equivalent Interest Rate at 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 |

(1) Includes 3.00% wage inflation.

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

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

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

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|---------------------------------------|--------------------------|---|
| Fixed Income | 30.0% | 4.4% |
| U.S. Large Stocks | 38.0% | 8.0% |
| U.S. Mid Stocks | 8.0% | 10.0% |
| U.S. Small Stocks | 4.0% | 11.0% |
| International Developed Market Stocks | 15.0% | 9.5% |
| Cash | 5.0% | 1.5% |
| Total | <u>100%</u> | |

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, 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 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 Board's proportionate share of the net OPEB liability to changes in the discount rate. 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 it were calculated using 1-percentage-point lower or 1-percentage point higher than the current rate:

| | <u>1% decrease (3.44%)</u> | <u>Discount Rate (4.44%)</u> | <u>1% Increase (5.44%)</u> |
|--------------------|----------------------------|------------------------------|----------------------------|
| Net OPEB liability | \$ 2,015,024 | \$ 1,686,811 | \$ 1,422,061 |

The following table presents the Board's proportionate share of the collective net OPEB liability of the Trust calculated using the discount rate if 4.44%, 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 in Trend Rates | Current Healthcare Trend Rates (7.00% decreasing to 4.75% for pre-Medicare, 5.00% decreasing to 4.75% for Medicare Eligible) | 1% Increase in Trend Rates |
|--------------------|-------------------------------|--|-------------------------------|
| Net OPEB liability | \$ 1,386,597 | \$ 1,686,811 | \$ 2,069,026 |

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 Number 74 Report for PEEHIP prepared as of September 30, 2018. Additional financial and actuarial information is available at www.rsa-al.gov.

VI. Risk Management

The School 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 School maintains general liability and errors and omissions insurance coverage of \$1 million per occurrence with a commercial carrier.

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.

The School carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year and claims have not exceeded coverage in any of the past two fiscal years.

VII. Other Revenues and Expenses – Government Activities

Other expenses – governmental activities as reported in the statement of activities on page 16 consisted of the following:

| <u>September 30,</u> | <u>2019</u> |
|-----------------------|-------------------|
| Pre-K expenses | \$ 293,256 |
| After school program | 66,693 |
| <u>Other expenses</u> | <u>\$ 359,949</u> |

VII. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

The School has received proceeds from several federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant moneys to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant moneys.

IX. Significant Effects of Subsequent Events

The School has evaluated subsequent events from the date of the balance sheet through the date the report is available to be issued which is the date of the independent auditors' report. The School has not evaluated subsequent events after that date. There were no subsequent events during this period that requires disclosure.

University Charter School
SCHEDULE OF THE BOARD'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Teachers' Retirement System of Alabama
Last Fiscal Year * (Dollar Amounts in Thousands)

| | 2019 |
|--|------------|
| Board's proportion of the net pension liability (asset) | 0.020% |
| Board's proportionate share of the net pension liability (asset) | \$ 2,023 |
| Board's covered-employee payroll ** | \$ 213,412 |
| Board's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 0.95% |
| Plan fiduciary net position as a percentage of the total pension liability | 72.29% |

* The amounts presented for each fiscal year were determined as of the prior fiscal year ending September 30.

** Employer's covered payroll during the measurement period is the total covered payroll (GASB 82). For FY 2019, the measurement period is October 1, 2017 - September 30, 2018.

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

**University Charter School
Schedules of Employer's Contributions
Teachers' Retirement System of Alabama
Last Fiscal Year ***

Statement 2

| | 2019 |
|--|--------------|
| Contractually required contributions | \$ 163,307 |
| Contributions in relation to the contractually required contribution | 163,307 |
| Contribution deficiency (excess) | \$ - |
| Board's covered payroll | \$ 1,012,464 |
| Contributions as a percentage of covered payroll | 16.13% |

* The amounts presented for each fiscal year were determined as of the prior fiscal year ending September 30.

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

Notes to required supplementary information

| | |
|---|------------------------|
| Actuarial cost method | Entry Age Normal |
| Amortization method | Level percent of pay |
| Single equivalent remaining amortization period | 25 years, closed |
| Assets valuation method | Market Value of Assets |
| Actuarial assumptions: | |
| Investment rate of return | 7.70% |
| Projected salary increases ** | 3.25% - 5.00% |
| Cost-of-living adjustments | None |
| ** Includes price inflation at | 2.75% |

University Charter School
SCHEDULE OF THE BOARD'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
Alabama Retired Education Employees' Healthcare Trust
Last Fiscal Year *

| | 2019 |
|---|--------------|
| Board's proportion of the net OPEB liability (asset) | 0.021% |
| Board's proportionate share of the net OPEB liability (asset) | \$ 1,686,811 |
| Board's covered-employee payroll ** | \$ 213,412 |
| Board's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll | 790.40% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 14.81% |

* The amounts presented for each fiscal year were determined as of the prior fiscal year ending September 30.

** Employer's covered payroll during the measurement period is the total covered payroll (GASB 82). For FY 2019, the measurement period is October 1, 2017 - September 30, 2018.

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

**University Charter School
Schedules of Employer's Contributions
Alabama Retired Education Employees' Healthcare Trust
Last Fiscal Year ***

| | 2019 |
|--|--------------|
| Contractually required contributions | \$ 371,166 |
| Contributions in relation to the contractually required contribution | 371,166 |
| Contribution deficiency (excess) | \$ - |
| Board's covered payroll | \$ 1,012,464 |
| Contributions as a percentage of covered payroll | 36.66% |

* The amounts presented for each fiscal year were determined as of the prior fiscal year ending September 30.

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

University Charter School
Notes to Required Supplementary Information
Alabama Retired Education Employees' Healthcare Trust
For the year ended September 30, 2019

NOTE 1 - CHANGES IN ACTUARIAL ASSUMPTIONS

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

NOTE 2 - RECENT PLAN CHANGES

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

NOTE 3 - METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated as of September 30, 2016, 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 | 25 years, closed |
| Asset Valuation Method | Market Value of Assets |
| Inflation | 2.875% |
| Healthcare Cost Trend Rate: | |
| Pre-Medicare Eligible | 7.75% |
| Medicare Eligible | 5.00% |
| Ultimate Trend Rate: | |
| Pre-Medicare Eligible | 5.00% |
| Medicare Eligible | 5.00% |
| Year of Ultimate Trend Rate | 2022 for Pre-Medicare Eligible 2018 for Medicare Eligible |
| Investment Rate of Return | 5.00%, including inflation |

University Charter School
All Fund Types
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended September 30, 2019

| | 2019 | | |
|---|-------------------|-------------------|--|
| | Final Budget | Actual | Favorable (Unfavorable) Variance |
| Revenues: | | | |
| State | \$ 2,197,945 | \$ 1,971,661 | \$ 226,284 |
| Federal | 203,011 | 204,048 | (1,037) |
| Local | 372,318 | 1,171,412 | (799,094) |
| Other | 127,000 | 204,883 | (77,883) |
| Total revenues | <u>2,900,274</u> | <u>3,552,004</u> | <u>651,730</u> |
| Expenditures | | | |
| Instructional services | 1,610,819 | 1,650,220 | (39,401) |
| Instructional support | 388,889 | 532,499 | (143,610) |
| Operation and maintenance | 34,500 | 57,283 | (22,783) |
| Auxiliary services | 106,645 | 133,450 | (26,805) |
| General administration and central support | 289,948 | 425,806 | (135,858) |
| Other | 259,622 | 359,949 | (100,327) |
| Capital outlay | 6,500 | 6,500 | - |
| Debt Service - Principal | - | - | - |
| Debt Service - Interest | - | - | - |
| Total expenditures | <u>2,696,923</u> | <u>3,165,707</u> | <u>(468,784)</u> |
| Other financing sources (uses): | | | |
| Transfers to other funds | - | - | - |
| Proceeds from long term debt | - | - | - |
| Excess of revenues over expenditures | <u>\$ 203,351</u> | 386,297 | <u>\$ 182,946</u> |
| Fund balance: | | | |
| Beginning of the year, July 1 | | - | |
| End of the year, September 30 | | <u>\$ 386,297</u> | |

University Charter School
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2019

| GRANTOR/PASS-THROUGH GRANTOR PROGRAM TITLE | FEDERAL CFDA NUMBER | STATE/ PASS-THROUGH GRANTOR'S NUMBER | EXPENDITURES |
|---|---------------------------|---|---------------------|
| FEDERAL GRANTS: | | | |
| CASH ASSISTANCE | | | |
| <u>US Department of Education</u> | | | |
| Pass through State of Alabama: | | | |
| Idea Part B | 84.027 | | \$ 61,490 |
| Career and Technology Education | 84.048 | | 4,173 |
| Title I Part A | 84.010 | | 96,620 |
| PreSchool Development Grant | 84.419 | | <u>1,037</u> |
| TOTAL FEDERAL CASH ASSISTANCE | | | <u>163,320</u> |
| STATE AWARDS: | | | |
| CASH ASSISTANCE | | | |
| <u>State of Alabama</u> | | | |
| Direct Award: | | | |
| Foundations | XXXX | | <u>\$ 1,971,661</u> |
| TOTAL STATE CASH ASSISTANCE | | | <u>1,971,661</u> |
| TOTAL STATE AND FEDERAL AWARDS | | | <u>\$ 2,134,981</u> |

Notes to the Schedule of Expenditures of Federal and State Awards:

Note 1: Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The modified accrual basis of accounting is followed in the schedule of expenditures of federal awards (the SEFA). Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related liability is incurred. In applying the Susceptible-to-accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of such revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the Board; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and substantially irrevocable; i.e., revocable only for failure to comply with prescribed compliance requirements, such as with equal employment opportunity. These resources are reflected as revenues at the time of receipt or earlier if they meet the availability criteria.

Note 2: Fiscal Period Audited

Single audit testing procedures were performed for program transactions occurring during the fiscal year ended September 30, 2019.

Note 3: Indirect Costs

The Board has not elected to use the 10% de minimis cost rate.

Rebekah Barr, CPA PC

Certified Public Accountant

5422 Boswellville Road

Wilson, North Carolina 27893

Office: 252-230-6294 • Fax: 252-237-2426

Email: contact@rbarrcpa.com

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

Board of Directors
University Charter School
Livingston, Alabama

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities and each major fund of University Charter School as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprises University Charter School's basic financial statements and have issued our report thereon dated July 7, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered University Charter School's internal control over financial reporting (internal control) to determine the 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 University Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of University Charter School's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether University Charter School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rebekah Barr, CPA PC

Rebekah Barr, CPA PC
Certified Public Accountant
Wilson, North Carolina

July 7, 2020

**University Charter School
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended September 30, 2019**

SECTION I. -- SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued on whether the financial statements were prepared in accordance to GAAP: Unmodified

Internal control over financial reporting:

| | | |
|---|-----------|------------------------------|
| Material weakness(es) identified? | _____ yes | _____ <u>X</u> no |
| Significant deficiency(ies) identified that are not considered to be material weaknesses? | _____ yes | _____ <u>X</u> none reported |
| Noncompliance material to financial statements noted | _____ yes | _____ <u>X</u> no |

**University Charter School
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended September 30, 2019**

SECTION II. -- FINANCIAL STATEMENT FINDINGS

None reported

**University Charter School
Summary Schedule of Prior Year's Audit Findings
For the Fiscal Year Ended September 30, 2019**

This is the first year of operations for University Charter School.